

	PAPER NO: AC.56(12)	
Board/Committee:	Audit Committee	
Date:	30 October 2012	
Paper title:	Annual Report and Accounts 2011/12	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee review the attached report and accounts and recommend approval to the Policy and Resources Committee and the Board.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	N/A	On:
Further approval required?	Policy and Resources Board of Governors	13 November 2012 22 November 2012
Communications – who should be made aware of the decision?	HEFCE Banks (in connection with loan covenants)	

Executive Summary

The audit for the year ended 31 July 2012 has been completed. The report & accounts are enclosed for review by Audit Committee. The accounts will be submitted to the Board of Governors for approval and signing on 22 November.

Subject to satisfactory completion of the matters referred to in section 1, the committee is requested to recommend approval to the Board.

Attachment: Report and Accounts for 2011/12

1. Outstanding steps to completion

- Review by this Committee
- Review by Policy and Resources Committee
- Approval by Board of Governors
- Signing of accounts

2. Key Issues

The attached accounts are for the year ended 31 July 2012. Grant Thornton have now completed their technical review and minor presentational changes suggested by them have been incorporated into these accounts.

The University made a surplus for the year of £6.5m after accounting for the write off of £2.9m relating to the impairment of the stabilisation cost of the terraces incurred and capitalised in an earlier year. The surplus is significantly better than budget of £1.4m and consistent with the most recent full year forecast as presented to P&R and Board.

No clawback of funds by HEFCE relating to 2011/12 is expected. At the date of this report, the annual HESA return is not complete, but early indications are that the University has reached its funding target. Grant Thornton will monitor the position up to the date of signing the accounts. A provision of £837k has been included in the accounts in respect to HEFCE penalties for over recruitment in 2010/11.

Plans to redevelop the Terraces have now been finalised with a budget of £13.5m approved. As noted above, £2.9m had previously been spent on stabilisation works and was previously recorded as part of the cost of freehold land and buildings. The resulting total spend of £16.4m exceeds the final carrying value of the asset and an impairment charge of £2.9m has been made this year (shown as other operating expenses).

The LGPS pension scheme deficit has increased from £55.36m to £74.7m, mainly as a result of actuarial losses in the year. However, the I&E charge for the year has reduced from £6.7m in 2010/11 to £6.3m in 2011/12.

The year end cash balance was £69.1m with net cash inflow for the year of £6.5m after accounting for capital expenditure of £11m.

A detailed commentary on the financial results is included on pages 5-8 of the attached accounts.

Grant Thornton has presented the results of their audit in their Key Issues Memorandum.

Report and Financial Statements

31 July 2012

(draft 24th Oct 12.41)

Report and financial statements 2012

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Report and financial statements 2012

Officers and professional advisers

Chancellor

Mr Richard Farleigh (installed 24 July 2012)

Vice Chancellor

Professor Martin Earwicker

Pro Vice Chancellors

Dr Phil Cardew (Academic)

Ms Beverley Jullien (External)

Executive Director of Finance

Mr Richard Flatman

Secretary and Clerk to the Board of Governors

Mr James Stevenson

Registered Office

103 Borough Road
London
SE1 0AA

Bankers

NatWest
City of London Office
1 Princes Street
London
EC2R 8PA

Solicitors

Martineau
1 Colmore Square
Birmingham
B4 6AA

Muckle
Time Central
32 Gallowgate
Newcastle-Upon-Tyne
NE1 4BF

Auditor

Grant Thornton UK LLP
Grant Thornton House
Metton Street
Euston Square
London NW1 2EP

Members of the Board of Governors

The following were Governors throughout the year ended 31 July 2012 except as noted:

Mr David Longbottom (*Chair*)

Professor Martin Earwicker (*Vice Chancellor and Chief Executive*)

Ms Anisa Ali (appointed 1 July 2012)

Mr Steve Balmont

Ms Janet Cattini

Mr Douglas Denham St Pinnock (appointed 21 February 2012)

Mr Ken Dytor

Mr Iain Hanley (resigned 30 June 2012)

Sir David Melville CBE

Ms Anne Montgomery

The Reverend Dame Sarah Mullally

Mr Andrew Owen

Ms Diana Parker

Ms Maxine Room (resigned 8 March 2012)

Ms Maggie Semple, OBE (resigned 4 June 2012)

Mr James Smith (appointed 1 May 2012)

Professor Jim Snaith (resigned 31 July 2012)

Mr Chris Swinson, OBE (resigned 10 May 2012)

Professor Jon Warwick

Mr Peter Winbourne

Changes in Governors since 31 July 2012

Mr Peter Winbourne (resigned 19 October 2012)

London South Bank University

Operating and Financial Review

Our mission

Creating professional opportunity for all who can benefit.

We owe our origins to those far sighted people who created the Borough Polytechnic in 1892, an institution that was greatly admired and successful in delivering life-enhancing education relevant to employment. We have inherited, and cherish, the role of welcoming students with potential from all backgrounds and helping them achieve career success. This mission is central to London South Bank University and we remain true to it.

Putting students first

Student success remains as the University's overriding aim and is reflected in all that we do. We have made real progress in improving efficiency and concentrating on our core business, but we can do more. Our Corporate Plan 2011/14, 'Student Success', has responded to the current significant change in higher education by setting our priorities to become more innovative, efficient and financially sustainable. Changes in funding, increased student choice and competition amongst higher educational institutions will ensure that perception of value and quality will be ever more important. Therefore we must ensure that our portfolio is relevant to the student and employment market, that what we deliver is of the highest quality, and that we offer students the support that they need to succeed.

The increasing emergence of new competitive players will challenge us to be as efficient and effective as possible. However, we are taking a measured approach based on continuous improvement and recognising that price alone is not the key driver; other factors including teaching excellence, student-focused delivery modes and continued investment in student support will also be key to ensuring our success as compared to our competitors.

Commitments

We are committed to:

- Delivering success for our students
- Supporting all students who have the potential to succeed academically and professionally, irrespective of their background
- Working with local schools and Further Education colleges to help them prepare students for Higher Education
- Increasing admission selectivity on the basis of potential to succeed
- Increasing additional academic support for students to succeed, particularly in their first year
- Maintaining a sufficiently broad curriculum to enable most local students to study with us
- Investing in part-time and flexible delivery to enable students to balance study, work and personal lives
- Increasing support for employability skills for our students
- Working with staff to help them achieve greater success, satisfaction and reward
- Moving to enterprise-led research
- Excellence and continuous improvement in all that we do to meet the aspirations of our students and deliver ever better value for money

Financial strategy and performance

As a result of continued financial pressure on public funding, government policy is seeking to transfer much of the burden of the cost of higher education to students. The Board decided on a simple pricing structure for our courses in 2012/13 (reflecting both the current commitments to continued funding for strategically important and vulnerable subjects and to maintaining funding for widening participation and teaching enhancement, alongside the fees paid by students) with a range of fees from £5,950 (for students studying for LSBU awards with partner colleges) to £8,450 (for students studying for LSBU awards within the University, or where awards are delivered both within the University and within partner colleges). A range of full and partial fee waivers was approved taking the average full time fees, net of fee waivers, to below £7,500. This policy has enabled a successful bid for additional student numbers but more importantly shields students as far as possible from the increased burden of fees whilst enabling the University to plan for a financially sustainable future.

London South Bank University

Operating and Financial Review

Whilst confident that we are effectively managing price risk, there remains considerable financial uncertainty, including uncertainty about the way in which the new fees landscape will unfold. The University's financial strategy is

therefore focused not only on future sustainability but is designed to maintain financial resilience and flexibility at all times. The days of government bailing out universities are passed, therefore we have to take decisions that ensure academic quality and which are financially robust. At times this will mean we have to let go of some worthy but financially unsustainable issues. But it also gives us the spur to become more innovative and efficient so that every penny of our students' fees is used to the maximum benefit of students as their success will underpin ours.

The University has a number of key financial strategic aims in place to ensure that it delivers to its objectives. These are as follows:

- Aim for a surplus of 5% of income (increased from the previous target of 3% to account for reductions in capital funding and to enable us to continue to invest as required)
- Ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success
- Deliver growth in income, with a particular focus on enterprise, income from international students and non SNC post-graduate and part-time provision
- Manage staff costs, including agency costs, to an agreed maximum percentage of income
- Invest at an appropriate level to provide for future sustainability in buildings and infrastructure
- Maintain gearing, liquidity and cash balances at agreed levels.

We entered 2011/12 in a strong financial position having made real progress streamlining activity and delivering efficiency wherever possible. A record financial surplus of £9.9m was achieved in 2010/11. Notwithstanding the record surplus last year, it was always anticipated that 2011/12 would be far more challenging given the continued financial uncertainty and the reductions in government funding. The scale of the challenge is evident from the fact that for the first time in many years income has fallen from £144.9m in 2010/11 to £138.3m in 2011/12. However, thanks to strong financial control and leadership, prudent decision making and continued focus on efficiency and value for money, the University has achieved a financial surplus of £6.5m in the current year. Furthermore, this is after accounting for an impairment charge of £2.9m in respect of building stabilisation costs incurred in a previous year which makes the result even more satisfying.

The University has continued to invest in buildings and infrastructure. Major building projects include complete modernisation of the Technopark building (which has enabled us to free up other space and re-house many of the central support departments) and the creation of a new Student Centre scheduled to open in late 2012. The Student Centre will bring together many of the University's non-academic student support services and will house our Students' Union. Around £8m has been set aside for the project. The development will take a prime location under our existing Tower block, with a vibrant and exciting ground floor foyer and a first floor area perfect for meetings, social learning and group working.

Work has also begun on renovating the Grade II listed Georgian buildings at St George's Circus. In order for us to deliver our mission of creating professional opportunity for all who can benefit, it is fundamental that the University is intimately connected to the professional workplace- whether in public, private or third sectors. In line with this, we are developing a truly enterprising approach across the University in close partnership with key stakeholders. This will enrich course content and credibility, enhance connectivity and career prospects, and bring in funds to further enrich and develop the student experience. The re-developed terraces, scheduled for completion in 2013 at a cost of £13.5m, will be transformed to become the University's Enterprise Centre housing incubation space, allied retail units, meeting rooms, an open public reception space, gallery and cafe. The development will transform the local landmark in to an open gateway for the campus, making it fit for the 21st century.

London South Bank University

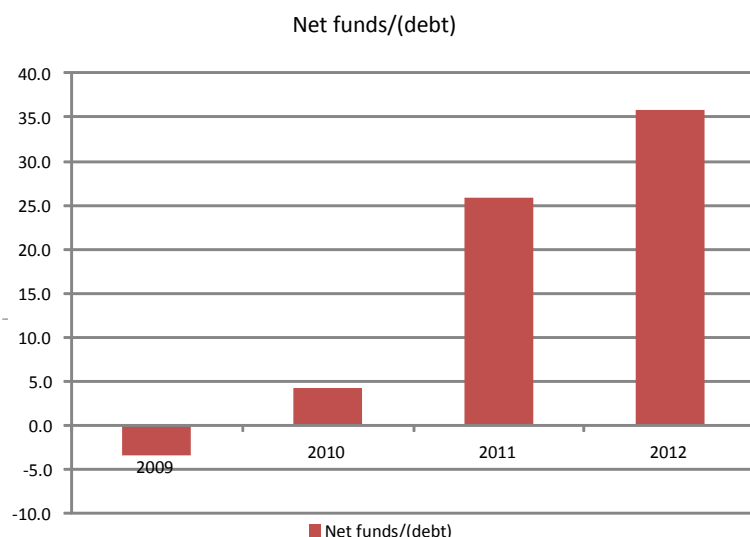
Operating and Financial Review

Balance sheet and liquidity

The University's net assets fell during the year by £11.6m (10.8%) from £106.6m to £95m. This fall in assets is accounted for by an actuarial loss of £18.1m relating to the London Pensions Fund Authority and driven by a reduced discount rate (from 5.3% at 31 July 2011 to 3.9% at 31 July 2012) to reflect the fall in gross redemption yield for corporate iBoxx AA rated bonds. The actuarial loss of £18.1m was offset by the reported financial surplus of £6.5m giving a net reduction in assets of £11.6m.

The University plans always to have sufficient liquid assets to meet its liabilities as they fall due. Days liquidity has increased from 179 days at 31 July 2011 to 203 days at 31 July 2012. Cash balances have increased from £62.6m at 31 July 2011 to £69.1m at 31 July 2012. The longest term deposit is 6 months and the maximum overseas exposure is £5m through liquidity funds.

Borrowings have reduced from £36.7m at 31 July 2011 to £33.3m at 31 July 2012 reflecting loan repayments made. Net (debt)/cash is summarised below:



Borrowing capacity is reviewed on a regular basis and is considered adequate to meet current plans.

