UNIVERSITY OF LIVERPOOL

Financial Statements To 31st July 2016

Financial Statements

Contents

The Council of the University

The key committees of the Council are:

1. Planning & Resources Committee
2. Nominations Committee
3. Remuneration Committee
4. Audit Committee

Names	Membership of key committees
President	
The Earl of Derby, DL	1,2,3
Vice-President	
Mr Christopher Graham, BA (from 1 August 2016)	1,3
Ex Officio Members	
Pro-Chancellor	
Mr David McDonnell, CBE, DL, FCA, FRSA	1,3
Vice-Chancellor	
Professor Janet Beer, BA, MA, PhD	1,2,3
Three of the Deputy Vice-Chancellors or Pro-Vice-Chancellors	
Mr Patrick Hackett, BArch	1
Professor Dinah Birch, BA, MA, DPhil, FEA	1
Professor Gavin Brown, BSc, PhD	1
President of the Guild of Students	
Mr Harry Anderson, BA (until 31 July 2016)	2
Mr Sean Turner (from 1 August 2016)	2
Lay Officers	
Mr Jon Haymer, MA, FCA	1 2 (until 31 July 2016) 3 (until 31 July 2016)
Dr Andrew Scott, MA, DPhil	2 (until 31 December 2015) 4 (from 1 January 2016)
Lay Members appointed by the Council	
Mr Christopher Baker, MBE, BA, MA (until 31 July 2016)	2,4
Ms Carmel Booth, BA, FCA (from 10 February 2016)	2 (from 1 August 2016) 4
Professor Helen Carty, DL, MB BCh BAO (NUI), MRCPI, FRCR London, FRCPI, FRCP (Lon), FRCPCH, FFRRCSI (until 31 December 2015)	
Dr Paul Johnson, BSc, PhD	
Sir Colin Lucas, MA, DPhil, FRHistS	
Dame Lorna Muirhead, DBE, CStJ, SRN, SCM, MTD, FRCM, FRCOG, FJMU, Hon LLD	
Dr Roger Platt, BSc, PhD, MA, PhD	4
Mrs Abila Pointing, MBE, DL, MA	4 (until 1 September 2015) 1 (from 2 September 2015) 2 (from 1 January 2016)
Mrs Patricia Young, BA	3
Members of the Senate (three appointed by the Council and one elected from and by Senate's elected membership)	
Professor Fiona Beveridge, LLB, MPhil	2
Professor Susan Dawson, BVMS, PhD, MRCVS	
Dr Fabienne Marret-Davies, BSc, MSc, PhD	
Professor Ronan McGrath, BA, PhD, FInstP	
Clerk to Council	
Mr Alastair Flett, BA, MA	

Review of the Year

The University continues to deliver strong financial performances during the year to 31 July 2016. By continuing to generate a surplus and a strong cash flow from operating activities the University remains in a position to respond positively to continuing reductions in HEFCE funding. The University continued its investment programme required to achieve the key ambitions contained within the Strategic Plan. This involved £80million invested in buildings and equipment during the year, including the construction of new buildings to improve teaching and research facilities, as well as refurbishment of existing facilities and continued investment in student residences.

The largest income growth came from increases in tuition fees and academic contracts. This reflects the overall student numbers increasing by 865 during the year, a rise of 4% on the previous year. The majority of the rise in student numbers was in undergraduate students, with Home and EU undergraduate student population increasing by 861 and overseas undergraduate student population increasing by 208. These increases were offset by a reduction in the number of postgraduate Home and EU students reflecting the difficulties in funding for such programmes. Total staff costs reduced from 56.3% of total income in the year to 31 July 2015 to 50.6% in the year to 31 July 2016. These costs include a provision for the contribution to past deficits in the Universities Superannuation Scheme (USS), the sector wide pension scheme, for the first time as required under the new financial reporting standard (FRS102) and statement of recommended practice in accounting for further and higher education institutions. Excluding the movement in the USS provision, staff costs reduced from 50.8% of total income in the year to 31 July 2015 to 49.9% in the year to 31 July 2016, demonstrating the ability of the University to manage its cost base in order to meet the challenges it faces over the coming years.

The scale of the many challenges facing the University of Liverpool, in common with other universities, remains. Following the outcome of the EU referendum (Brexit) it is difficult to quantify the potential implications for income streams arising from future immigration policy and potential changes to European research funding schemes. In addition the potential impact of Brexit on recruitment and retention of staff has also yet to be defined. The University continues to aim to achieve the objectives contained in its Strategic Plan by investing in staff and buildings to achieve success over the long term in a sustainable manner.

These financial statements are prepared under the FRS102 for the first time. A detailed reconciliation between financial performance previously reported for the year to 31 July 2015 and that reported under FRS102 is contained in Note 35 of the financial statements.

The University's Strategic Plan

During the year the University finalised its strategy for advancement of learning and ennoblement of life. Strategy 2026 sets out the future for the University as a truly global institution, in its outlook, influence, impact and activity. The vision is for the University to be at the forefront of research, scholarship and knowledge leadership and among the top 100 universities in the world.

During the 10 years to 2026 the University will build on its strengths to become world leaders in research and impact activities, with more highly ranked research disciplines and leaders than ever before. The students studying for a degree from the University of Liverpool will be highly employable global citizens. Strategy 2026 places the global activities of the University as central to our distinctive vision for the future and will lead to transformation as the University seeks to build on our existing strengths and those aspects of the University that are truly unique.

Strategy 2026 encompasses three supporting strategies; research and impact, education and professional services, all built upon our values and ethics. The core priorities are:

- Global Knowledge Leadership: increasing the numbers of highly ranked research disciplines and leaders and increasing the proportion of research leading to tangible public benefit.
- Graduate Prospects: support social mobility and make our graduates more employable and able to create and leverage social and economic capital.

- Educational Experience: promote a transformative learning and teaching agenda.
- Business Excellence: lead the sector in our approach to managing the University and supporting its activities.
- Partnerships: extend our global reach and performance, through national and international developments and collaborations.
- National and International Profile: enhance the reputation and brand of our University and the city of Liverpool with key stakeholders through international presence, increased profile and world-leading activities.

For each of the three supporting strategies the University has agreed a set of key performance indicators to be achieved, including a sub set for the first five years of the Strategy to 2026. These will be monitored regularly by the senior management and governance committees.

Student engagement

Volunteering enriches the learning experience of the University's students. The University works in collaboration with the Guild of Students to offer volunteering opportunities in legal support; health and wellbeing; environment and conservation; working with young people; and arts and culture. One example is the Liverpool Law Clinic, a community-focused law in action programme, run by staff and undergraduate students from the University's Law School. The clinic offers the public free, first-rate legal advice on a wide range of issues including employment rights, consumer rights, divorce and immigration law.

Key events during the year

a) Research

The Research Strategy of the University focuses on continuing to develop areas of excellence and identifying key research themes which will enable the University to optimise opportunities for interdisciplinary research and respond to global challenges.

Total income generated from research grants and contracts reduced in the year to 31 July 2016 by £7.9m. The majority of this reduction was as a result of a non-recurring receipt for the University of £8.3m in the year to 31 July 2015 arising from a claim under the research and development expenditure credit scheme introduced under the Finance Act 2013.

The increasingly global nature of research activity is reflected in the diverse nature of bodies funding research conducted by the University. In addition to the UK research council, grants have been awarded by the EU, UK government departments, international commercial organisations, and charities. These grants included further funding into the University's strengths in translational medicine and infection and global health. These include funding for a five year project to support advancements in antiretroviral therapy and working with the World Health Organisation investigating a novel approach to improve diarrhoea case management, funded by the Bill & Melinda Gates Foundation involving the Malawi-Liverpool-Wellcome Trust clinical research programme.