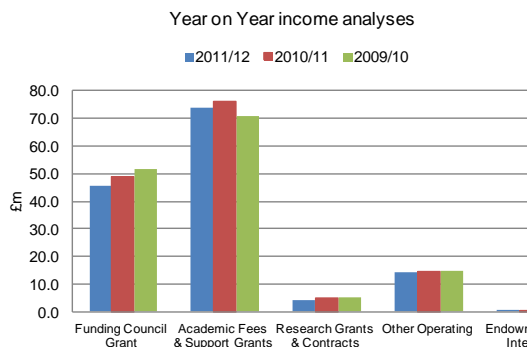
Result for the Year

Financial Summary in £'m				Variance	
	2011/12	2010/11	2009/10	11/12 - 10/11	Var %
Income	138.3	144.9	143.3	-6.6	-4.6%
Expenditure	131.8	135.0	137.0	-3.2	-2.4%
Surplus for the year	6.5	9.9	6.3	-3.4	-34.3%

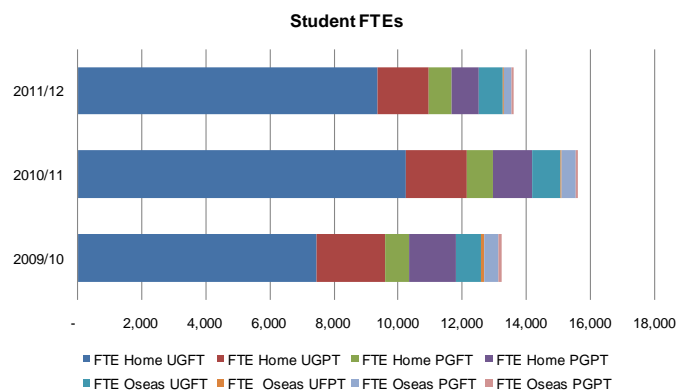
London South Bank University

Operating and Financial Review

- ❖ The £6.5m surplus for the year exceeds the 2011/12 budget target by £5.1m. The 2011/12 surplus is after accounting for a £2.9m impairment loss associated with previously incurred stabilisation costs of the Georgian terraces. The underlying operating surplus therefore is £9.4m, which compares to £9.9m in 2010/11.



- ❖ Total income decreased by 4.6% (£6.6m) to £138.3m (2010/11: £144.9m) mainly due to the decrease in funding grant income following changes in the funding regime and a decrease in academic fees due to a reduction in student numbers.
- ❖ Academic fees and funding council grants remain the main sources of income for the university representing 53% and 33% of income respectively (2010/11: 52% and 34%.)

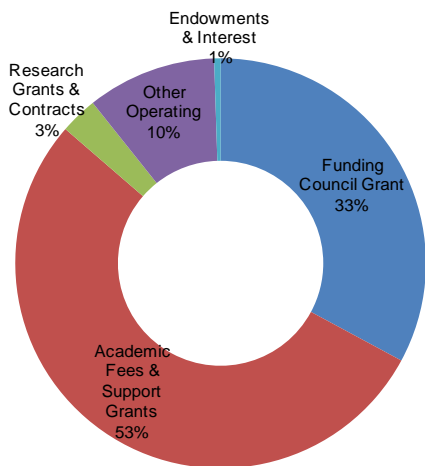


- ❖ Lower income levels in 2011/12 were significantly offset by a reduction of (£4.9m) in staff costs and (£1.1m) in Operational Expenditure.
- ❖ Staff costs decreased by 6.3% from £77.6m in 2010/11 to £72.7m in 2011/12 mainly due to the wind down of non-strategic activities and services and as a result of several restructurings. Total staff costs represented 55% of total expenditure in 2011/12 compared to 57% in 2010/11. 2010/11 staff costs include the cost of a pay increase equivalent to the national pay award for 2008/09, 2009/10 and 2010/11 for all staff in post as at 1 August 2011.
- ❖ Operating costs decreased by £1.1m (2.4%) to £44.0m (2010/11: £45.1m). The decrease was achieved through service contract savings and the non continuing nature of one off expenditure in 2010/11.

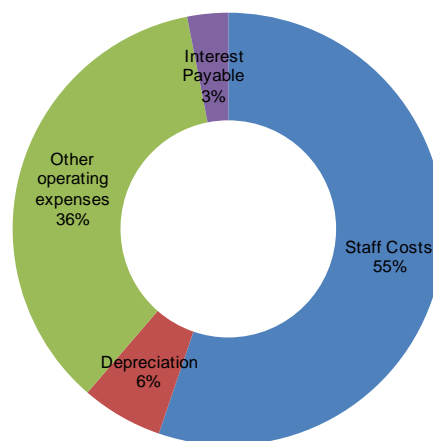
London South Bank University

Operating and Financial Review

University 2011/12 Income as % of total income

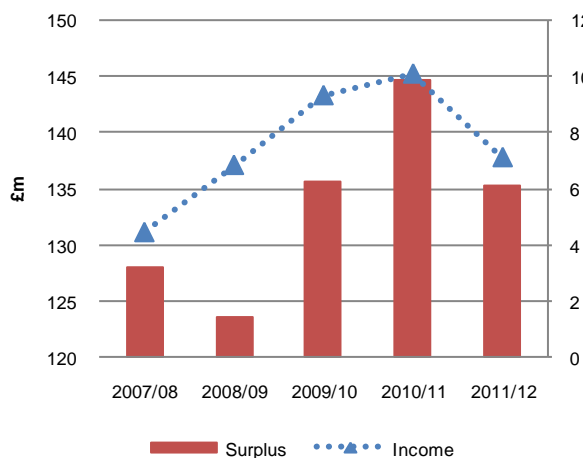


University 2011/12 expenditure as % of cost



Capital expenditure

Capital additions totalling £3.1m during the year related to the refurbishment of Technopark with some additional investment in computers and other equipment. Additionally, the work related to the first phase of the Estate Strategy commenced in the year and this resulted in the value of assets under construction at year-end of £8m. This particularly relates to the development of the Student Centre (£7m) and the Enterprise centre (£1m). As mentioned earlier, the £2.9m stabilisation costs incurred in previous years relating to the Georgian Terraces have been written off as a result of an impairment review.



Financial trend analyses

1. Income & Surplus

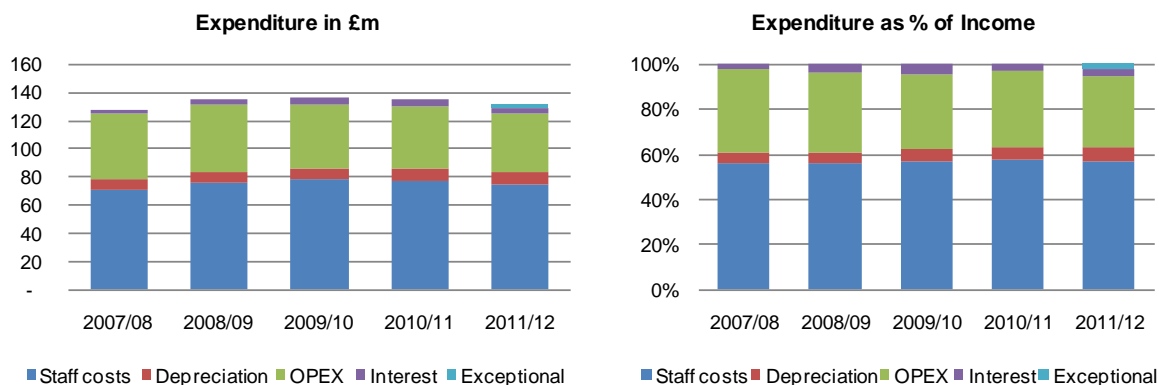
The increase in 2010/11 income can be explained from the one-off increase in UGFT (Undergraduate Full-Time) Student Numbers by 300. These discontinued in 11/12 and income was further reduced by additional cuts to the HEFCE funding grant. Between 2007/08 and 2010/11 Income had grown steadily as a result of the introduction of higher tuition fees for full-time Home & European Union students from 2006. This income growth has continued in subsequent years due to better progression and higher student numbers. Income growth is expected as a result of the introduction of higher student fees in 2012/13.

The surplus for 2011/12 has decreased compared to last year as a result of accounting for a £2.9m impairment loss; the normal underlying operating surplus is £9.4m compared to £9.9m in 2010/11. Management’s focus in recent years has been on income growth and delivering efficiencies to the University’s underlying cost base. This has resulted in two consecutive years of record financial performance and has gone some way in helping the University to respond to financial challenges.

London South Bank University

Operating and Financial Review

Expenditure



Staff costs (including restructuring costs) increased from £69m in 2006/07 to £72.7m in 2011/12. However as % of income, staff cost decreased from 54% to 53% of income by 2011/12.

Operational expenditure

Operating expenditure increased from 2006/07 to 2008/09 as a result of the introduction of student bursaries alongside higher tuition fees. The reduction in operating expenditure from 2008/09 to 2010/11 is a result of the reduction in sport related expenditure, tight cost controls and savings made in a number of areas.

Interest

Interest payable increased from £2.7m in 2006/07 to £5.9m in 2009/10 due to the increases to the FRS17 pension interest charge but has subsequently reduced to just over £4m from 2010/11.

Depreciation

Depreciation has increased over the 5-year period as a result of investments in the University's estate and in particular the K2 building which came into use in November 2009. The increase is expected to continue since the University has committed to a £38m Estate investment plan, additional investment of £3m in IT infrastructure and systems and with further plans for an additional £10m investment to improve teaching spaces. No major projects have been completed during the year leaving depreciation at par with last year.

Cashflows

The University generated a net cash inflow of £6.5m in the year. This includes cash inflow from operating activities of £19.5m, net interest paid of £1.1m and capital expenditure of £11.1m.

Pension liability

The pension liability with the London Pension Scheme Authority (LPFA) has increased from £55.3m to £74.7m, mainly as a result of actuarial losses. The FRS17 charge to the I&E account for the year is £6.3m and a £18.1m loss is recognised in the statement of total recognised gains and losses (STRGL).

London South Bank University

Operating and Financial Review

Principal risks and uncertainties

At a corporate level, the principal risks are identified and managed through the University's risk management processes. The major external risks which the University has identified, and the steps being taken to mitigate those risks, are as follows:

- *Failure to meet recruitment targets.* Changes to fees structures, increased competition and poor league table position may lead to under recruitment of students. We are mitigating this risk by developing detailed financial modelling and scenario analysis around the fees position, developing a sustainable strategy for recruitment, including international students, building on our academic strengths, developing different modes of delivery and ensuring differentiated marketing for undergraduate, part-time and post graduate programmes. The current position is monitored closely through regular reports on student recruitment to both Executive and Board.
- *Potential loss of NHS contract income.* Although NHS London's Contract Performance Management for Education Commissioning Results for 2009/10 revealed LSBU as the best University in London for Adult Nursing, there is a significant risk that meeting the financial challenges of the NHS will lead to a reduction in income to universities. Whilst NHS contract income for 2012/13 is expected to increase marginally compared with previous year, our current 5 year financial forecast has made allowances for potential reductions in later years. Mitigating actions include contract discussions with newly formed Local Education and Training Boards (LETBs) and a focus on submission of a strong return to the next Research Excellence framework (REF) exercise.

Going Concern

Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. 2011/12 has been a year of continued strong financial performance and a budget surplus of £7m (5% of income in accordance with agreed strategy) has been approved for 2012/13. Although there is likely to be a small shortfall against ambitious student number targets for 2012/13 in what is a very challenging recruitment market for all higher education institutions, the financial impact will be quite manageable with financial surplus and positive cashflows forecast.