Notable grant awards within the Faculty of Science and Engineering builds on the University's strengths in material chemistry and particle physics. These awards included working with the Leverhulme Trust to drive a design revolution for functional materials at the atomic scale by fusing chemical knowledge with computer science in a world leading interdisciplinary team. Through funding provided by Research Councils UK the University is also addressing some of the main questions in fundamental physics including why there is an overwhelming dominance of matter over anti-matter in the Universe.

Review of the Year (cont.)

Within Humanities and Social Sciences, research grants awarded to the University included topics such as understanding how mobility in the great age of travel and discovery (c. 1550 to 1700) shape English perceptions of human identity based on cultural identification and differences, enhancing the impact of higher education research in the policing sector, and heritage management and development plans for Omani Oasis settlements.

b) Teaching

The University continues to deliver learning and teaching across a wide range of disciplines.

The following table shows the growth in student populations studying at the campuses in Liverpool and London over the last three years:

Full time and part time students	2015/16	2014/15	2013/14
Home & EU undergraduates	14,020	13,159	12,794
Home & EU postgraduates	1,775	2,032	2,100
Overseas undergraduates	5,072	4,864	4,066
Overseas postgraduates	1,696	1,643	1,645
Total	22,563	21,698	20,605

The University is proud of its extending widening participation activities. The following table demonstrates the University's success in this area for the last three years for which data is available:-

Widening Participation Indicators	University of Liverpool			Benchmark	Russell Group
	2014/15	2013/14	2012/13	2014/15	2014/15
	%	%	%	%	%
Percentage of young full time adults from state schools or colleges	87.7	87.7	87.3	85.9	76.0
Percentage of young full time adults from NS-SEC classes 4,5,6&7	25.9	23.8	24.4	27.8	20.7
Entrants from low participation neighbourhoods	10.2	9.6	9.6	9.1	6.1

c) Global positioning

During the year the University continued to build on its position of strength as a connected global University with multiple physical and virtual campuses: Liverpool, London, Suzhou, Singapore and online. The University's joint venture in China, XJTLU, continues and is supported by the National Science Foundation in China. XJTLU continues to build its research infrastructure and to develop its links with multi-national companies on the Suzhou Industrial Park.

Demand for the University's online programmes, delivered in partnership with Laureate Online Education, has also increased and the e-learning unit continues to support and improve the University's capability for e-learning, both for programmes based on campus and the online programmes.

Strategy 2026 places the global activities of the University as central to its distinctive vision for the future, with a vision to be a connected global University at the forefront of knowledge leadership.

d) Developing the estate

The quality of the University estate is fundamental to the experience of both staff and students. Investment in the University campus continues in line with the capital expenditure programme identified in Strategy 2026. During 2015/16 over £67m was invested to deliver improved infrastructure and facilities to ensure that research, learning, teaching space, student facilities, accommodation and catering facilities are fit for purpose and enhance the student experience.

e) Driving knowledge exchange and innovation

The University continues to actively support, promote and facilitate its knowledge exchange agenda to enable high quality research through collaborative programmes and commercial activities, supported by the Partnerships and Innovation department.

This department drives the University's stakeholder engagement and establishment of strategic partnerships. It promotes the University's civic mission through institutional leadership in the region and city, influences public policy development and engages citizens in cultural and educational pursuits. The department identifies regional, national and international opportunities through collaborative research, contract research, and consultancy which advance the University's knowledge capital into diverse markets.

Public Benefit Statement 2016

The University of Liverpool is an exempt charity and is required to demonstrate the public benefit of its work. The University's Council is aware of its duties in relation to the Charity Commission's guidance in this area.

The University of Liverpool is one of the UK's leading research institutions and ranked in the top 1% of higher education institutions worldwide. Liverpool is a member of the Russell Group of the UK's leading research universities and is associated with nine Nobel Laureates.

Including those studying for a degree online, the University has 34,000 students, as well as 200,000 alumni from 170 countries. Its global focus led the institution to establish Xi'an Jiaotong-Liverpool University in Suzhou, near Shanghai, in partnership with Xi'an Jiaotong University in 2006. Liverpool also has a campus in London and is the largest provider of 100% online postgraduate degree courses in Europe with over 10,000 students studying for Liverpool degrees around the world.

Liverpool has a strong identity as the original 'redbrick' university with a long and proud tradition of civic engagement in the city of Liverpool and its surrounding region. Our civic purpose cuts across our core business, and activities to support it are undertaken by academic and professional services staff as well as students.

The University's public engagement activities are underpinned by the institution's strategic plan 'Strategy 2026' and its core priorities and objectives.

Examples of the University's public engagement activities delivering public benefit include:

- The emergence of partnerships with a diverse range of external organisations within the community, educational, cultural, business, government and NGO sectors – for example the University's new partnership with Tate Liverpool
- Corporate representation on bodies steering the implementation phase
- Acting as an honest broker and thought leader (for example facilitating discussions between disparate organisations)
- Targeting business support services such as Knowledge Transfer Partnerships with North Liverpool businesses
- Widening Participation activities

Review of the Year (cont.)

- Engaging with young people and their supporters, through quality academic outreach
- Volunteering and work placement opportunities for students
- Research and evaluation of programmes
- Public involvement in research – where our publics (for example patient groups) make an active and essential contribution to our research

Widening participation

The University of Liverpool consistently performs in the top quartile of all Russell Group universities for our recruitment of students from state schools, low participation neighbourhoods and low income households.

We work hard to ensure that opportunities at Liverpool are made available to all students who are talented enough to succeed – we are ranked 1st in the Russell Group for the percentage of UK students recruited from neighbourhoods with low participation in Higher Education. These students make up 10% of our student population.

The Widening Participation Team has developed long term relationships with 35 local secondary schools and over 60 primary schools. These schools are selected on the basis of the percentage of students receiving free school meals, and also the percentage of students who live in the most deprived areas, ensuring our work is as targeted as possible. We work with approximately 10,000 students per year.

We work with targeted cohorts of learners who are particularly under-represented in higher education such as care-experienced young people, young adult carers, mature learners, BME groups, and refugee groups among others. We recognise the benefits of instilling the idea that Higher Education is for all at an early age, and understand the increased impact of repeated intervention to improve confidence towards Higher Education – as such the Widening Participation Team works year-on-year with our target schools, meaning students have repeated interactions during their school lives.

As well as the work with our partner schools we design and deliver projects for underrepresented groups, such as a GCSE mentoring project with local Somalian and Yemeni students, bespoke support for Children in Care, regular programmes with local community groups and events for young adult carers delivered with Barnardo's, as well as taster days for young people identified by the After Adoption charity. The projects are delivered through partnership and consultation with the Liverpool city region as well as local charities.

Key to our work with these groups of students is partnership working with University teams such as student support services and academic departments to ensure that these students have a successful transition to the University of Liverpool. We value and recognise the whole student lifecycle approach to working with Widening Participation students, so offer paid work on our projects as 'Student Advocates' for undergraduates and plan to offer continued support throughout their time at university.

The University hosts the Merseyside Network of Collaborative Outreach (MNCO) - a partnership of 11 local HE providers who aim to bring information and advice to 'cold spot' state schools, who would not typically engage with Higher Education Institutions. This means we work together to avoid duplication on outreach activities in the local area and to provide an up to date website showcasing the opportunities in the area.

Events and cultural activities

The University's Victoria Gallery and Museum (VG&M) houses the University's fine art and museum collections. Free to the public, its special exhibitions programme, showcasing both local and international artists, is extremely popular and the VG&M welcomes more than 50,000 visitors each year.

Review of the Year (cont.)

Housed in the University's original redbrick Victoria Building, designed by Alfred Waterhouse, current exhibitions include a show by artist Emma Gregory, and an exhibition by the poet and artist Adrian Henri.

The University's Confucius Institute aims to deliver improved understanding of Chinese culture and increased language development opportunities. The Institute is a collaborative project between the University, Xi'an Jiaotong University and Hanban, the Chinese Government agency for the promotion of Chinese language and culture.