London South Bank University

Operating and Financial Review

LSBU Corporate Key Performance Indicators (2010/11 - 2011/12)

Financial Sustainability					
KPI	2010/11 (Actual)	2011/12 (Target)	Current Performance (Red, Amber or Green)		
Student Numbers & Contracts					
1	Recruitment against HEFCE contract	Within tolerance band	Within tolerance band	➡	
2	Recruitment against NHS contract commissions	Within 5%	+/-5%	➡	
Income					
3	Total Income (£)	£144.9m	£135.7m	£138.3m	⬆
4	International student income	£10.2m	£10.4m	£10.6m	⬆
5	Research (non-HEFCE) income (£)	£3.4m	£2.2m	£3.0m	⬇
6	Enterprise income (£)	£8.5m	£6.8m	£7.5m	⬆
Surplus					
7	Total Surplus (% of income)	6.8%	1.0%	4.4%	⬆
Other Financial Indicators					
8	Cash Balance (£)	£62.6m	£55.4m	£69.1m	⬆
9	Gearing Ratio	0.35	0.27	0.31	⬆
10	Days liquidity	179	173	203	⬆
The Student Experience					
KPI	2010/11 (Actual)	2011/12 (Target)			
Student Satisfaction					
11	Overall Student Satisfaction – under graduate (National Student Survey) *	77%	90%	80% (2011/12)	⬆
12	Overall Student Satisfaction – post graduate	75%	90%	78% (2011/12)	⬆
Student Retention & Progression					
13	Full time undergraduate year 1 Progression (%)	52%	80%	61% (2011/12)	⬆
14	Graduating in intended period (Full time undergraduate 3/4yrs) (%)	53%	65%	52%	➡
Value Added					
15	Employment of graduates (Destination of Leavers From HE return) * (Employed, or studying, or both)	82.4%	90%	78.1% (2011/12)	⬇
16	No. of first degree students obtaining 1st or Upper 2nd class degrees *	56%	60%	56% (2011/12)	➡
17	No. of first degree students obtaining 1st or 2nd class degrees	95%	80%	91% (2011/12)	⬇

London South Bank University

Resource Measures				
18	Spend per student (£) * (Academic Services)	£841	£1,000	£940 (GUG 2012/13) 
19	Spend per student (£) * (Services & Facilities)	£1,021	£1,000	£1062(GUG 2012/13) 
20	Student:Staff ratio *	23.3:1	21:1	24.4:1(2011 HESA) 
21	% of estate (gross internal area) in condition A and B (non-residential)	45%	86%	45% 
Brand Profile				
	KPI	2010/11 (Actual)	2011/12 (Target)	Current Performance (Red Amber Green)
League Table Ranking				
22	The Sunday Times	118(of 122)	Out of bottom 5	114 (of 122) (2012/13 tables) 
23	The Guardian	100 (of 119)	Out of bottom 5	104 (of 120) (2012/13 tables) 
24	The Complete University Guide (formerly The Independent)	116 (of 116)	Out of bottom 5	109 (of 116) (2012/13 tables) 
25	The Times	113 (of 116)	Out of bottom 5	111 (of 116) (2012 tables)(A) 
Subject League Tables (The Guardian)				
26	No. of subjects in top 75% nationally	5 (of 18)	5 (of 15)	5 (of 17) (2012/13 tables) 
27	No. of subjects in top 50% of post-1992	4 (of 18)	5 (of 15)	3 (of 17) (2012/13 tables) 
28	No. of subjects in top 50% of post-1992, London	6 (of 18)	5 (of 15)	3 (of 17) (2012/13 tables) 
Student Perceptions				
29	Early : late applications (% of full time undergraduate enrolments arising from early/late applications)	75:20	80:20	75:25 (Sem 1 2010) 
30	Financial support from donors (cash received, £)	£2.5m	£1.6m	£1.5m (2011/12) 
31	Staff Satisfaction	New	70%	62% New

* Key league table measure

London South Bank University

Operating and Financial Review

Public Benefit statement

The University is an exempt charity within the meaning of the Charities Act 2011 and is regulated by HEFCE on behalf of the Charity Commission. The University's objects are charitable as required by section 3 of the Charities Act 2011. They are set out in the University's Memorandum of Association:

- To establish, carry on and conduct a University;
- To advance learning and knowledge in all their aspects and to provide industrial, commercial, scientific, technological, social, cultural and professional education and training;
- To provide courses of education both full time and part time;
- To provide opportunities and facilities for research and development of any kind including the publication of results, papers, reports, treatises, these or other material in connection with or arising out of such research; and
- To provide for the recreational and social needs and the health and welfare of students of the University.

The members of the Board of Governors are the charitable trustees of the University and they set the strategic direction of the University within these objects and having regard to the Charity Commission's guidance on public benefit. The University has no linked charities attached to it. (The Student's Union will become a linked charity in 2012/13).

Benefits of Education

The University's objects are applied solely for the public benefit. The University advances education for the public benefit by:

- delivering courses accredited by recognised professional bodies, both full and part time;
- providing teaching to its students in the form of lectures, seminars, personal tuition and online resources;
- setting and marking assessments and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

The University provides support to students by:

- mentoring and coaching;
- providing student welfare and student accommodation;
- funding individual students' education through bursaries and fee waivers;
- providing funds to London South Bank University Students' Union.

The University also promotes knowledge and the raising of standards by:

- undertaking academic research and publishing the results online;
- publishing articles in peer-reviewed journals;
- maintaining an academic library with access for academics and students.

Benefit to public

The University's main beneficiaries are its students, which is appropriate to its aims. The main beneficiaries of the University are therefore a section of the public as required under principle 2 of the commission's *General Guidance on Public Benefit*. The trustees affirm that the opportunity to benefit is not unreasonably restricted. The benefits of learning at London South Bank University are open to anyone who the University believes has the potential to succeed, irrespective of background or ability to pay tuition fees.

London South Bank University

Operating and Financial Review

Benefit to public

From our beginnings as the Borough Polytechnic Institute, in 1892, to the present day, London South Bank University has stayed close to its founding mission of opening access to education. Schedule A of the 'Scheme of the Charity Commissioners' for the Borough Road Polytechnic Institute, of 23 June 1891 states that: 'The object of the Institute is the promotion of industrial skill, general knowledge, health and well-being of young men and women belonging to the poorer classes ...'. This is still reflected in our current mission statement: "Creating professional opportunity for all who can benefit". The University's overriding aim as set out in its Corporate Plan, 2011-14 is student success.

Our student body is diverse and reflects our outreach to the wider community: 98.2% of our students come from state schools, and, nationally, we have the highest proportion of students from families with free school meals in the UK. 54.2% of our students are non-white in origin and 83.8% are over the age of 21 on entry to the University. 36.4% study part-time, with many continuing to play an active role in their professions and local communities. 3,464 undergraduates and 1,325 taught postgraduate students graduated in 2011-12.

Our Schools & Colleges Liaison Team has received a number of accolades for the work that they do in widening participation. They encourage under-represented groups, such as care leavers, people with disabilities and those from other minority groups, to consider higher education. Through a number of workshops, mentoring and careers advice, along with visits to city firms such as UBS, PricewaterhouseCoopers and Lloyds of London, participants leave with a toolbox of transferable skills to utilise throughout the remainder of their education, along with defined pathways to their desired objective. Most recently, LSBU has been shortlisted for a Times Higher Education Award 2012 for this innovative scheme that provides care leavers with a first-hand taster of University life and demonstrates that a career in the City is an attainable goal.

We were awarded the Frank Buttle Trust Quality Mark in 2008 for our processes in support of care leavers, and we offer all care leavers a bursary of £500 at the beginning of each academic year, a dedicated link person to deal with their local authority, help accessing all the University's support services and support in finding accommodation appropriate to their needs and preferences, including year-round accommodation available outside of term time.

Like other universities, we must charge tuition fees. Maintenance grants are of course available to those with restricted means, especially students from families on low incomes. In addition, the University offers considerable financial assistance in the form of scholarships, bursaries and charitable funds to students in need, based on fees being paid against family income. Our fee structure for part-time students reflects the bursary paid to full-time students thus ensuring that they are not disadvantaged by studying part-time. We continue to benchmark our non-regulated fees against similar institutions and maintain close links with a number of local partner Further Education colleges through the validation and franchise of higher education courses taught by those partners.

The University's beneficiaries are not restricted to its students. There are also wider public benefits provided by higher education to which the University contributes. Those attending university are more likely to participate in civil society by voting, volunteering and engaging in their local communities in these and other positive ways. Society benefits from having an educated populace through higher skilled workers. The University's portfolio is firmly rooted in professional courses that drive employability and career success. The University continues to offer professional and vocational courses, supported by a high level of accreditation from professional, statutory and regulatory bodies. A university education makes a real difference to students and to society.

London South Bank University

Operating and Financial Review

Benefit to public

A key role of universities is knowledge creation and transfer. Knowledge is transferred to our students through teaching and access to academic resources. The University's research activities also contribute to a wider public benefit through technological advances, scientific knowledge and innovation. The University has undertaken much research in 2011-12 which will benefit the wider public.

In the field of health the University has undertaken research on exploring the roles of parents and professionals in sharing illness and treatment information with children who have cancer and separately, how tai chi can help people with cystic fibrosis to manage their condition and enjoy a better quality of life. In social policy, research has been undertaken on the experiences, personal identifications and meanings drawn on by pupils at risk of school exclusion. The aim of the research is to produce targeted policy and practice resources in collaboration with Kids Company (a charity supporting challenged and challenging children and young people), their service users and other specialist practitioners. Research has been undertaken providing information on the impact of noise and poor acoustics on academic performance and, in particular, on the way in which children at different stages of development or different tasks (for example, verbal and non-verbal) are affected. In engineering, one of our researchers won the Royal Society Brian Mercer Feasibility Award (2011) for research on continuous Clean Alkaline Epoxidation Process technology. This process creates new molecules which are valuable building blocks for the production of a wide range of products including plastics, paints and pharmaceuticals.

In the area of enterprise, the University is significantly expanding our student entrepreneurship package to assist more of LSBU's entrepreneurial students and former students to explore and develop the commercial potential of their ideas and innovations through our existing Enterprise in Action and Enterprise Associate schemes. We have also added a new scheme, the Entrepreneur and Enterprise Link scheme, providing the opportunity for an even greater number of our undergraduate students to gain experience from working directly with an entrepreneur or enterprising company. We have added two new funding channels for our student and staff entrepreneurs, a proof of concept fund and a market entry fund, allowing us to support new businesses for longer as they first get established. In November 2011 an Enterprise Associate, founder of the world's first ride-on golf trolley, was awarded Britain's Best Young Entrepreneur by PC World Business. In August 2012, the University began the redevelopment of a group of Georgian terraces prominently sited on the Southwark campus. When complete in September 2013, these will house a new Enterprise Centre, providing a dynamic enterprise facility for the University and its students as well as for the communities and businesses of south east and central London.

The University also serves the public benefit through its outreach and community work. Innovations in this area include the opening by the Law Department of a ground-breaking Legal Advice Clinic and a new public art gallery, which are informed by LSBU educational programmes.

The Legal Advice Clinic helps students sharpen their legal skills whilst offering free help, support and advice for the local community.

The Borough Road Gallery was built to house 'A David Bomberg Legacy - The Sarah Rose Collection'. The collection includes over 100 works by members of The Borough Group including David Bomberg, Dennis Creffield, Cliff Holden, Edna Mann, Dorothy Mead, and Miles Richmond and was donated to the University by Sarah Rose. The Gallery is open to the public and runs an educational programme with local secondary schools, and the University is partnering with local adult educational specialist Morley College to launch 'Designs on Bomberg' - short courses on art history, painting and drawing, and printmaking for the College's Summer School.

London South Bank University

Operating and Financial Review

Employment; Policy, Diversity and Training

During the year, the University continued to apply policies designed to enhance the opportunities for the employment, training and career development of all staff including those with disabilities.

We are committed to the promotion of equality, diversity and a supportive environment for all members of our community and aspire to be a truly inclusive organisation. To enable us to achieve this we have developed a wide ranging plan of action based on our Equality and Diversity Policy to strive to prevent and eliminate discrimination, promote fairness and celebrate the diversity within our community.

Employee recruitment and grading processes, together with programmes for employee involvement, communication and training are all designed to promote equal opportunity irrespective of age, disability, sex, gender reassignment, marriage/civil partnership, pregnancy and maternity, race, religion or sexual orientation.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. If existing employees become disabled, every effort is made to continue their employment with the University and arrange appropriate training. It is the University's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The University places considerable value on the involvement of its employees and on good communication with them. Staff are informed through regular meetings, emails and information on the University website, open staff forums, staff newsletters, staff magazines and other means. Staff are encouraged to participate in formal and informal consultation, through membership of formal Committees and informal working groups.

Creditor payment policy

It is the University's policy to abide by terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later.

Average creditor days during the year were 33(2011: 33).

Accounting policies

The University's financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 33 to 37. The University's Governing Body has reviewed the Group's accounting policies and considers them to be the most appropriate to the University's operations.

Subsidiaries

South Bank University Enterprises Limited ("SBUEL") provides consultancy and other services to a range of commercial organisations. SBUEL has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. A donation of £0.6m has been passed to the University this year (2011: £0.6m).

London South Bank University Students' Union ("LSBUSU") provides facilities for students, principally shops, entertainments and bars. LSBUSU is partially funded by an annual grant from the University. LSBUSU is an unincorporated body whose existence is provided for in the Articles of Association of the University. LSBUSU has been consolidated as the University exercises ultimate control over its constitution. The day-to-day policy of LSBUSU is vested in the Students' Union Executive.

SBUEL and LSBUSU are fully consolidated into the Group accounts.