The Institute aims to provide a focal point for all China-related activity in Merseyside, working closely with schools and colleges, local businesses, community groups and individuals to promote Chinese language and culture. Running Mandarin classes throughout the year, it also has a cultural programme focusing on calligraphy, Chinese ink painting, tai chi and dance, and a monthly lecture series that delves into the shared history of China and the UK.

The University also runs a number of thought-provoking lecture series for the public throughout the year on wide variety of subject areas. The events are well-attended and are webcast to enable greater accessibility.

The University's Science and Society lecture series explores the beneficial relationship between science and society. Speakers this year included Dame Julia Goodfellow, Vice Chancellor of University of Kent and President of UUK; and Sir Paul Nurse, Director of the Francis Crick Institute.

The University is holding the first Liverpool Literary Festival this Autumn that will feature a number of celebrated writers including Colm Tóibín, Lemn Sissay, Frank Cottrell Boyce and Ali Smith. The three-day festival also includes a writing masterclass and a series of free family events.

The University's 'Meet the Scientist' series features interactive hands-on science days which are targeted at the whole family. Taking place in the World Museum, Liverpool, the 2015/16 inaugural series included six events, and saw 240 researchers from the Faculty of Health and Life Sciences engaging with over 6,000 members of the public. The programme culminated in an event entitled 'Our World', which saw all three Faculties working together. This year's programme has already been launched, with six exciting themed events in the calendar.

The University has been selected to be one of the 'hub' venues for this year's 'Being Human' festival. During November 2016 the Faculty of Humanities and Social Sciences, in collaboration with the Faculty of Health and Life Sciences and Continuing Education will be hosting a series of events exploring this year's festival theme, 'Fears of the past, hopes for the future'.

Public policy engagement

The University plays a major role as a neutral space for discussion of issues of relevance to the Liverpool City Region.

The University's Policy Provocations debates take on big policy challenges shaping our future and asks how we can tackle them in new ways. Led by the University of Liverpool and City Region partners, the series brings together perspectives from leading international, UK and local thinkers to provide a platform for passionate public debate. Topics covered this year included: 'Tomorrow's Liverpool – Shaping the City' and 'Could Artificial Intelligence Become a Threat to Mankind'.

These events, staged at a variety of venues around the city, draw audiences from local decision-makers; employees from the public, private and third sectors; general public and representatives from targeted communities; as well as staff, students and alumni.

Review of the Year (cont.)

The University has established a public policy institute to ask how we can secure a prosperous, healthy, sustainable and vibrant future whilst managing the impacts of global economic, environmental, social and cultural challenges upon them. The Institute is named in honour of Lord Heseltine in recognition of his commitment to giving cities greater powers to shape their own futures, and his role in revitalising Liverpool. Lord Heseltine will visit the University to give a lecture on the subject of UK Cities, Universities & Businesses in Europe after the Referendum this autumn.

The Heseltine Institute for Public Policy and Practice seeks to deliver research and learning opportunities that have a direct impact on the way public policy responses to these challenges are understood, formulated, delivered and evaluated. It provides a gateway for local, national and international audiences to access the University's public policy expertise and engage with staff leading solutions-focused projects.

Knowledge transfer

External organisations benefit from the University's world class expertise through a range of mechanisms including: contract and collaborative research, consultancy, training and continuing professional development, knowledge transfer partnerships, student projects and placements, volunteering and access to world class equipment and facilities.

A key example is the University's work on the £20.5m incubator for small and medium sized enterprises (SMEs) working in the area of personalised medicines.

The Liverpool Bio Innovation Hub (LBIH) includes laboratory and office space and allows commercial access to the latest biobank technologies and equipment in the study of areas such as genomics, proteomics and metabolomics. Part funded by the European Regional Development Fund (ERDF), it encompasses more than 6,000 square metres of space in the Crown Street area of the city, situated next to the University's Institute of Infection and Global Health.

The University also uses Knowledge Transfer Partnerships to help organisations of all sizes to improve their competitiveness.

Construction of a £65m Materials Innovation Factory is underway which is aimed at accelerating the discovery and application of new advanced materials. It is set to revolutionise materials chemistry research and development by drawing together world-leading, multi-disciplinary research expertise, unparalleled technical facilities and a dynamic support infrastructure.

The facility will reduce new product development times relevant to a range of sectors including Unilever's Home Care and Personal Care Categories. It will support collaboration across the industry and is due to open in 2017.

A research facility (entitled MIF OMICS facility) – which is part of the Materials Innovation Factory – offers access to state of the art genomics platforms, computational biology infrastructure and technical expertise to industrial and academic researchers.

Health and wellbeing

The University believes strongly in Corporate Social Responsibility and continues to play a valuable role in the treatment and prevention of disease in Malawi. Scientists at our Institute of Infection and Global Health are currently working on a £3m project to define the nature and extent of influenza-associated Severe Acute Respiratory Infection (SARI) amongst adults and children in Malawi.

Closer to home, the University is committed to improving the wellbeing of Liverpool's local population and has established a £2m Institute for Research into Health Inequalities, dedicated to the study of health and wellbeing issues. Our researchers, in partnership with the Liverpool Clinical Commissioning Group (CCG) have been awarded £9m, as part of a £124m programme to help tackle some of the nation's most pressing health problems.

Universities, NHS organisations, and local authorities along the North West coast have come together and invested a further £12.5m to support research that improves services for patients. The investment is supported by the National Institute for Health Research (NIHR) and helps ensure patients benefit from innovative new treatments and techniques which could revolutionise future health care.

The University is committed to providing students, staff and members of our local communities with excellent sports and fitness provision along with a broad range of activities. The University has established community partnerships with a number of organisations that make use of its sports facilities including Liverpool Penguin Swimming Club, Liverpool Football Club Foundation Football College, Everton Ladies Football Club and L8 Community Group.

Financial performance

Financial performance during the year to 31 July 2016 was strong. The consolidated surplus before tax was £33.0m, 6.7% of total income. Net cash inflow from operating activities during the year was £68.6m. The continued investment programme of the University incurred a cash out flow of £80.4m in the year to 31 July 2016.

Total income increased to £495.2m, a rise of 5.5% on the previous year. The anticipated reduction in Funding Council Grants was absorbed reflecting a strong response from the University to the continued challenges facing higher education institutions. Staff costs increased to £247.0m, an increase of 3.6%. This represented a reduction expressed as a percentage of total income to 49.9% in the year to 31 July 2016 compared to 50.8% in the previous year. Costs for pension provision reduced significantly due to the reduction in the movement of the provision for the deficit in USS. Other operating expenses increased to £169.3m.

The balance sheet remains strong. Short term investments and cash balances total £118.0m, fixed assets increased to £669.6m during the year. Total net assets increased to £580.9m.

While the financial markets remain volatile, management of the endowment portfolio and pension fund assets were ahead of benchmarks set by the University and the Trustee Board for the financial year.

The future

The University published Strategy 2026 during the year to 31 July 2016 setting out the vision for the University to be a connected, global University at the forefront of knowledge leadership, recognised by being in the top 100 universities worldwide, which places our global activities as central to our distinctive vision for the future. Strategy 2026 encompasses three supporting strategies, research and impact, education and professional services. Key performance indicators measuring progress towards achieving the strategic objectives will be monitored regularly by senior management and governance committees.

Risks and uncertainties

Reflecting the complex nature of the University with its global activities, the University risk management process includes a strategic risk register, which identifies the most significant risks to the achievement of the objectives in Strategy 2026, in addition to an operational risk register identifying those risks affecting each area of the University.

The risk registers are updated by the University and reviewed by Council on a regular basis.

Review of the Year (cont.)

Higher education continues to be increasingly competitive, including student recruitment and funding for research grants. In addition, proposed changes to government policy and funding regimes results in the income streams of the University becoming increasingly unpredictable. The University will continue to see reductions in its annual Funding Council grants over the next couple of years.