Constitution, Governance and Regulation

London South Bank University was incorporated on 12 August 1970. It is registered at Companies House under number 986761 and its registered address is 103 Borough Road, London. SE1 0AA. London South Bank University is a company limited by guarantee and has no share capital.

London South Bank University

Operating and Financial Review

Constitution, Governance and Regulation

The governing body of the University is responsible for the administration and management of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 20 to 26 and the members of the Board of Governors during the year ended 31 July 2012 are listed on page 2. The Governors are also directors for the purposes of the Companies Act.

The University is an exempt charity within the meaning of the Charities Act applying in England and Wales and its principal regulator is HEFCE. All Governors are also trustees.

The University is regulated principally by HEFCE under a Financial Memorandum. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

The University's principal officers and advisors are listed on page 1.

Disclosure of information to auditors

At the date of making this report each of the Governors, as set out on page 2, confirm the following:

- So far as each Governor is aware, there is no relevant information needed by the University's auditors in connection with preparing their report of which the University's auditors are unaware, and;
- Each Governor has taken all the steps that he or she ought to take as a Governor in order to make him or herself aware of any relevant information needed by the University's auditors in connection with preparing their report and to establish that the University's auditors are aware of that information.

Auditors

A resolution to reappoint Grant Thornton UK LLP as auditors of the University will be proposed at the forthcoming Annual General Meeting.

Directors' Report

This Operating & Financial Review (OFR) also serves as the Directors' Report for the purposes of the Companies Act 2006.

Value of properties

Note 12 to the accounts shows that a number of properties are stated in the accounts at September 1994 valuation.

Approval

Approved by the Board of Governors and signed on behalf of the Board by:

Mr David Longbottom
Chair of the Board of Governors
22 November 2012

London South Bank University

Responsibilities of the Board of Governors

In accordance with the University's Memorandum and Articles of Association approved by the Privy Council, the Board of Governors is responsible for the administration and management of the affairs of the University and Group and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the University and the Group and to enable it to ensure that the financial statements are prepared in accordance with the University's Memorandum and Articles of Association, the HEFCE Accounts Direction, the Statement of Recommended Practice on Accounting for Further and Higher Education, other relevant accounting standards and comply with the Companies Act 2006. In addition, within the terms and conditions of a Financial Memorandum agreed between the HEFCE and the Board of Governors of the University, the Board of Governors, through its Accounting Officer, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and the Group and of the surplus or deficit and cash flows of the Group for that year.

In preparing the financial statements, the Board of Governors 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; and
- Financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation.

The Board of Governors is satisfied that it 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 Board of Governors has taken reasonable steps to:

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

Signed on behalf of the Board of Governors by:

Mr David Longbottom
Chair of the Board of Governors

22 November 2012

London South Bank University

Statement on Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Memorandum and Articles of Association and 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 ongoing process linked to the achievement of institutional objectives and 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. This process has been in place for the year ended 31 July 2012 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- We meet a minimum of four times a year to consider the plans and strategic direction of the institution;
- The approach to internal control is risk based, including a regular evaluation of the likelihood and impact of risks becoming a reality;
- The Audit Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Audit Committee concerning internal control and we require regular reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The Audit Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Audit Committee receives regular reports from the internal auditor, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, together with recommendations for improvement;
- The internal audit programme has been aligned with the University's corporate risk register;
- An organisation-wide register of key corporate risks is maintained, together with individual risk registers for each faculty and department. Review procedures cover business, operational and compliance as well as financial risk;
- The executive team meets regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all faculties and departments; Update training is provided as required to support delivery;
- Formal risk management and internal control procedures have been embedded within ongoing operations.

Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in July 2011. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement.

London South Bank University

Statement on Internal Control

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

London South Bank University

Corporate Governance Statement

The following statement is given to assist readers of the financial statements in obtaining an understanding of the governance and legal structure of the University.

The University's Board of Governors is committed to maintaining the highest standards of corporate governance. In carrying out its duties it has regard for:

- The CUC Governance Code of Practice
- The UK Corporate Governance Code (where applicable)
- The seven principles of behaviour in public life
- The HEFCE Financial Memorandum and the Audit Code of Practice
- The Directors' duties as set out in sections 170-177 of the Companies Act 2006
- The Charity Commission's Guidance on Public Benefit and its duties as charity trustees of compliance, prudence and care
- Other legislative requirements of corporate bodies
- The University's Memorandum and Articles of Association.

The Board has complied with all aspects of the CUC Governance Code of Practice during the year under review. In September 2011, the University received a positive outcome from HEFCE's assurance review, undertaken in July 2011, which examined how the University exercises accountability for the public funding it receives.

The Internal Auditor's annual opinion on governance is that with a few specific exceptions where improvements are required, the University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of governance.

Governance and Legal Structure

London South Bank University is a company limited by guarantee and an exempt charity within the meaning of the Charities Act. Its objects and powers are set out in its Memorandum and Articles of Association, which govern how the University is run.

The Articles set the governance framework of the University and set out the key responsibilities of the Board of Governors and its powers to delegate to committees, the Vice Chancellor and the Academic Board.

Role of the Board of Governors

The University is headed by a Board of Governors which is collectively responsible for the strategic direction of the University, approval of major developments and creating an environment where the potential of all students is maximised. It takes the final decision on all matters of fundamental concern to the institution.

All governors, when appointed, agree to abide by the standards of behaviour in public life. As the University is also a company, its governors comply with the directors' duties as set out in sections 170-177 of the Companies Act 2006 and duties of charity trustees when making decisions. Governors are unremunerated but may claim back expenses properly incurred in the discharge of their duties. All members are expected to attend meetings and to contribute effectively to meetings. Attendance at meetings is recorded and monitored by the Chairman. In the year under review there was an 83% attendance rate at Board meetings.

London South Bank University

Corporate Governance Statement

Following the approval of the *Corporate Plan, 2011-14* in July 2011, the Board has increased its focus on strategy and how the University can meet the opportunities and challenges of the new fees regime. The Board now meets five times per year (four in 2010/11) and held two strategy days (one in 2010/11). Agendas for meetings have been refocused so that strategic issues are discussed at the beginning of meetings to allow more time for challenge and debate of these key issues. Holding two strategy days per year allows the Board further time to discuss and debate strategic challenges for the University. One strategy day is forward looking and the other focusses on delivery of the strategic plan. Where necessary, governors receive presentations on a specific strategic matter before Board meetings to allow them to explore key issues in greater depth than a meeting would allow.

In July 2011 the Board established an Educational Character Committee which met three times during 2011/12. Its remit is to allow independent governors to delve deeper into academic matters than is possible in Board meetings and to gain greater insight into the educational workings of the University. It is enabling the Board to have greater perspective when making decisions.

As recommended by the CUC Governance Code of Practice, the Board has agreed a statement of primary responsibilities (on pages 24-25), which is reviewed annually. It follows the model statement as recommended by the CUC and includes approval of the educational character, mission and strategic vision of the institution and to ensure that these meet the needs of stakeholders.

The Board delegates considerable power to the Vice Chancellor as Chief Executive for the management of the University. The Vice Chancellor's delegated authority is set out in the Instrument of Government and includes:

- making proposals to the Board about the educational character and mission of the University;
- the organisation, direction and management of the University and leadership of staff;
- the determination, after consultation with the Academic Board, of the University's academic activities, and for the determination of its other activities;
- preparing annual estimates of income and expenditure for consideration by the Board of Governors, and for the management of budget and resources, within the estimates approved by the Board of Governors;
- for the maintenance of Student discipline and within the rules and procedures provided for within these Articles, for the suspension or expulsion of Students on disciplinary grounds and for implementing decisions to expel students for academic reasons.

As Chief Executive, the Vice Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and the shaping of the institutional ethos. The Pro Vice Chancellors and the senior administrative officers all contribute in various ways to these aspects of the work, but the ultimate responsibility for what is done rests with the Board of Governors. The Vice Chancellor is the designated officer in respect of the use of Funding Council funds.

As Chief Academic Officer, the Vice Chancellor is the Chairman of the Academic Board. The Academic Board is responsible for all the academic affairs, subject to the overall responsibility of the Board of Governors for determining the educational character and mission of the institution.

Governors are reminded of their duty to exercise their responsibilities in the interests of the University as whole during their induction and throughout their term of office. The University maintains a register of interests of members of the

London South Bank University

Corporate Governance Statement

Board of Governors and the Executive which is published on the University's website. New governors are required to complete a declaration on appointment and to inform the Secretary of any amendments to their entry. The register is reviewed annually by the Board who decide whether to authorise the declared interests. During the year under review all declared interests were authorised by the Board. In accordance with the Companies Act 2006, governors are asked at the opening of each Board and committee meeting to declare whether they have any interests in any matters on the agenda.

In July 2011 the Board established the University Court to help the University engage with its external stakeholders. Although not a decision making body, the University Court plays an important advisory role in the development of the University through its large and varied membership of prominent and distinguished individuals. The University Court had a successful first meeting in March 2012, which helped the University build relationships with members and identify areas for collaboration for the benefit of students. For example, Sir Paul Judge, President of the Chartered Institute of Marketing and Simon Osborne, Chief Executive of the Institute of Chartered Secretaries and Administrators are both delivering guest lectures to Business students.

During the year the University installed Richard Farleigh as Chancellor, to act as the principal figurehead of the University and to represent the University's interests and further its aims. His role includes hosting the annual Court event and establishing relationships with the University's stakeholders.

Structure and Processes

The Board when fully complemented consists of 13 independent governors, the Vice Chancellor, two student governors, two academic staff members nominated by the Academic Board, an academic staff member elected by the academic staff and a support staff member elected by the support staff. Governors serving for the period are listed on page two. The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association. The Board has determined that the current composition is optimum to ensure its effectiveness and that of its committees.

In accordance with the Articles of Association the Board consisted of a majority of independent governors throughout the year and at all Board and committee meetings. All independent governors are independent and external to the University.

Appointments to the Board of independent governors are managed by the Nominations Committee and Appointments Committee, both chaired by the Chairman of the Board. A written description of the role and capabilities required has been agreed by the Nominations Committee. Candidates are judged against the capabilities required and the balance of skills and experience currently on the Board. The balance of skills and experience of independent governors is kept continually under review by the Nominations Committee.

New members of the Board are given an appropriate induction and encouraged to attend relevant external training. Most members of the Board are appointed to at least one committee. Governors are encouraged to seek external, independent advice where necessary in order to fulfil their duties.

The Board of Governors is supported by the University Secretary and Clerk to the Board of Governors and his team. The Secretary provides independent advice on matters of governance to all members of the governing body and ensures that governors receive information in a timely manner and of sufficient quality to allow the Board to fulfil its duties. Board and committee papers are uploaded to a secure SharePoint site a week in advance of meetings and the site is accessible to all governors. Guidance on drafting Board papers has been updated and circulated to managers as part of continuous improvements in the quality of information received by governors.

London South Bank University

Corporate Governance Statement

The University publishes minutes of Board and committee meetings on its external website. Minutes are only redacted when the wider interests of the institution demands it and in the spirit of the Freedom of Information Act 2000.

Committees

The Board operates through a number of committees which report to the Board at each meeting. All committees are formally constituted with appropriate terms of reference which are reviewed annually. Terms of reference and membership of each committee is available on the governance pages of our website. All committees have a majority of independent governors, from whom its Chairman is drawn (The chairs of each committee are set out on page 25). The terms of reference of each committee fit into the framework of the Matters Reserved to the Board which the Board reviews annually. Matters specifically reserved to the Board as a whole for decision include:

- The determination of the educational character and mission of the University;
- The approval of the University's long-term mission and strategic vision;
- The approval of the annual budget and five year forecasts;
- Investment in capital projects above agreed levels;
- Election of the Chairman of the Board;
- Appointment of the Vice Chancellor and the Clerk to the Board; and
- The variation of the University's Memorandum and Articles of Association.

Current committees of the Board are:

- Policy and Resources Committee
- Audit Committee
- Educational Character Committee
- Nominations Committee
- Appointments Committee
- Remuneration Committee
- Human Resources Committee
- Property Committee.

The Policy and Resources Committee advises the Board of Governors on the University's policies, its solvency and the use and safeguarding of its resources and assets, and recommends to the Board of Governors the University's annual revenue and capital budgets and monitors performance in relation to those budgets. Throughout the year under review it met on five occasions.

The Audit Committee is responsible for meeting with the external auditors and internal auditors of the University and reviewing their work. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's response and implementation plans. It provides oversight of the risk management process and receives regular risk reports from management. It also receives and considers reports from HEFCE as they affect the University's business and monitors adherence with the regulatory requirements. It reviews the University's annual financial statements together with the accounting policies. Whilst members of the Executive attend meetings of the Audit Committee, they are not members of the Committee. The Chairman of the Board is not a member of the Committee and does not attend its meetings. The committee met four times during the year under review.

London South Bank University

Corporate Governance Statement

The Educational Character Committee was established in July 2011 and had its first meeting in September 2011. It was established to help the Board gain a greater insight and understanding of the educational and academic life of the institution. It considers issues such as retention and progression, student satisfaction and reports from the Academic Board. The committee meets three times per year.

The Nominations Committee considers candidates for independent Governor vacancies in the Board of Governors' membership under the terms of the University's Memorandum and Articles of Association. Independent Governors are appointed for a term of four years by the Appointments Committee. Renewal for an additional term can be considered, but is not automatic.

The Remuneration Committee determines the annual remuneration of senior post holders.

The Human Resources Committee is responsible for setting the framework for the determination and implementation of all policies and procedures relating to the employment of staff. It also sets the framework for collective salary and conditions of service negotiations and advises the Vice Chancellor as HEFCE's Accounting Officer of best practice on human resource issues. The Committee considers financial matters related to employment. Staff and Student Governors are prohibited by the articles of association from serving on the Committee, but it has been agreed that, with the Chair's permission, the staff Governors may choose one of their number to attend as an observer and to speak. The committee met three times during the year under review.

The Property Committee advises the Board of Governors on property and estates matters. It considers all major estates projects before recommending their approval to the Policy and Resources Committee and the Board of Governors. In the year under review it met five times and considered the construction of a new Student Centre and Enterprise Centre.

Effectiveness and Performance Reviews

The Board of Governors last reviewed its effectiveness in 2010 and so did not undertake a review of its own effectiveness during 2011/12. However, the Audit, Policy and Resources, Human Resources and Property Committees undertook self-assessed effectiveness reviews as recommended by HEFCE as part of their assurance review in 2011. Outcomes of these reviews were reported to the Board and led to the review and revision of terms of reference. For instance, the terms of reference of the Property Committee and the Policy and Resources Committee were felt to overlap in relation to the approval of expenditure for large estates projects. Business cases for estates projects are now reviewed by the Property Committee and the Policy and Resources Committee before final approval by the Board of Governors. This allows more effective scrutiny on large capital expenditure by governors.

Board of Governors – Statement of Primary Responsibilities (approved by the Board at its meeting in October 2012)

1. To approve the educational character, mission and strategic vision of the institution, together with its 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, and 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.

London South Bank University

Corporate Governance Statement

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, and to carry out such reviews at appropriate intervals.
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 and promote 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 University'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.
14. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution or its students.
15. To ensure that the institution's constitution is followed at all times and that appropriate advice to the Board is available to enable this to happen.

This Statement of Primary Responsibilities does not replace the provisions of the University's Articles of Association. If the two conflict, the Articles shall prevail.

Key individuals

Chair of the Board of Governors	Mr David Longbottom
Vice Chair of the Board of Governors	The Reverend Dame Sarah Mullally
Head of Institution (Vice Chancellor and Chief Executive)	Professor Martin Earwicker
Chair of Policy and Resources Committee	The Reverend Dame Sarah Mullally
Chair of Audit Committee	Mr Chris Swinson, OBE (until 10 May 2012) Mr Andrew Owen (from 20 May 2012)
Chair of Educational Character Committee	Mr Andrew Owen (until 20 May 2012) Mr Steve Balmont (from 20 May 2012)
Chair of Human Resources Committee	Ms Anne Montgomery
Chair of Property Committee	Mr Ken Dytor
Chair of Nominations Committee	Mr David Longbottom
Chair of Appointments Committee	Mr David Longbottom
Chair of Remuneration Committee	Maggie Semple, OBE (until 4 June 2012) Ms Diana Parker (from 3 October 2012)
University Secretary and Clerk to the Board of Governors	Mr James Stevenson

London South Bank University

Corporate Governance Statement

Key individuals can be contacted through the office of the University Secretary and Clerk to the Board of Governors, Mr James Stevenson, at London South Bank University, 103 Borough Road, London SE1 0AA. Published documents are available on the governance section of the University website.

The Corporate Governance and Internal Control statements were approved by the Board of Governors on 22 November 2012 and were signed on its behalf by:

Mr David Longbottom

Professor Martin Earwicker

Chair of the Board of Governors

Vice Chancellor

London South Bank University

Report of the independent auditors to the Board of Governors of London South Bank University (Company registration number 986761)

We have audited the financial statements of London South Bank University ('the University') for the year ended 31 July 2012 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost surplus, the consolidated and University balance sheets, the consolidated cash flow statement, the principal 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) and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the Board of Governors, in accordance with the University's articles of government, section 124B(3) of the Education and Reform Act 1988 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the University's Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members and trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University's Board of Governors and auditors

As explained more fully in the Responsibilities of the Board of Governors statement set out on page 15, the governing body (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed auditor under the Education and Reform Act 1988 and the Companies Act 2006 and report in accordance with those Acts. 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 (APB's) Ethical Standards for Auditors.

We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respect, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England ('the Funding Council'), the Training and Development Agency for Schools and the Skills Funding Council.

We read the operating and financial review, the responsibilities of the Board of Governors, the statement on internal control and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and University's affairs as at 31 July 2012 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

London South Bank University

Report of the independent auditors to the Board of Governors of London South Bank University (Company registration number 986761)

Opinion on other matters

In all material respects:

- income from the funding council, the Training and Development Agency for Schools and the Chief Executive of Skills Funding, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2012 have been applied for the purposes for which they were received; and
- income during the year ended 31 July 2012 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the funding council, the funding agreement with the Training and Development Agency for Schools and the funding agreement with the Chief Executive of Skills Funding.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

David Barnes

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Milton Keynes
22 November 2012

Consolidated income and expenditure account

Year ended 31 July 2012

		2012	2011
		£'000	£'000
Income	Note		
Funding council grants	1	45,450	48,754
Academic fees and support grants	2	73,959	75,931
Research grants and contracts	3	4,068	4,916
Other operating income	4	14,094	14,807
Endowment income and interest receivable	5	697	521
		<hr/>	<hr/>
Total income		138,268	144,929
		<hr/>	<hr/>
Expenditure			
Staff costs	6	72,725	77,601
Depreciation	12	10,989	8,132
Other operating expenses	8	44,020	45,054
Interest payable	10	4,019	4,239
		<hr/>	<hr/>
Total expenditure		131,753	135,026
		<hr/>	<hr/>
Surplus for the year		6,515	9,903
		<hr/> <hr/>	<hr/> <hr/>

All activities are in respect of continuing operations

Consolidated statement of total recognised gains and losses
Year ended 31 July 2012

		2012	2011
		£'000	£'000
	Note		
Surplus for the year	22	6,515	9,903
Actuarial (losses)/ gains relating to pension scheme	24	(18,146)	11,971
Change in market value of endowment asset investments	26	(10)	35
		<hr/>	<hr/>
Total recognised (losses)/gains relating to the financial year		(11,641)	21,909
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation

Opening reserves and endowments		74,893	52,984
Total recognised (losses)/gains for the year		(11,641)	21,909
		<hr/>	<hr/>
Closing reserves and endowments		63,252	74,893
		<hr/> <hr/>	<hr/> <hr/>

Note of consolidated historical cost surplus
Year ended 31 July 2012

		2012	2011
		£'000	£'000
Reported surplus for the year	22	6,515	9,903
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	21	802	792
		<hr/>	<hr/>
Historical cost surplus for the year		7,317	10,695
		<hr/> <hr/>	<hr/> <hr/>

Balance sheets
Company number 986761
As at 31 July 2012

		Consolidated		University	
		2012	2011	2012	2011
		£'000	£'000	£'000	£'000
	Note				
Fixed assets					
Tangible assets	12	163,626	163,578	163,618	163,558
Investments	13	38	38	38	38
		<u>163,664</u>	<u>163,616</u>	<u>163,656</u>	<u>163,596</u>
Endowment fixed assets	26	641	651	641	651
Current assets					
Stocks		46	48	39	42
Debtors	14	9,101	10,237	8,923	10,974
Cash at bank and in hand		69,146	62,605	67,459	60,664
		<u>78,293</u>	<u>72,890</u>	<u>76,421</u>	<u>71,680</u>
Creditors: amounts falling due within one year	15	(40,746)	(41,101)	(40,188)	(40,403)
Net current assets		<u>37,547</u>	<u>31,789</u>	<u>36,233</u>	<u>31,277</u>
Total assets less current liabilities		201,852	196,056	200,530	195,524
Creditors: amounts falling due after more than one year	16	(31,062)	(33,316)	(31,062)	(33,316)
Provisions for liabilities	18	(1,179)	(854)	(1,179)	(854)
Pension liability	19	(74,664)	(55,340)	(74,664)	(55,340)
Net assets		<u>94,947</u>	<u>106,546</u>	<u>93,625</u>	<u>106,014</u>
Deferred capital grants	20	31,695	31,653	31,695	31,653
Endowments					
Expendable	26	337	343	337	343
Permanent	26	304	308	304	308
		<u>641</u>	<u>651</u>	<u>641</u>	<u>651</u>
Capital and reserves					
Revaluation reserves	21	30,986	31,788	30,982	31,788
Income & expenditure account excluding pension reserve	22	106,289	97,794	104,971	97,262
Pension reserve	22	(74,664)	(55,340)	(74,664)	(55,340)
		<u>31,625</u>	<u>42,454</u>	<u>30,307</u>	<u>41,922</u>
Income and expenditure account including pension reserve					
Total		<u>94,947</u>	<u>106,546</u>	<u>93,625</u>	<u>106,014</u>

These financial statements were approved by the Board of Governors on 22 November 2012 and were signed and authorised on their behalf by:

Mr David Longbottom
Chair

Professor Martin Earwicker
Vice Chancellor

Consolidated Cash flow statement

Year ended 31 July 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	29	20,083	26,495
Returns on investments and servicing of finance	30	(1,060)	(1,431)
Capital expenditure and financial investment	31	(11,063)	(6,267)
Net cash inflow before financing		<u>7,960</u>	<u>18,797</u>
Financing	32	(1,419)	44
Increase in cash	33	<u>6,541</u>	<u>18,841</u>
 Reconciliation of net cash flow to movement in net funds			
Increase in cash	33	6,541	18,841
Net decrease in debt	34	<u>3,378</u>	<u>2,791</u>
Change in net funds		9,919	21,632
Net funds at 1 August	33	<u>25,978</u>	<u>4,346</u>
Net funds at 31 July	33	<u>35,897</u>	<u>25,978</u>

Principal Accounting Policies

Year ended 31 July 2012

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

Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of certain properties at valuation and the revaluation of endowment assets, in accordance with the Companies Act 2006 and with the Statement of Recommended Practice (SORP) for Further and Higher Education 2007, and in accordance with applicable accounting standards and HEFCE's Accounts Direction.

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in operation. The Board is satisfied that the Group 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.

Consolidation of accounts

The consolidated financial statements incorporate the financial statements of the University, its subsidiary undertaking South Bank University Enterprises Limited (SBUEL) and those of London South Bank University Students Union (LSBUSU). LSBUSU is an unincorporated body whose existence is provided for in the Articles of Association of the University. Its financial statements for the year ended 31 July 2012 have been consolidated with those of London South Bank University, as the University exercises ultimate control over its constitution. The day-to-day policy of LSBUSU is vested in the Student Union Executive.

Consolidation of subsidiaries is based on the equity method.

Income recognition

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

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

Income from research grants, contracts and other services rendered is included when conditions attaching to its receipt have been met. Contributions towards overhead costs are aligned with expenditure and recognised based on expenditure to date.

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.

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.

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

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowments, 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.

Principal Accounting Policies

Year ended 31 July 2012

Income recognition (continued)

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; 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 or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, debiting or crediting the endowment fund and is reported in the statement of total recognised gains and losses.

Tangible fixed assets

Upon implementation of FRS 15 'Tangible Fixed Assets', the University opted to include assets in its books at historical cost/revalued amount at the date of introduction of the FRS. Properties are not carried under the valuation method and therefore regular revaluation of assets are not undertaken by the University.

Freehold land and buildings, long leasehold and short leasehold premises are included in the accounts at cost or valuation together with subsequent refurbishment expenditure, less amounts written off by way of depreciation. Freehold land is not depreciated. Finance costs that are directly attributable to the construction of land and buildings are not capitalised.

Assets in the course of construction are accounted for at cost, based on the value of Quantity Surveyors' certificates and other direct costs incurred to the end of the year. They are not depreciated until they are brought into use.

Equipment costing less than £10,000 per individual item or group of items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Long leaseholds	Period of lease
Short leaseholds	Period of lease
Building improvements	6.7% per annum
Equipment and motor vehicles	20% per annum
Furniture	6.7% per annum

At each financial year end the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered a diminution in value. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value and its value in use, is estimated in order to determine the extent of the impairment loss.