Student fee income remains strong across all areas of student recruitment, but this remains a medium to long term risk for the University given the significance of tuition fee income as a proportion of total income. Risks arise from changes in demography and government policy regarding providers of higher education. In addition economic changes arising out of the result of the EU referendum (Brexit) and policy on immigration controls present further risks.

The University is a member of the University Superannuation Scheme (USS) which is due to complete its next triennial valuation at 31st March 2017. While substantial changes to the scheme were agreed as part of the last valuation there remains a risk that the outcome of this valuation may require further increases in employer contributions and changes to the benefit structures. While ULPF remains in surplus, as measured by its technical provisions, defined benefit pension schemes remain a risk.

Endowment investment performance has been strong during the year but remains a risk due to the uncertainty over financial markets.

Given these uncertainties it is imperative the University continues to maintain a strong financial performance. This is the first time the University has prepared its financial statements under the new HE SORP which implements FRS102. This will result in greater volatility in the Statement of Consolidated Income and has brought additional liabilities onto the Balance Sheet, such as the University's proportion of the past service deficit for the USS pension scheme.

Demand for places to study at the University of Liverpool continues to rise, and as anticipated the University experienced continued growth in students joining the University in September 2015. Further growth was experienced in September 2016. Given the growing proportion of total income represented by academic fees and support grants this is an important factor in ensuring financial sustainability. Uncertainty faced by the University remains, and in addition to further cuts in teaching funding due to occur in the medium term, the tuition fees are currently capped at £9,000. Fees are allowed to be increased to £9,250 from September 2017 onwards and will then be linked to performance under a teaching excellence framework.

Investment in the activities of the University continues.

The strong financial position of the University enables a medium to long term view of its activities to be taken, assessing demand for student places and research activity to be balanced alongside the investment programme in order to maintain its financial sustainability. Long term external funding has been secured by the University to meet its current requirements and ensure it is able to manage its liquidity.

Key performance indicators

Improvements to the reporting of key performance indicators to senior management and the governance committees continue, with detailed performance reports being considered on a quarterly basis. The reports focus on the key priorities within Strategy 2026, assessing performance towards the agreed key ambitions.

Xi'an Jiaotong-Liverpool University (XJTLU)

XJTLU is a joint venture with its own campus in Suzhou, China. It is the only internationally collaborative university in China with dual degree awarding powers, from the Chinese Ministry of Education and from the University. Upon completion of their studies, students will be awarded a University of Liverpool degree and an XJTLU degree from the Chinese Ministry of Education.

Review of the Year (cont.)

The founding departments of XJTLU were in the areas of computer science and software, electrical and electronic engineering, mathematical sciences, and business and management. Provision has expanded to include the built environment, finance, industrial design, applied chemistry and biological sciences, and language and cultural studies. Over the next three to five years XJTLU aims to expand its undergraduate provision further into the humanities and social sciences.

The campus at XJTLU has expanded rapidly over the past few years, with 12 academic departments, four teaching centres and excellent support and resource facilities all housed on the north campus.

Development of the south campus is underway increasing the capacity for XJTLU to 14,000 students. The new facilities will include teaching and research space for humanities and social sciences, law, industrial design, interdisciplinary sciences, as well as an international academic exchange centre and an international research centre.

Equal opportunities policy

The aim of the University's policy is to ensure that no job applicant or member of staff receives less than favourable treatment on the grounds of disability, sex, marital status, religion, race, colour, nationality or ethnic or national origins, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. Selection criteria and procedures are reviewed to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. All members of staff will be given equal opportunity, and where appropriate, special training to progress within the University. The University is committed to ensuring that this policy remains fully effective.

Ethical investment policy

It is the role of Council to set out the ethical platform on which the University's endowment asset investments are managed. The Council instructs its investment managers, through the Investments Sub-Committee, to invest University funds only in those companies who meet the criteria for ethical investment. It is the role of the Investments Sub-Committee to maximize the potential returns on investments within such criteria as established by Council. Investment managers report regularly to the Investments Sub-Committee on actions they have taken relating to ethical investment.

Reserves policy

The University recognises its obligations as an exempt charity to expend the resources provided to it for charitable purposes and its reserves are retained for a variety of purposes. A significant proportion is represented by endowments which are retained and used in accordance with the wishes of the benefactors. The University has also built up its own reserve balances over a number of years to provide a source of funding for future activities. Further reserves are retained to provide working capital to support the University's complex organisation and to invest in land, buildings and equipment to develop its activities.

Corporate Governance Statement

The University of Liverpool is a corporate body established by Royal Charter dated 1903. Under the corporate objectives set out in the Charter, the University remains committed to the 'advancement of learning and ennoblement of life'.

The University is governed by the Council which comprises lay and academic members appointed under the Statutes of the University, the majority of whom are non-executive (see page 2 for members). Council members are the University's Charitable Trustees. The Council has the responsibility for the ongoing strategic direction of the University, approval of major developments and the oversight of the day to day operations of its business and of its subsidiary companies. It meets a minimum of four times each year and has several Committees, the key ones being Planning and Resources Committee, Nominations Committee, Remuneration Committee and Audit Committee. All of these Committees are formally constituted with terms of reference and contain significant lay member representation. Council membership of the key committees is shown on page 2.

The Planning and Resources Committee, inter alia, recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Nominations Committee seeks and considers nominations for potential lay members of the Council, lay officers, Council-appointed Senate representatives on Council and Council-appointed members of University Committees and makes recommendations to the Council for the appointment of such.

Recruitment to Council is either ex officio (for example in terms of senior managers such as the Vice-Chancellor), nomination or election (for other staff members), or by external advertisement for lay members. In recruiting members to Council attention is paid to the skills set and diversity of existing members to ensure an appropriate spread of expertise and experience. Since 2014 this assessment of the composition of Council membership has also included the collection and consideration of diversity information.

The Remuneration Committee undertakes and determines the review of all professorial and senior administrative staff salaries, and the approval of any proposal for voluntary severance or early retirement of the most senior staff.

The Audit Committee, which meets four times a year, is responsible for advising the Council and Vice-Chancellor on the effectiveness of the University's management and control systems. To this end, it meets with the External Auditors to discuss their audit findings, and with the Internal Auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's response and implementation plans. It also receives and considers reports from the Higher Education Funding Council for England and the National Audit Office as they affect the University's business and monitors adherence with the regulatory requirements. The Committee reviews the University's annual financial statements together with the accounting policies. It advises the Council on the appointment and remuneration of the Internal and External Auditors. The Committee is chaired by the Pro-Chancellor, or another member of Council, and whilst senior executives and other lay officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee meets with the Internal and External Auditors on their own for independent discussions.

The roles of President and Vice-President of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specially reserved to the Council for decision are set out in the Statutes of the University and in the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England.

The Vice-Chancellor is supported in the role by the Deputy Vice-Chancellor, two Policy Pro-Vice-Chancellors and three Executive Pro-Vice-Chancellors. They lead the academic management of the University which is organised into three academic Faculties and the professional services. The academic Faculties are managed by the Executive Pro-Vice-Chancellors and the professional services are managed by the Deputy Vice-Chancellor.

Corporate Governance Statement

The Council of the University is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, on behalf of the Council, has reviewed the effectiveness of the University's system of internal financial control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Council is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks. This process is regularly reviewed by the Council. It accords with the internal control guidance for directors of companies as set out in the Combined Code as deemed appropriate for higher education and with the HEFCE 'Best Practice' guidance on Risk Management and compliance with the Committee of University Chairs (CUC) Guidance.

The Council and the University's Senior Executive Group receive reports setting out key performance and risk indicators. The Council also receives regular reports from the Audit Committee and the Health and Safety Governance Committee setting out, where necessary, recommendations for change and improvement. Processes and systems are continually being refined to ensure that the reporting mechanism is enhanced. Council's view of the effectiveness of the system of internal control is also informed by the work of the executive officers of the University who have responsibility for the development and maintenance of the internal control framework.

The University of Liverpool is committed to conducting its affairs in accordance with the highest standards of integrity, and it has the appropriate policies and procedures in place to enable concerns to be raised regarding malpractice, corruption, wrongdoing and any form of impropriety. The Public Interest Disclosure Policy in place at the University has been designed to enable individuals to raise concerns at an appropriate level and is in line with the legal requirements contained within the Public Interest Disclosure Act.

The University of Liverpool has adopted an approach consistent with the Higher Education Code of Governance published by the Committee of University Chairs in December 2014.

The University is committed to diversity and equality of opportunity and strives to provide an environment in which no staff member, student or partner is disadvantaged or discriminated against based on the nine protected characteristics as defined by the Equality Act 2010. The University takes its moral and legal obligations relating to discrimination very seriously and all breaches will be dealt with in accordance with the University's Disciplinary Policy. Council takes overall responsibility for this area.

Responsibilities of the Council of the University

Statement of Primary Responsibilities of the Council of the University of Liverpool

The Council, under the provisions of the Charter and the Statutes of the University, is the governing body of the University. The Charter identifies the Council as being responsible for 'the management and administration of the whole revenue and property of the University and the conduct of the all of the affairs of the University'. The detailed powers and duties of the Council are defined in Statute 9.

The primary responsibilities of the Council may be defined as being to:-

- Appoint a Chancellor, a Pro-Chancellor, a President who shall act as Chairman of the Council, a Vice-President of the Council and up to two other Lay Officers.
- Appoint a Vice-Chancellor as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
- Delegate authority to the Vice-Chancellor, as chief executive, for the academic corporate, financial, estate and human resource 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.
- Approve the mission and strategic vision of the institution, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.
- 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.
- 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.
- Be the employing authority for all staff in the institution and to be responsible for establishing a human resources strategy.
- Oversee the academic endeavours of the University; to ensure that there is an effective framework in place to manage the quality of learning and teaching and to maintain academic standards; and to ensure that the welfare of students is secured.
- Be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and Financial Statements, and to have overall responsibility for the institution's assets, property and estate.
- Be the institution's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal and regulatory obligations, including those arising from contracts and other legal commitments made in the institution's name.
- Conduct its business in accordance with the best interest of the University, and in an open and transparent fashion as appropriate, safeguarding the University's good name, values and sustainability.
- Conduct its business in accordance with best practice in HE corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
- Appoint a Clerk to the Council. Irrespective of other duties an individual appointed as Clerk might have in the University, in his/her capacity as Clerk s/he shall act on the instructions of and be responsible to the Council alone.
- Ensure that the institution's constitution is followed at all times and that appropriate advice is available to enable this to happen.
- Act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution.
- Establish processes to monitor and evaluate the performance and effectiveness of the governing body itself.

(Approved by the Council at its meeting on 30 September 2015)

Responsibilities of the Council of the University

Working through its Planning and Resources Committee and Audit Committee, the Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the Charter and Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP15), which was approved by the Financial Reporting Council in March 2014 and applies with effect from 2015/16, and all other relevant accounting and financial reporting standards. In addition, within the terms and conditions of a Memorandum of assurance and accountability agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder (the Vice-Chancellor), is required to prepare audited financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

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

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

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Memorandum of assurance and accountability with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure. The key elements of the University's system of internal financial control, which are designed to discharge the responsibilities set out above, include the following:

    - clear definitions of the responsibilities of, and the authority delegated to, all heads of departments;
    - a comprehensive short and medium term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
    - regular reviews of academic performance and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
    - clearly defined and formalised requirements for approval and control of expenditure;
    - a formalised treasury management policy;
    - comprehensive Financial Regulations detailing financial controls and procedures, approved by the Audit Committee and Council; and
    - a professional independent Internal Audit team whose programme of work is approved annually by the Audit Committee.

The Council is satisfied that the system of internal control described above has been in place throughout the year ended 31 July 2016.

Auditor's Report to the Members of the Council of the University

We have audited the financial statements of University of Liverpool for the year ended 31 July 2016 set out on pages 19 to 52. 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) including FRS102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of or Council and auditor

As explained more fully in the Responsibilities of the Council of the University Statement set out on page 15, the Council is responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2016, of the Group's and University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flow for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements*.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice (effective 1 August 2014) issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;

- income has been applied in accordance with the University's Statutes;

- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and

- the corporate governance and internal control requirements of HEFCE's *Accounts direction to higher education institutions for 2015-16 financial statements* have been met.

29 November 2016

Michael Rowley
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Consolidated and University Statement of Comprehensive Income and Expenditure
Year Ended 31 July 2016

	Notes	Year ended 31 July 2016 Consolidated £m	Year ended 31 July 2016 University £m	Year ended 31 July 2015 Consolidated £m	Year ended 31 July 2015 University £m
Income					
Tuition fees and education contracts	2	240.7	240.7	213.0	213.0
Funding body grants	3	70.3	70.3	73.2	73.2
Research grants and contracts	4	93.7	93.7	101.6	101.6
Other income	5	80.1	77.6	72.1	70.1
Investment income	6	7.8	7.9	6.6	6.7
Total income before endowments and donations		492.6	490.2	466.5	464.6
Donations and endowments	7	2.6	2.6	2.9	2.9
Total income		495.2	492.8	469.4	467.5
Expenditure					
Staff costs	8	247.0	245.9	238.5	237.6
Pension provision	8	3.6	3.6	25.8	25.8
Other operating expenses		169.3	171.0	157.4	159.0
Depreciation	13	39.3	37.8	38.5	37.1
Interest and other finance costs	9	12.5	11.7	7.1	6.4
Total expenditure	10	471.7	470.0	467.3	465.9
Surplus before other gains losses and share of operating surplus of joint ventures and associates.		23.5	22.8	2.1	1.6
Gain on disposal of fixed assets		0.3	0.3	0.5	0.5
Gain on investments	15	9.0	9.0	5.1	5.1
Share of operating surplus/(deficit) in joint venture	16	0.2	-	-2.2	-
Surplus before tax		33.0	32.1	5.5	7.2
Taxation	11	-	-	-1.9	-1.9
Total comprehensive income for the year		33.0	32.1	3.6	5.3
Represented by:					
Endowment comprehensive income for the year		7.9	7.9	9.0	8.9
Unrestricted comprehensive income for the year		25.1	24.2	-5.4	-3.6
		33.0	32.1	3.6	5.3
Surplus for the year attributable to:					
University		33.0	32.1	3.6	5.3

All items of income and expenditure relate to continuing activities

Consolidated and University Balance Sheet

Year Ended 31 July 2016

	Notes	As at 31 July 2016 Consolidated £m	As at 31 July 2016 University £m	As at 31 July 2015 Consolidated £m	As at 31 July 2015 University £m
Non-current assets					
Intangible assets	12	**0.2**	**-**	0.1	-
Fixed assets	13	**669.6**	**644.7**	628.5	602.5
Heritage assets	13/14	**17.0**	**17.0**	17.0	17.0
Investments	15	**203.1**	**208.2**	166.0	171.1
Investment in joint venture	16	**-5.5**	**-**	-5.7	-
		884.4	**869.9**	805.9	790.6
Current assets					
Stock	17	**1.3**	**1.0**	1.1	0.9
Trade and other receivables	18	**57.1**	**61.4**	64.5	68.5
Assets held for resale		**0.3**	**0.3**	0.3	0.3
Investments	19	**64.2**	**64.2**	-	-
Cash and cash equivalents	24	**53.8**	**52.8**	150.2	148.3
		176.7	**179.7**	216.1	218.0
Less: Creditors: amounts falling due within one year	20	**-119.2**	**-120.4**	-120.3	-120.2
Net current assets		**57.5**	**59.3**	95.8	97.8
Total assets less current liabilities		**941.9**	**929.2**	901.7	888.4
Creditors: amounts falling due after more than one year	18	**-305.3**	**-288.6**	-304.0	-285.8
Provisions	(4)				
Pension provisions	22	**-54.7**	**-54.7**	-49.6	-49.6
Other provisions	22	**-1.0**	**-1.0**	-0.2	-0.2
Total net assets		**580.9**	**584.9**	547.9	552.8
Restricted reserves					
Income and expenditure reserve - endowment reserve	23	**155.8**	**155.8**	147.9	147.9
Unrestricted reserves					
Income and expenditure reserve - unrestricted		**425.1**	**429.1**	400.0	404.9
Total reserves		**580.9**	**584.9**	547.9	552.8