Investments

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

Endowment Asset Investments are included in the balance sheet at market value.

Stocks

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

Principal Accounting Policies

Year ended 31 July 2012

Pension costs

The University contributes to the Teachers' Pensions Scheme (England and Wales), the London Pension Fund Authority Pension Fund (LPPAPF) and the Universities Superannuation Scheme (USS). These schemes are administered by Teachers' Pensions (on behalf of the Department for Education), the London

Pension Fund Authority and USS Ltd respectively and are all of the defined benefit type. The costs in relation to these schemes are accounted for in accordance with FRS 17 (Retirement benefits).

Where the University is unable to identify its share of the underlying assets and liabilities in a scheme on a reasonable and consistent basis, it accounts as if the scheme were a defined contribution scheme, so that the cost is equal to the total of contributions payable in the year.

For other defined benefit schemes, the assets of each scheme are measured at fair value, and the liabilities are measured on an actuarial basis using the projected unit method and discounted at an appropriate rate of return. The University's share of the surplus or deficit of the scheme is recognised as an asset or liability on the balance sheet. The current service cost, being the actuarially determined present value of the pension benefits earned by employees in the current period, and the past service cost are included within staff costs. Endowment and investment income includes the net of the expected return on assets, being the actuarial forecast of total return on the assets of the scheme, and the interest cost being the notional interest cost arising from unwinding the discount on the scheme liabilities. All changes in the pension surplus or deficit due to changes in actuarial assumptions or differences between actuarial forecasts and the actual out-turn are reported in the statement of total recognised gains and losses.

Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993, as amended by the 2006 Act, and as such is a 'charitable company' within the meaning of Section 467 of the Corporation Tax Act (CTA) 2010. Accordingly the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 478 of the CTA 2010 and Section 256C of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The University's subsidiary company SBUEL is subject to corporation tax and is therefore required to account for deferred tax and current tax.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Agency arrangements

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

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the institution, 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

Principal Accounting Policies

Year ended 31 July 2012

element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance lease are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Maintenance

Maintenance expenditure is charged to the consolidated income and expenditure account in the period in which it is incurred.

Refurbishment expenditure on a property is deemed to be of a capital nature if it either enhances the property's operational capabilities, or if it significantly upgrades the mechanical or electrical infrastructure of that property. To the extent that the expenditure is of a capital nature, it is capitalised and written off over its useful economic life. Refurbishment expenditure that does not meet either of these criteria is treated as maintenance expenditure.

Reserves

Designated reserves represent retained reserves generated by activities not funded by the HEFCE. Any surplus or deficit for the year is transferred from the income and expenditure reserve to designated reserves.

Where fixed assets were revalued prior to the implementation of FRS 15, the gain or loss on revaluation was credited or debited to the capital reserve. Where depreciation on the revalued amount exceeds the corresponding depreciation based on historical cost, the excess is transferred annually from the capital reserve to the income and expenditure reserve.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within twenty-four hours without penalty.

Liquid resources comprise of assets, which in normal practice are generally convertible to cash. They include term deposits held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; the amount of the obligation cannot be measured with sufficient reliability.

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

Principal Accounting Policies

Year ended 31 July 2012

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:

Accounting for charitable donations (continued)

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 institution. These are shown as unrestricted permanent endowments in the balance sheet.
2. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income. These are shown as restricted expendable endowments in the balance sheet if the donation is to be retained for more than 2 years, and as deferred income within creditors due within 1 year if the donation is to be fully expended within 2 years.
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. These are shown as restricted permanent endowments in the balance sheet.

Total return on investment for permanent endowments

Total return is the whole of the investment return received by the institution on the permanent endowment funds regardless of how it has arisen.

The total return, less any part of the return which has previously been applied for the purposes of the institution, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Notes to the accounts

Year ended 31 July 2012

1. Funding council grants

	2012	2011
	£'000	£'000
HEFCE		
Recurrent grant	40,368	42,920
Specific grants	1,020	1,421
Pension liabilities	260	223
Other funding bodies		
Skills Funding Agency (SFA) grant	98	229
Training and Development Agency for Schools (TDA) grant	2,018	2,094
Deferred capital grants released (note 20)	1,686	1,867
	<u>45,450</u>	<u>48,754</u>

2. Academic fees and support grants

	2012	2011
	£'000	£'000
Full-time home and EU students	26,479	27,734
Full-time international students	9,191	9,863
Part-time students	6,742	7,141
Other courses	885	1,767
Strategic Health Authority education contracts	30,662	29,426
	<u>73,959</u>	<u>75,931</u>

3. Research grants and contracts

	2012	2011
	£'000	£'000
Research councils	1,185	1,553
UK based charities	231	344
European Commission	117	417
Other grants and contracts	1,483	1,097
Knowledge Transfer Partnerships	1,052	1,505
	<u>4,068</u>	<u>4,916</u>

4 Other operating income

	2012	2011
	£'000	£'000
Residence and catering income	8,378	8,135
Other income	5,716	6,672
	<u>14,094</u>	<u>14,807</u>

Notes to the accounts
Year ended 31 July 2012

5. Endowment income and investment income

	2012	2011
	£'000	£'000
Income from permanent endowments	12	12
Income from expendable endowments	13	11
Interest receivable	672	498
	<u>697</u>	<u>521</u>
	<u><u>697</u></u>	<u><u>521</u></u>

6. Staff - consolidated

Average staff numbers by major category:	2012	2011
	No.	No.
Academic Staff	726	725
Part Time Teaching Staff	331	252
Student support staff	453	477
Other support staff	444	372
	<u>1,954</u>	<u>1,826</u>
	<u><u>1,954</u></u>	<u><u>1,826</u></u>

Costs:	2012	2011
	£'000	£'000
Wages and salaries	59,228	63,672
Social security costs	5,306	5,258
Employers' pension contributions	8,191	8,671
	<u>72,725</u>	<u>77,601</u>
	<u><u>72,725</u></u>	<u><u>77,601</u></u>

Staff costs for the year include costs arising from redundancies of £0.9m (2011: £1.2m).

Notes to the accounts

Year ended 31 July 2012

7. Remuneration of Board of Governors and Higher-Paid employees

A. Governors

The University's governors do not receive remuneration from the University in their capacity as governors. The salaries and pension contributions below therefore relate entirely to staff governors and to sums received by them in their capacity as employees of the University.

	2012 £'000	2011 £'000
Salaries	467	431
Pension contributions	33	57
	500	488
	500	488

Governors, who are also all trustees, are paid expenses for attending meetings and duties directly related to their duties as trustees. In 2012, 3 trustees were paid total expenses of £2,342 (2011 4 trustees were paid total expenses of £3,303) for travel and subsistence.

B. Higher Paid Employees

Certain employees received remuneration (excluding pension contributions) in excess of £100,000 during the year. All these employees accrued benefits under defined benefit pension schemes during the year. These employees are grouped as follows:

	2012 No.	2011 No.
£100,000 to £109,999	1	2
£110,000 to £119,999	2	2
£120,000 to £129,999	1	1
£130,000 to £139,000	1	-
£150,000 to £159,999	1	1
£200,000 to £209,000	-	1
£230,000 to £239,999	1	-
	7	7
	7	7

C. Remuneration of the Vice Chancellor

	2012 £'000	2011 £'000
Salary and taxable benefits	238	204
Total emoluments	238	204
Pension scheme contributions	-	22
Total remuneration	238	226

All remuneration of the Vice Chancellor was to the current Vice Chancellor Professor Martin Earwicker. The Vice Chancellor is the highest paid Governor.

Notes to the accounts

Year ended 31 July 2012

	2012	2011
	£'000	£'000
8. Other operating expenses		
Academic	14,070	16,281
Academic support	3,755	3,504
Other support	3,979	4,254
Premises	16,588	15,060
Residence and catering	1,014	2,094
Other expenses	4,614	3,861
	<u>44,020</u>	<u>45,054</u>

	2012	2011
	£'000	£'000
Group other operating expenses are stated after charging:		
Auditors' remuneration		
<i>External audit</i>		
Grant Thornton UK LLP*	49	45
Crowe Clark Whitehill**	8	9
<i>Internal audit***</i>		
PricewaterhouseCoopers LLP	76	72
<i>Other services***</i>		
Grant Thornton UK LLP	3	3
Reeves and Co LLP*	2	2
Rentals under operating leases	375	387
Plant and machinery	872	1,040
Other assets		
Loss on disposal of fixed assets	<u>26</u>	<u>-</u>

* Includes £46,350 attributable to the University (2011: £41,700)

** Attributable to the LSBU Student's Union

*** All attributable to the University

9. Taxation

A deferred tax asset has not been recognised in respect of timing differences relating to capital allowances and trading losses as there is insufficient evidence that the asset will be recovered.

The amount of the asset not recognised is £22,459 (2011: £26,602). The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

Notes to the accounts
Year ended 31 July 2012

10. Interest payable

	2012	2011
	£'000	£'000
Loans repayable within 5 years	78	159
Loans not wholly repayable within five years	1,592	1,631
Unwinding of discount in respect of pension liability less expected return on pension assets (see note 19)	2,262	2,287
Finance leases	87	162
	<u>4,019</u>	<u>4,239</u>

11. Surplus of parent company

The income and expenditure account of the parent company (London South Bank University) has not been presented as part of these accounts. This dispensation is allowed under section 408 of the Companies Act 2006.

The surplus, after depreciation of assets at valuation, of London South Bank University was £5.7m (2011: £10.2m).

Notes to the accounts

Year ended 31 July 2012

12. Tangible fixed assets

(a) Consolidated

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost or Valuation						
At 1 August 2011	29,707	157,616	47,281	1,447	749	236,800
Additions	988	2,117	-	-	7,958	11,063
Disposals	(39)	-	-	(1,395)	-	(1,434)
At 31 July 2012	<u>30,656</u>	<u>159,733</u>	<u>47,281</u>	<u>52</u>	<u>8,707</u>	<u>246,429</u>
Depreciation						
At 1 August 2011	(19,501)	(30,747)	(21,556)	(1,417)	-	(73,222)
Charge for the year	(2,920)	(6,668)	(1,383)	(18)	-	(10,989)
Disposals	18	-	-	1,390	-	1,408
At 31 July 2012	<u>(22,403)</u>	<u>(37,415)</u>	<u>(22,939)</u>	<u>(45)</u>	<u>-</u>	<u>(82,803)</u>
Net book value						
At 31 July 2012	<u>8,253</u>	<u>122,318</u>	<u>24,342</u>	<u>7</u>	<u>8,707</u>	<u>163,626</u>
At 31 July 2011	<u>10,206</u>	<u>126,869</u>	<u>25,725</u>	<u>30</u>	<u>749</u>	<u>163,578</u>

Depreciation of freehold land and buildings includes an impairment charge of £2.9m relating to stabilisation works to the listed terraces at St Georges Circus.

If the land and buildings detailed above had not been revalued, tangible fixed assets would have been included in these financial statements at 31 July 2012 at the following amounts:

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost	30,656	79,319	24,854	52	8,707	143,588
Depreciation	(22,403)	(21,585)	(14,107)	(45)	-	(58,143)
Net book value	<u>8,253</u>	<u>57,734</u>	<u>10,747</u>	<u>7</u>	<u>8,707</u>	<u>85,445</u>

Notes to the accounts
Year ended 31 July 2012

12. Tangible fixed assets (continued)

(b) University

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	£'000	Freehold £'000	Long Leasehold £'000	Short Leasehold £'000		
Cost or Valuation						
At 1 August 2011	29,457	157,618	47,281	1,447	749	236,552
Additions	987	2,117	-	-	7,958	11,062
Disposals	(39)	-	-	(1,395)	-	(1,434)
At 31 July 2012	<u>30,405</u>	<u>159,735</u>	<u>47,281</u>	<u>52</u>	<u>8,707</u>	<u>246,180</u>
Depreciation						
At 1 August 2011	(19,292)	(30,728)	(21,556)	(1,417)	-	(72,993)
Charge for the year	(2,908)	(6,668)	(1,383)	(18)	-	(10,977)
Disposals	18	-	-	1,390	-	1,408
At 31 July 2012	<u>(22,182)</u>	<u>(37,396)</u>	<u>(22,939)</u>	<u>(45)</u>	<u>-</u>	<u>(82,562)</u>
Net book value						
At 31 July 2012	<u>8,223</u>	<u>122,339</u>	<u>24,342</u>	<u>7</u>	<u>8,707</u>	<u>163,618</u>
At 31 July 2011	<u>10,165</u>	<u>126,890</u>	<u>25,725</u>	<u>30</u>	<u>749</u>	<u>163,559</u>

If the land and buildings detailed above had not been revalued, tangible fixed assets would have been included in these financial statements at 31 July 2012 at the following amounts:

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in course of construction	Total £'000
	£'000	Freehold £'000	Long Leasehold £'000	Short Leasehold £'000		
Cost	30,405	79,319	24,854	52	8,707	143,337
Depreciation	(22,182)	(21,585)	(14,107)	(45)	-	(57,919)
Net book value	<u>8,223</u>	<u>57,734</u>	<u>10,747</u>	<u>7</u>	<u>8,707</u>	<u>85,418</u>

Notes to the accounts

Year ended 31 July 2012

12. Tangible fixed assets (continued)

Land and buildings were valued in September 1994 by Drivers Jonas, Chartered Surveyors. Properties were valued at their open market value for existing use, and where this was not practical, the depreciated replacement cost was used.