The financial statements were approved by the Council on 23 November 2016 and were signed on its behalf on that date by:

The Earl of Derby, President of Council

Professor Janet Beer, Vice-Chancellor

Consolidated and University Statement of Changes in Reserves
Year ended 31 July 2016

Consolidated	Income and expenditure account		Total
	Endowment	*Unrestricted*	
	£m	£m	£m
Balance at 1 August 2014	**141.6**	**402.7**	**544.3**
Surplus/(deficit) from the income and expenditure statement	9.0	-5.4	3.6
Reclassification of previously restricted funds	-2.7	2.7	-
Total comprehensive income for the year	6.3	-2.7	3.6
Balance at 1 August 2015	**147.9**	**400.0**	**547.9**
Surplus from the income and expenditure statement	7.9	25.1	33.0
Total comprehensive income for the year	7.9	25.1	33.0
Balance at 31 July 2016	155.8	425.1	580.9

University	Income and expenditure account		Total
	Endowment	*Unrestricted*	
	£m	£m	£m
Balance at 1 August 2014	**141.6**	**405.8**	**547.4**
Surplus/(deficit) from the income and expenditure statement	8.9	-3.6	5.3
Reclassification of previously restricted funds	-2.7	2.7	-
Total comprehensive income for the year	6.2	-0.9	5.3
Balance at 1 August 2015	**147.8**	**404.9**	**552.7**
Surplus/(deficit) from the income and expenditure statement	7.9	24.2	32.1
Total comprehensive income for the year	7.9	24.2	32.1
Balance at 31 July 2016	155.7	429.1	584.8

Consolidated Cash Flow
Year ended 31 July 2016

	Notes	31 July 2016	July 2015
		£m	£m
Cash flow from operating activities			
Surplus for the year		**33.0**	3.6
Adjustment for non-cash items			
Depreciation	13	**39.3**	38.5
Loss / (Gain) on investments	15	**-9.0**	-5.1
Decrease/(increase) in stock	17	**-0.2**	-
Decrease/(increase) in trade and other receivables	18	**7.4**	-12.3
Increase/(decrease) in creditors < 1 year	20	**-1.1**	17.2
Increase/(decrease) in creditors > 1 year	21	**3.3**	-0.5
Increase/(decrease) in pension provision	22	**5.1**	26.5
Increase/(decrease) in other provisions	22	**0.8**	0.2
Share of operating (surplus)/deficit in joint venture	16	**-0.2**	2.2
Adjustment for investing or financing activities			
Investment income	6	**-3.1**	-1.7
Interest payable	9	**12.5**	7.1
Endowment income	6	**-4.7**	-4.9
Profit on the sale of fixed assets		**-0.3**	-0.5
Capital grant income	3/5	**-14.2**	-6.5
Net cash inflow from operating activities		**68.6**	63.8
Cash flows from investing activities			
Proceeds from sales of fixed assets		**0.3**	0.5
Capital grants receipts	3/5	**14.2**	6.5
Disposal of non-current asset investments	15	**23.6**	37.0
Withdrawal of deposits		**-69.9**	-0.6
Investment income	6	**3.1**	1.7
Payments made to acquire fixed assets	13	**-80.4**	-93.9
New non-current asset investments	15	**-44.8**	-54.0
New deposits		**-1.3**	-1.6
		-155.2	-104.4
Cash flows from financing activities			
Interest paid	9	**-12.4**	**-7.0**
Interest element of finance lease and service concession payments	9	**-0.1**	-0.1
Endowment cash received	6	**4.7**	4.9
New unsecured loans	21	**-**	124.2
Repayments of amounts borrowed	21	**-1.5**	-0.5
Capital element of finance lease and service concession payments	21	**-0.5**	-
		-9.8	121.5
(Decrease)/increase in cash and cash equivalents in the year		**-96.4**	80.9
Cash and cash equivalents at beginning of the year	24	**150.2**	69.3
Cash and cash equivalents at end of the year	24	**53.8**	150.2

Notes to the Accounts
for the year ended 31 July 2016

1 Accounting policies

a Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards (FRS102). The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention.

b Basis of consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2016. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income and expenditure from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of the Liverpool Guild of Students as the University does not control or dominate influence over policy decisions.

Associated companies and joint ventures are accounted for using the equity method.

c Income recognition

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

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Income and Comprehensive Expenditure 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 gross as expenditure and not deducted from income.

Investment income is credited to the statement of income and expenditure on a receivable basis.

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

Grant funding

Grant funding including funding council block grant, research grants from government sources, grants (including research grants) from non government sources are recognised as income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Grants (including research grants) from non government sources are recognised in income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises, as either restricted or unrestricted income according to the terms other restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:
1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University has the power to use the capital.
4. 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.

1 Accounting policies (cont.)

c Income recognition (continued)

Capital grants

Capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

d Accounting for retirement benefits

The institution participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to the actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by section 28 of FRS102 "Employee benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University ofLiverpool Pension Fund (ULPF). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension (S2P). Each fund is valued every three years by professionally qualified independent actuaries.

The USS is a multi-employer scheme for which it is not possible to identify the assets and liabilities to University at members due to the mutual nature of the scheme and therefore this scheme is accounted for as a defined contribution retirement benefit scheme.

A liability is recorded within provisions for any contractual commitment to fund past deficits within the USS scheme.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The Group should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

e Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

f Finance leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. Assets acquired on a finance lease are depreciated over the life of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

g Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term with the exception of lease for Finsbury Square which was held at the transition date to FRS102 for which the rent free period is spread over the period to the first rent review.

1 Accounting policies (cont.)

h Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in Surplus or Deficit [except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in Other Comprehensive Income]. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of Other Comprehensive Income.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant Influence or joint control, the relevant proportion of the cumulative amount is recycled to the Statement of Comprehensive Income and Expenditure.

i Fixed assets

Fixed assets are stated at deemed cost less accumulated depreciation and accumulated impairment losses.

Land and buildings

Land is stated at deemed cost as at 1 August 2014. Buildings are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. Costs incurred in relation to land and buildings after initial purchase or construction are capitalised to the extent that they increase the the expected future benefits to the University.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of between 30 and 50 years.

Infrastructure assets are depreciated over 16 years.

Leasehold land is depreciated over the life of the lease up to a maximum of 50 years.

No depreciation is charged on assets in the course of construction.

Equipment

Equipment, including computers and software, costing less than £25,000 per individual item is recognised as expenditure. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life. Equipment funded by research grants is depreciated over the remaining life of the grant. Non-research grant funded equipment is depreciated over 4 years.

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

All assets are depreciated from the month they are brought into use.

Repairs and maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the Statement of Consolidated Income and Expenditure in the period in which it is incurred.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

1 Accounting policies (cont.)

j Heritage assets

The University owns a considerable collection of works of art and museum objects, which were donated or bequeathed to the University during the last 120 years, and nearly all prior to 1970. The vast majority of these items are not included in the financial statements. The University considers that in many cases it would not be practical to obtain a meaningful valuation. Very few heritage assets could be sold by the University due to the restrictive nature of their acquisition. Further information is provided in note 14. The cost of conservation and restoration of the heritage collection is reported in the Statement of Comprehensive Income and Expenditure in the year it is incurred.

Heritage assets are not depreciated as their long economic life and high residual value mean that any depreciation would not be material.

k Intangible assets

Intangible assets are amortised over 5 years representing the remaining estimated economic life of the assets.