All properties, other than those detailed below, are included at 1 August 1994 prices less subsequent depreciation in accordance with the Drivers Jonas valuation report of September 1994:

Freehold Land and Buildings

- The K2 building is stated at cost of £45.9m. The land at the site of the K2 building is stated at a cost of £4.3m.
- The Keyworth Centre is stated at cost of £25.8m.
- The David Bomberg House hall of residence is stated at cost of £11.6m.
- The Learning Resource Centre is stated at cost of £4.7m.
- The St George's Circus and Chapel sites are stated at a cost of £1.1m, represented by land of £0.7m and £0.4m of sundry capital costs. This is subsequent to impairments including of £2.7m of pre-construction costs related to the aborted redevelopment of the Chapel site and £2.9m of stabilisation works to the listed terraces at St George's circus.
- The Technopark building is stated at purchase cost of £3.6m.
- Phase 2 of the Dante Road hall of residence is stated at cost of £2.1m.

Long leasehold Land and Buildings

- The New Kent Road hall of residence was originally held under a finance lease. It is included in these accounts at the capital cost of the original lease charges payable, the agreed amount of which was £1.1m. The finance lease was settled before the expiry of its term. Although this property is treated as a long leasehold property the University also owns the freehold of this property, which has a nominal value.
- Phase 1 and phase 3 of the Dante Road hall of residence are included in these accounts under long leasehold land and buildings at capital costs of £3.5m and £2m respectively.
- McLaren House, a 620 bed hall of residence, is stated at cost of £16.3m. It was originally held under a finance lease however the lease was settled before the expiry of its term. Although this property is treated as a long leasehold property, the University also holds the underlying freehold, which has a nominal value.

Included in long leasehold land and buildings is £0.7m (2011: £0.7m) of capitalised interest. This interest was capitalised in 1996 in connection with the construction of McLaren House.

Notes to the accounts

Year ended 31 July 2012

12. Tangible fixed assets (continued)

Assets held under Finance Leases

Consolidated and University equipment, furniture and motor vehicles include assets held under finance leases as follows:

	2012 £000	2011 £000
Cost	2,870	2,870
Accumulated depreciation	(2,283)	(1,450)
Net book value	<u>587</u>	<u>1,420</u>
Depreciation charge for the year	<u>833</u>	<u>864</u>

13. Investments

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
CVCP Properties plc	<u>38</u>	<u>38</u>	<u>38</u>	<u>38</u>

Details of the companies, all incorporated in England and Wales, in which London South Bank University holds directly or indirectly more than 20% of the nominal value of any class of share capital are as follows:

South Bank University Enterprises Limited

The University holds 100% of the £1 ordinary shares of South Bank University Enterprises Limited (SBUEL), which was formed in order to take over the commercial aspects of the University's activities. 5 of these shares have been held since 5 February 1988 with a further 5 issued on 19 July 2012.

London Knowledge Innovation Centre Limited

SBUEL holds 50% of the issued £1 shares of London Knowledge Innovation Centre Limited (LKIC), a company formed to provide serviced office space and other services to start-up companies. The share of the net assets and profit/(loss) of LKIC have not been included in the consolidated accounts as they are immaterial. The profit/(loss) and net assets of LKIC were both £nil for the period ended 31 July 2012 (2011: £nil).

Other investments

All other investments represent less than 20% of the issued share capital in each case and are therefore not individually disclosed.

14. Debtors

	Consolidated		University	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade debtors	6,983	8,679	7,129	8,671
Amounts owed by group undertakings	-	-	66	841
Other debtors	227	267	140	180
Prepayments & accrued income	1,891	1,291	1,588	1,282
	<u>9,101</u>	<u>10,237</u>	<u>8,923</u>	<u>10,974</u>

Notes to the accounts
Year ended 31 July 2012

15. Creditors: amounts falling due within one year	Consolidated		University	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Bank and other loans	1,914	2,545	1,914	2,545
Obligations under finance leases	340	833	340	833
Trade creditors	1,477	1,595	1,454	1,563
Other creditors	1,365	1,672	1,233	1,712
Social security and other taxation payable	1,425	1,753	1,526	1,686
Accruals and deferred income	34,225	32,703	33,721	32,064
	<u>40,746</u>	<u>41,101</u>	<u>40,188</u>	<u>40,403</u>

16. Creditors: Amounts falling due after more than one year	Consolidated and University	
	2012 £'000	2011 £'000
Bank and other loans	30,814	32,728
Obligations under finance leases	248	588
	<u>31,062</u>	<u>33,316</u>

17. Borrowings	Consolidated and University	
	2012 £'000	2011 £'000
Bank loans and finance leases are repayable as follows:		
Due in less than one year (note 15)	2,254	3,378
Due between one and two years	1,470	2,254
Due between two and five years	3,983	4,127
Due after five years	25,609	26,935
Total due after one year (note 16)	<u>31,062</u>	<u>33,316</u>
Total	<u>33,316</u>	<u>36,694</u>

Notes to the accounts

Year ended 31 July 2012

17. Borrowings (continued)

Details of bank loans:

- The loan from Allied Irish Bank (GB) in respect of the Dante Road hall of residence is repayable over 26.5 years to 2027. The amount outstanding at 31 July 2012 was £5.754million (2011: £6.132 million). The loan bears interest at a rate of 6.67% per annum. The loan is secured on the property to which it relates.
- There is a loan facility from Barclays Bank of £37 million, secured on David Bomberg House and McLaren House halls of residences. Within the facility, the following balances are outstanding at 31 July 2012:
 - An amount of £6.062 million in respect of David Bomberg House was outstanding at 31 July 2012 (2011: £6.374 million). This borrowing is repayable over 25 years to 2032 and bears interest at a fixed rate of 5.67% per annum.
 - An amount of £0.650 million (2011: £1.950 million) was outstanding in respect of McLaren House. This borrowing is repayable over 4 years to 2012 and bears interest at a fixed rate of 5.98% per annum.
 - A further £21.830 million of the Barclays facility was drawn down to finance the K2 building. Of this amount, £20.061 million was outstanding at 31 July 2012 as follows: £5m (2011: £5m) is interest-only, repayable in April 2029, and bears interest at a fixed rate of 5.25% per annum; £9.196 m (2011: £9.456m) is repayable over 23.25 years to 2032 and bears interest at a fixed rate of 5.54% per annum, and £5.865m (2011: £6.162m) is repayable over 23 years to 2032 and bears interest at a variable rate of 0.225% above LIBOR per annum.

18. Provisions for liabilities

Consolidated and University

	2012 £'000	2011 £'000
Other provisions	1,179	854

Analysis of provision for liabilities:

	£'000
Balance at 1 August 2011	854
New provisions	850
Provision utilised in year	(525)
Balance at 31 July 2012	1,179

Provisions of £837,000 have been made in respect of HEFCE penalties for over recruitment in 2010/11 and 61,000 in respect of other funding. Provisions of £244,000 have been made in respect of dilapidations on temporary Student Union buildings. Payments for all provisions are expected to be made by 31 July 2013.

Notes to the accounts

Year ended 31 July 2012

19. Pension liability

Consolidated and University

The pension liability has been measured in accordance with the requirements of FRS17 and relates to the London Pension Fund Authority pension scheme (LPFA).

	2012	2011
	£'000	£'000
Balance at 1 August	55,340	65,619
Current service cost	3,680	4,159
Settlements and curtailments	139	74
Contributions	(4,903)	(4,828)
Other finance cost (note 24)	2,262	2,287
Actuarial loss/(gain) recognised in STRGL (note 24)	18,146	(11,971)
Balance at 31 July	74,664	55,340

20. Deferred capital grants

Consolidated and University

	Land and buildings	Equipment	Total
	£'000	£'000	£'000
Balance at 1 August 2011	27,286	4,367	31,653
Release to income and expenditure account (note 1)	(1,180)	(506)	(1,686)
Grants received	1,703	256	1,959
Transfers to deferred income	-	(231)	(231)
Balance at 31 July 2012	27,809	3,886	31,695

21. Revaluation reserves

Consolidated and University

	2012	2011
	£'000	£'000
Balance at 1 August	31,788	32,580
Transfer to income & expenditure reserves being depreciation on revalued assets (note 22)	(802)	(792)
Balance at 31 July	30,986	31,788

Notes to the accounts

Year ended 31 July 2012

22. Income and expenditure account	Consolidated	University
	2012	2012
	£'000	£'000
Reserve		
Balance at 1 August 2011	97,794	97,262
Surplus for the year	6,515	5,729
Transfer from revaluation reserve (note 21)	802	802
Net FRS17 pension costs transferred to pension reserve	1,178	1,178
	<u>106,289</u>	<u>104,971</u>
Pension reserve		
Balance at 1 August 2011	(55,340)	(55,340)
Actuarial loss	(18,146)	(18,146)
Net FRS17 pension costs transferred from income and expenditure reserve	(1,178)	(1,178)
	<u>(74,664)</u>	<u>(74,664)</u>
Balance at 31 July 2012	<u>(74,664)</u>	<u>(74,664)</u>

23. Designated reserves

The income and expenditure account of the Group also includes £0.6 million (2011: £0.6 million) of reserves which, in accordance with the constitution of London South Bank University Students' Union (LSBUSU), are not distributable.

24. Pension arrangements

The University participates in the Teachers Pension Scheme (TPS) and the Universities Superannuation Scheme Limited (USS) for academic employees and the London Pension Fund Authority (LPFA) Pension Fund for non-academic employees.

London South Bank University Students' Union (LSBUSU) participates in the Student Union Superannuation Scheme.

A The Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pension Scheme Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities, to teachers in many independent and voluntary-aided schools, and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers or lecturers and from 1 January 2007 automatic too for teachers or lecturers in part-time employment following appointment or change of contract. Teachers and lecturers are able to opt out of the TPS.

Contributions are paid by the University and charged to the Income and Expenditure account at a current rate of 14.1% (2011: 14.1%) of salaries.

Notes to the accounts

Year ended 31 July 2012

24. Pension arrangements (continued)

Not less than every four years, with a supporting interim valuation in between, the Government Actuary (GA), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

The last valuation of the TPS related to the period 1 April 2001 to 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500m. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240m.

The financial assumptions in the GA report were as follows:

Investment returns per annum	6.5%
Salary scale increases per annum	5.0%
Price increases per annum	3.5%
Real earnings growth	1.5%

The University's contribution to the TPS for 2012 was £3,829,589 (2011: £4,000,107).

From 1 January 2007, and as a part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution rate is 19.75% plus a supplementary contribution rate of 0.75%; a total contribution rate of 20.5%. This translates into an employee contribution rate of 6.4% and an employer contribution rate of 14.1%.

Under the definitions set out in FRS17 'Retirement Benefits', the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

B The Universities Superannuation Scheme

The Universities Superannuation Scheme is a defined benefit scheme which is externally funded.

The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Contributions are paid by the University and charged to the Income and Expenditure account at a current rate of 16% (2011: 16%) of salaries.

The latest triennial valuation of the scheme was 31 March 2011. At the valuation date, the value of the assets in the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7million, indicating a shortfall of £2,910.2 million. The assets were therefore sufficient to cover 92% of the benefits accrued to members after allowing for expected future increases in earnings.

The financial assumptions of that valuation are as follows:

Investment returns per annum – past service	4.4%
Investment returns per annum – future service	6.2%
Salary scale increases per annum	4.4%
Price increases per annum	2.9%
Pension increases	3.4%

The University's contribution to the USS for 2012 was £366,823 (2011: £351,306). This was a 4.4% rise.

Notes to the accounts

Year ended 31 July 2012

24. Pension arrangements (continued)

Under the definitions set out in FRS17 'Retirement Benefits', the USS scheme is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

C The London Pension Fund

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

A full triennial valuation was carried out by the scheme's actuary Hymans Robertson as at 31 March 2010. The results showed the market value of the Fund's assets attributable to the University as £78.47m. The actuarial value of those assets represented 78.2% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases.