Intangible assets are subject to periodic impairment reviews as appropriate.

l Investments

Listed Non current asset investments are held on the Balance Sheet at fair value with movements recognised in arriving at the Ooperating Surplus. Other non current asset investments including corporate bonds are held at amortised cost less impairment.

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment in the University's accounts.

Listed current asset investments are held at fair value with movements recognised in the Statement of Consolidated Income and Expenditure. Corporate bonds are held amortised cost less impairment.

m Stock

Stock is held at the lower of cost and net realisable value, and is measured using an average cost formula, with the exception of stock at Wood Park Farm which has been valued at market value.

n Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

o Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:
(a) the University has a present obligation (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

1 Accounting policies (cont.)

p Accounting for joint operations, jointly controlled assets and jointly controlled operations

The University accounts for its share of joint ventures using the equity method.

The University accounts for its share of transactions from joint operations and jointly controlled assets in the Statement of Consolidated Income and Expenditure.

q Taxation

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011. It is therefore a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University 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 fixed assets is included in their cost.

The University's subsidiaries are liable to Corporation Tax in the same way as any other commercial organisation.

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 more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

r Derivatives

Derivatives are held on the balance sheet at fair value with movements in fair value recognised in the Statement of Consolidated Income and Expenditure

s Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

t Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method.

u Transition to 2015 SORP

The University is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to the SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the University is provided in note 35.

Application of first time adoption grants certain exemption from the full requirements of the SORP in the transition period. The following exemptions have been taken into these financial statements:

At 1 August 2014, revaluation has been used for deemed cost for land.

		Note	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
2	**Tuition fees and education contracts**					
	Full-time home and EU students		**123.8**	**123.8**	104.3	104.3
	Full-time international students		**93.2**	**93.2**	84.7	84.7
	Part-time students		**6.5**	**6.5**	6.2	6.2
	Special Courses		**8.6**	**8.6**	9.7	9.7
	Research Training Support Grant		**8.6**	**8.6**	8.1	8.1
			240.7	**240.7**	213.0	213.0
3	**Funding body grants**					
	Recurrent grant					
	Higher Education Funding Council		**59.9**	**59.9**	64.7	64.7
	OFFA Scheme		**0.5**	**0.5**	0.4	0.4
	Specific grants					
	HEFCE CIF		**5.9**	**5.9**	4.6	4.6
	Higher Education Innovation Fund		**3.3**	**3.3**	3.5	3.5
	JISC		**-**	**-**	0.1	0.1
	Deferred capital grant		**0.2**	**0.2**	-	-
	Other specific grants		**0.5**	**0.5**	-0.1	-0.1
			70.3	**70.3**	73.2	73.2
4	**Research grants and contracts***					
	Research councils		**42.0**	**42.0**	39.0	39.0
	Research charities		**14.2**	**14.2**	13.3	13.3
	Government (UK and overseas)		**22.8**	**22.8**	35.4	35.4
	Industry and commerce		**9.9**	**9.9**	9.1	9.1
	Other		**4.8**	**4.8**	4.8	4.8
			93.7	**93.7**	101.6	101.6
	*Research and development expenditure credit (RDEC) included above		**0.5**	**0.5**	8.3	8.3
5	**Other income**					
	Residences, catering and conferences		**25.3**	**25.3**	22.3	22.3
	Health authorities		**10.9**	**10.9**	9.2	9.2
	Other services		**23.0**	**23.0**	25.0	25.0
	Other income		**12.6**	**10.1**	13.7	11.7
	Specific capital grant		**8.3**	**8.3**	1.9	1.9
			80.1	**77.6**	72.1	70.1
6	**Investment income**					
	Investment income on endowments	23	**4.7**	**4.7**	4.9	4.9
	Other investment income		**3.1**	**3.2**	1.7	1.8
			7.8	**7.9**	6.6	6.7
7	**Donations and endowments**					
	New endowments		**1.3**	**1.3**	1.6	1.6
	Unrestricted donations		**1.3**	**1.3**	1.3	1.3
			2.6	**2.6**	2.9	2.9

	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
8 Staff costs				
Staff Costs :				
Salaries	**199.6**	**198.7**	194.6	193.8
Social security costs	**17.1**	**17.0**	15.6	15.6
Movement on USS provision	**3.6**	**3.6**	25.8	25.8
Other pension costs	**30.3**	**30.2**	28.3	28.2
Total	**250.6**	**249.5**	264.3	263.4

	Year Ended 31 July 2016	Year Ended 31 July 2015
Emoluments of the Vice-Chancellor (2014-15 part year): Professor J Beer 1.2.15 - 31.7.15	**£k**	£k
Salary	**300.5**	125.0
Benefits	**4.4**	1.0
Allowance in lieu of pension contribution	**36.7**	18.0
	341.6	144.0

Emoluments of the Vice-Chancellor (2014-15 part year): Sir Howard Newby 01.8.14 - 31.1.15		
Salary		167.4
Benefits		5.0
Allowance in lieu of pension contribution		22.9
	0.0	195.3

Remuneration of other higher paid staff, excluding employer's pension contributions (subject to relevant accounts direction and shown before any salary sacrifice]:

	No.	No.
£100,000-£109,999	**21**	24
£110,000-£119,999	**19**	23
£120,000-£129,999	**21**	15
£130,000-£139,999	**10**	8
£140,000-£149,999	**9**	12
£150,000-£159,999	**8**	7
£160,000-£169,999	**8**	5
£170,000-£179,999	**7**	8
£180,000-£189,999	**4**	8
£190,000-£199,999	**1**	4
£210,000-£219,999	**3**	1
£220,000-£229,999	**4**	4
£230,000-£239,999	**1**	1
£290,000-£299,999	**-**	1
£340,000-£349,999	**1**	-
	117	121

Average staff numbers by major category :	**Full time equivalent**	**Full time equivalent**
Academic	**2,954**	2,862
Clinical	**191**	198
Technical	**600**	593
Clerical	**857**	858
Other	**378**	355
	4,980	4,866

	£k	£k
Compensation payable to higher paid staff recorded within staff costs	**544.0**	302.0
Number of higher paid staff in receipt of compensation payments	**4.0**	3.0

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs includes compensation paid to key management personnel Key management personnel are defined as those being a member of the Senior Management Team

	Year ended 31 July 2016	Year ended 31 July 2015
Number	**8**	11
£k-Staff costs	**2,000.0**	1,923.5

Notes to the Accounts
for the year ended 31 July 2016

9 Interest and other finance costs

	Notes	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
Loan interest		**10.9**	**10.1**	6.3	5.6
Finance lease interest	14	**0.1**	**0.1**	0.1	0.1
Net charge on pension scheme	34	**1.5**	**1.5**	0.7	0.7
		12.5	**11.7**	7.1	6.4

10 Analysis of total expenditure by activity

	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
Academic and related expenditure	**203.1**	**202.2**	179.5	179.0
Administration and central services	**17.3**	**17.3**	22.6	22.6
Premises (including service concession cost)	**63.3**	**64.1**	56.6	56.3
Residences, catering and conferences	**16.9**	**16.7**	14.3	15.0
Research grants and contracts	**77.2**	**77.2**	77.5	77.4
Other expenses	**93.9**	**92.5**	116.8	115.6
	471.7	**470.0**	467.3	465.9

Other operating expenses include:		£k	£k
External auditors remuneration in respect of audit services		**90.3**	75.1
External auditors remuneration in respect of non-audit services	Tax Management	**14.1**	40.5
	RDEC Claim	**3.8**	22.7
	Grant assurance	**50.0**	60.0

11 Taxation

	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
Recognised in the statement of comprehensive income				
Total tax expense (Current)	-	-	1.9	1.9

12 Intangible assets

Software

	Year Ended 31 July 2016 Consolidated £m	Year Ended 31 July 2016 University £m	Year Ended 31 July 2015 Consolidated £m	Year Ended 31 July 2015 University £m
Opening balance	**0.1**	-	0.1	-
Additions in the year	**0.1**	-	-	-
Closing balance	**0.2**	-	0.1	-

The addition during the year relates to the purchase of a software intangible asset.
The amortisation period is 5 years.