Pension costs under FRS17

For accounting purposes the scheme's assets are measured at market value and liabilities are valued using the projected unit method and discounted using the gross redemption yield for corporate iBoxx AA rated bonds. The valuation uses market-based assumptions and asset valuations, and represents a current valuation. It does not impact on the contribution rates set by the trustees of the scheme. The principal assumptions used by the actuary were:

	31 July 2012	31 July 2011	31 July 2010
	% per annum	% per annum	% per annum
Salary increases	3.5	4.5	4.7
Pension and price increases	1.8	2.7	2.7
Discount rate	3.9	5.3	5.4

Employees retiring on or after 6 April 2006 are permitted to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On the advice of our actuaries we have assumed that members will exchange half of their commutable pension for cash at retirements. In calculating the scheme assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future. These assumptions represent the best estimate of expected outcomes but it is possible that actual outcomes will differ from those included in the accounts. Any differences between expected and actual outcomes are reported through experience gains and losses.

Life expectancy

Post-retirement mortality is based on Club Vita analysis which has then been projected with the Medium Cohort Projection, allowing for a minimum rate of improvement of 1% per annum. Based on these assumptions, average future life expectancies at age 65 are summarised below:

	Males	Females
	Years	Years
Current pensioners	20.8	23.8
Future pensioners	22.8	25.7

Notes to the accounts

Year ended 31 July 2012

24. Pension arrangements (continued)

Fund assets

The expected return on fund assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 August 2011 for the year to 31 July 2012). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields. The employer assets in the scheme and the expected rates of return are as follows:

	Expected rate of return at 31 July 2012	Fair value as at 31 July 2012 £'000	Expected rate of return at 31 July 2011	Fair value as at 31 July 2011 £'000
Equities	5.6%	57,251	6.8%	54,145
Target return portfolio	4.3%	8,063	4.5%	8,632
Alternative assets	4.6%	12,902	5.8%	10,986
Cash	0.5%	2,419	3.0%	3,139
Other bonds	n/a	-	5.3%	1,569
Total fair value of assets		80,635		78,471

Net pension liability

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

	2012 £'000	2011 £'000	2010 £'000
Fair value of Employer Assets	80,635	78,471	70,432
Present value of funded obligations	(143,181)	(121,971)	(123,986)
Net underfunding in funded plans	(62,546)	(43,500)	(53,554)
Present value of unfunded obligations	(12,118)	(11,840)	(12,065)
Net Pension Liability	(74,664)	(55,340)	(65,619)

The movement for the year in the net pension liability is shown in note 19.

Analysis of the amount included in staff costs for the year

	2012 £'000	2011 £'000
Current service cost	3,680	4,159
Curtailments and settlements	139	74
Enhancements to former employees*	236	223
Total operating charge	4,055	4,456

*recoverable in full from HEFCE (note 1)

Notes to the accounts

Year ended 31 July 2012

24. Pension arrangements (continued)

Analysis of the amount included in interest payable for the year	2012	2011
	£'000	£'000
Expected return on pension scheme assets	(4,923)	(4,685)
Interest on pension scheme liabilities	7,185	6,972
	<u>2,262</u>	<u>2,287</u>
Net charge	<u>2,262</u>	<u>2,287</u>
Analysis of the amount recognised in STRGL	2012	2011
	£'000	£'000
Actual return less expected return on pension scheme assets	(4,000)	2,658
Experience gains and losses	(374)	11,141
Changes in assumptions underlying the present value of scheme liabilities	(13,772)	(1,828)
	<u>(18,146)</u>	<u>11,971</u>
Actuarial (loss)/gain recognised in STRGL	<u>(18,146)</u>	<u>11,971</u>
Analysis of movement in the present value of scheme liabilities	2012	2011
	£'000	£'000
At 1 August	133,811	136,051
Current service cost	3,680	4,159
Interest cost	7,185	6,972
Actuarial gains and losses	14,146	(10,788)
Losses on curtailments	139	74
Benefits paid	(4,121)	(3,185)
Contributions by scheme participants	1,317	1,355
Unfunded pension payments	(858)	(827)
	<u>155,299</u>	<u>133,811</u>
At 31 July	<u>155,299</u>	<u>133,811</u>
Analysis of movement in the fair value of scheme assets	2012	2011
	£'000	£'000
At 1 August	78,471	70,432
Expected return on scheme assets	4,923	4,685
Actuarial (gains)/losses	(4,000)	1,206
Contributions by employer	4,045	3,978
Contributions by scheme participants	1,317	1,355
Benefits paid	(4,121)	(3,185)
	<u>80,635</u>	<u>78,471</u>
At 31 July	<u>80,635</u>	<u>78,471</u>

Contributions payable in 2012/13 will be at 20.8% of pensionable salary. The projected pension expense for the year to 31 July 2013 is £6,285,000 (2012: £6,323,000)

Notes to the accounts

Year ended 31 July 2012

24. Pension arrangements (continued)

Experience gains & losses in year	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Difference between the actual and expected return on pension scheme assets	(4,000)	2,658	1,996	(8,626)	(9,852)
Experience gains and losses arising on scheme liabilities	(374)	20,949	4,498	-	668

Sensitivity Analysis

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	153,428	155,299	161,250
Projected service cost	4,142	4,312	4,488
Adjustment to mortality age rating assumption	+1 Year	None	- 1 Year
Present Value of total obligation	151,950	155,299	162,619
Projected service cost	4,129	4,312	4,495

D Student Union Superannuation Scheme

The Student Union Superannuation Scheme (SUSS) is a defined benefit scheme whose membership consists of employees of students' unions and related bodies throughout the country. Benefits in respect of service up to 30 September 2003 accrued on a final salary basis with benefits in respect of service from 1 October 2003 onwards accruing on a Career Average Related Earnings (CARE) basis. The scheme operates as a pooled arrangement, with contributions paid at a centrally agreed rate.

Contributions are paid by London South Bank University Students Union (LSBUSU) at a current rate of 9.6% of salaries plus a fixed contribution of £25,704 per annum.

The most recent valuation of the scheme was carried out as at 1 October 2010 and showed that the market value of the scheme's assets was £67,141,000 with these assets representing 58% of the value of benefits that had accrued to members after allowing for expected future increases in earnings. The deficit on an ongoing funding basis amounted to £47,869,000.

The assumptions which have the most significant effect upon the results of this valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The following assumptions applied:

The investment return would be 6.6% per annum before retirement and 4.6% per annum after retirement.

Pensions accruing on the CARE basis would revalue at 3.2% per annum.

Present and future pensions would increase at rates specified by scheme rules with appropriate assumptions where these are dependent on inflation

LSBUSU's contribution to the SUSS for 2012 was £31,004 (2011 £40,181).

Notes to the accounts

Year ended 31 July 2012

Under the definitions set out in FRS17 'Retirement Benefits', the SUSS scheme is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

E National Union of Students Pension Scheme

Since 1 October 2011, all participating employees have been in a new defined contribution pension scheme, National Union of Students Pension Scheme (NUSPS). Employer contributions are at a variable rate of up to 6%. The LSBUSU's contribution to NUSPS for 2012 was £36,617 (2011: nil). Under the definitions set out in FRS17 'Retirement Benefits', the NUSPS scheme is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

25. Related party disclosures

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is possible that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

A member of the Board is a Principal Representative to three trusts of PricewaterhouseCoopers LLP. During the year the University paid £75,168 in respect of Internal Audit and other professional services (2011: £71,332). A member of the Board is a Director of Pearson Educational. During the year the University paid a total of £3,336 in respect of learning resources (2011:£2,030).

The accounts of the LSBU Student's Union and SBUEL are consolidated into these accounts and therefore the University has taken exemption under FRS8.3 not to disclose transactions between the Student's Union and the University.

26. Endowments – Consolidated & University

	Unrestricted Permanent £'000	Restricted Expendable £'000	2012 Total £'000	2011 Total £'000
Balance at 1 August 2011	343	308	651	616
Investment income	13	12	25	23
Expenditure	(13)	(12)	(25)	(23)
(Decrease)/Increase in market value of investments	(6)	(4)	(10)	35
Balance at 31 July 2012	<u>337</u>	<u>304</u>	<u>641</u>	<u>651</u>

Notes to the accounts

Year ended 31 July 2012

27. Operating lease commitments

At 31 July 2012 the University and the Group were committed to making the following annual payments in respect of operating leases on land and buildings:

	2012	2011
	£'000	£'000
Expiring within one year	-	612
Expiring in over five years	51	51
	<u>51</u>	<u>663</u>

28. Capital commitments

Capital commitments:

Consolidated and University	2012	2011
	£'000	£'000
Commitments contracted at 31 July	9,936	170
	<u>9,936</u>	<u>170</u>

Commitments include those relating to building projects, being undertaken as part of the University's Estates Strategy. £1.8 relates to the Student Centre project and £7.1 to the Enterprise Centre project.

29. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2012	2011
	£'000	£'000
Surplus after depreciation of assets at valuation	6,515	9,903
Depreciation (note 12)	10,989	8,132
Loss on disposal of fixed assets	26	-
Investment income	(697)	(521)
Interest payable (note 10)	4,019	4,239
Decrease in stocks	2	2
Decrease/(Increase) in debtors	1,136	(2,939)
(Decrease)/increase in creditors	(546)	10,205
Increase/(decrease) in provisions	325	(659)
Deferred capital grants released to income (note 20)	(1,686)	(1,867)
	<u>20,083</u>	<u>26,495</u>
Net cash inflow from operating activities	<u>20,083</u>	<u>26,495</u>

Notes to the accounts
Year ended 31 July 2012

30. Returns on investments and servicing of finance

	2012	2011
	£'000	£'000
Income from endowments (note 5)	25	23
Interest received (note 5)	672	498
Interest paid (note 10)	(1,757)	(1,952)
	<u>(1,060)</u>	<u>(1,431)</u>
Net cash outflow from returns on investments and servicing of finance	<u>(1,060)</u>	<u>(1,431)</u>

31. Capital expenditure and financial investment

	2012	2011
	£'000	£'000
Payments to acquire tangible fixed assets	(11,063)	(6,267)
	<u>(11,063)</u>	<u>(6,267)</u>

32. Financing

	2012	2011
	£'000	£'000
Capital element of bank loan repayments	(2,545)	(2,535)
Capital element of finance lease repayments	(833)	(864)
Capital grants received in year	1,959	2,835
New finance lease	-	538
New bank loans	-	70
	<u>(1,419)</u>	<u>44</u>
Net cash (outflow)/inflow from financing	<u>(1,419)</u>	<u>44</u>

33. Analysis of changes in net funds

	At		At
	31 July	Cash flow	31 July
	2011	£'000	2012
	£'000		£'000
Cash at bank and in hand	62,605	6,541	69,146
Endowment asset investments	67	-	67
	<u>62,672</u>	6,541	<u>69,213</u>
Debt due within one year (note 15)	(3,378)	1,124	(2,254)
Debt due after more than one year (note 16)	(33,316)	2,254	(31,062)
	<u>25,978</u>	<u>9,919</u>	<u>35,897</u>
Net funds	<u>25,978</u>	<u>9,919</u>	<u>35,897</u>

Notes to the accounts

Year ended 31 July 2012

34. Analysis of changes in financing during the year

	Bank and other loans	
	2012	2011
	£'000	£'000
Balance at 1 August	36,694	39,485
Capital repayments	(3,378)	(3,399)
New borrowing	-	608
	<u>33,316</u>	<u>36,694</u>

35. Access & Hardship funds

	2012	2011
	£'000	£'000
Balance at 1 August	2	(13)
HEFCE grant	622	584
4Skills Funding Agency grant	29	28
Interest earned (net of hardship fund audit fee)	-	1
Distributed to students	(632)	(598)
	<u>21</u>	<u>2</u>

Access and Hardship funds are paid to universities by HEFCE and SFA to provide financial assistance to students whose access to further or higher education might be inhibited by financial considerations or who, for whatever reason, including physical or other disabilities, face financial difficulties.

The grant from HEFCE and SFA grant is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account and grants not disbursed are shown within other creditors.

36. Teacher Training Bursaries

	2012	2011
	£'000	£'000
Balance at 1 August	50	15
Funding council grant (Net)	103	1,138
Disbursed to students	(214)	(1,103)
	<u>(61)</u>	<u>50</u>

Teacher Training Bursary funds are paid to universities by the Training and Development Agency for Schools (TDA) to provide financial support to students studying for a postgraduate qualification which leads to Qualified Teacher Status (QTS).

The grant from the TDA is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account and grants not disbursed are shown within other creditors.