13 Fixed Assets

Consolidated

	Freehold Land and Buildings	Leasehold Land and Buildings	Finance Lease	Infrastructure	Equipment	Assets in the Course of Construction	Heritage assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cost								
At 1 August 2015	604.4	46.6	5.8	10.9	148.1	71.6	17.0	904.4
Additions	16.5	0.1	-	5.2	12.5	46.1	-	80.4
Transfers	33.5	2.4	-	17.7	1.5	-55.1	-	-
Disposals	-	-	-	-	-0.3	-	-	-0.3
At 31 July 2016	**654.4**	**49.1**	**5.8**	**33.8**	**161.8**	**62.6**	**17.0**	**984.5**
Depreciation								
At 1 August 2015	126.3	18.2	4.6	2.7	107.1	-	-	258.9
Charge for the year	17.8	1.2	0.5	1.8	18.0	-	-	39.3
Disposals	-	-	-	-	-0.3	-	-	-0.3
At 31 July 2016	**144.1**	**19.4**	**5.1**	**4.5**	**124.8**	-	-	**297.9**
Net book value								
At 31 July 2016	**510.3**	**29.7**	**0.7**	**29.3**	**37.0**	**62.6**	**17.0**	**686.6**
At 31 July 2015	478.1	28.4	1.2	8.2	41.0	71.6	17.0	645.5

University

	Freehold Land and Buildings	Leasehold Land and Buildings	Finance Lease	Infrastructure	Equipment	Assets in the Course of Construction	Heritage assets	Total
Cost								
At 1 August 2015	604.4	46.6	5.8	10.9	117.6	69.9	17.0	872.2
Additions	16.5	0.1	-	5.2	12.3	45.9	-	80.0
Transfers	33.5	2.4	-	17.7	0.6	-54.2	-	-
Disposals	-	-	-	-	-0.3	-	-	-0.3
At 31 July 2016	**654.4**	**49.1**	**5.8**	**33.8**	**130.2**	**61.6**	**17.0**	**951.9**
Depreciation								
At 1 August 2015	126.3	18.2	4.6	2.7	100.9	-	-	252.7
Charge for the year	17.8	1.2	0.5	1.8	16.5	-	-	37.8
Disposals	-	-	-	-	-0.3	-	-	-0.3
At 31 July 2016	**144.1**	**19.4**	**5.1**	**4.5**	**117.1**	-	-	**290.2**
Net book value								
At 31 July 2016	**510.3**	**29.7**	**0.7**	**29.3**	**13.1**	**61.6**	**17.0**	**661.7**
At 31 July 2015	478.1	28.4	1.2	8.2	16.7	69.9	17.0	619.5

At 31 July 2016, freehold land and buildings included £46m (2015 - £46m) in respect of freehold land and is not depreciated.

At 31 July 2016, leasehold land and buildings included £0.1m (2015 - £0.1m) in respect of leasehold land and is not depreciated.

Included in the cost of fixed assets is aggregated interest capitalised of £3.5m (2015 - £3.2m).

The additions figure includes £0.3m of borrowing costs capitalised in year.

14 Heritage assets

The University holds its heritage assets in two collections; the Heritage collection, and the Fine and Decorative Art collection:

The Heritage Collection consists of 15,000 museum objects which have been collected over many years by academc departments of the University, and has been brought together into the Victoria Gallery and Museum. Many of the objects may originally have had value for teaching purposes, but this is no longer the case. 10,000 items are geological specimens, and the remainder come from a wide range of deparments of the University. The Collection has never been valued, and, given the wide range of objects, such a valuation is not considered to be practical and as a result has not been recognised in the balance sheet.

The Fine and Decorative Art collection consists of 7000 items of metal ware, fine furniture, ceramics, paintings, drawings, prints and sculptures. It is held in the Victoria Gallery and Museum in the University's iconic redbrick Victoria Building, which is open to the public.

An appropriately qualified assessor at Christies has confirmed that the double high auction estimate for this collection is £115.6m and this serves as the insurance valuation. Of the £115.6m, £34m relates to two items only, pictures by Freud and Turner at £14m and £20m respectively. Both of these paintings have have been brought onto the balance sheet at one half of their insurance value (ie. half of the double high auction estimate value) at £7m and £10m respectively and totalling £17m.

15 Non-Current Investments

Consolidated	Subsidiary companies	Joint venture	Other fixed assets investments	Endowment investments	Total
	£m	£m	£m	£m	£m
At 1 August 2015	-	-	18.1	147.9	166.0
					-
Additions	-	-	36.1	8.7	44.8
Disposals	-	-	(10.7)	(12.9)	(23.6)
Cash movement	-	-	0.7	6.4	7.1
Change in market value	-	-	2.9	5.7	8.6
Exchange gain	-	-	0.2	-	0.2
					-
At 31 July 2016	-	-	47.3	155.8	203.1

University	£m	£m	£m	£m	£m
At 1 August 2015	3.8	1.1	18.3	147.9	171.1
					-
Additions	-	-	36.1	8.7	44.8
Disposals	-	-	(10.8)	(12.9)	(23.7)
Cash movement	-	-	0.7	6.4	7.1
Change in market value	-	-	3.0	5.7	8.7
Exchange gain	-	-	0.2	-	0.2
					-
At 31 July 2016	3.8	1.1	47.5	155.8	208.2

Other fixed asset investment and endowment assets are held at market value with the exception of the corporate bonds which are held at amortised costs. The investment in the subsidiary companies and joint venture are held at cost.

The University owns 100% of the issued ordinary share capital of ULEC, ULCCo, ULCCo (Special Projects),University of Liverpool in Singapore (ULIS) Pte Ltd, UOLM Sdn Bhd, Tandem Nano Ltd and Liverpool University Press (2004) Ltd. The University's subsidiary companies are all registered in England and Wales with the exception of University of Liverpool in Singapore (ULIS) Pte Ltd and UOLM Sdn Bhd. All of the trading subsidiary companies have been consolidated. The principal purpose of these companies is to support the activities of the University.

The University owns 50% of the issued ordinary share capital of Xi'an Jiaotong-liverpool University, which is registered in the People's Republic of China.

Other non-current investments consist of :	University	Consolidated
	£'000	£'000
Baillie Gifford Worldwide Global Alpha Choice Fund	18.1	18.1
Bioventures Investors Limited Partnership Funds II, III and IV	1.1	1.1
University funds held by endowment fund managers	15.3	15.3
CVCP Property	0.1	0.1
Liftupp Limited	0.2	-
Subsidiary companies	3.8	-
Joint Venture	1.2	-
Coporate bonds with a maturity greater than 12 months	12.6	12.6
Quoted equities	125.1	125.1
Fixed interest bonds	15.1	15.1
Property and other investments	1.2	1.2
Cash and cash equivalents	14.4	14.4
	208.2	**203.1**

The University holds shares in the following companies, none of which are considered to be material, and are therefore not consolidated in these financial statements:

Liverpool Science Park Limited	24.5	Trucolour Limited	23.0
Intellihep Limited	18.0	Aimes CIC Ltd	20.0
CDDM Technology Limited	2.3	Sensor City Liverpool Limited	50.0
Sepsis Limited	35.1	Q Technologies Limited	24.9
Pepsyn Limited	3.5	Senectus Therapeutics Limited	16.7
Theryte Limited	3.6	Laureate - University of Liverpool Ventures B.V.	20.0

Notes to the Accounts
for the year ended 31 July 2016

16 Investment in joint venture

The University holds a 50% share of the issued ordinary capital of Xi'an Jiaotong-Liverpool University which is registered in the People's Republic of China. This is a joint venture company owned equally by the University of Liverpool and Xi'an Jiaotong-Liverpool University. The arrangement is treated as a joint venture and is accounted for using the equity method, such that 50% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 50% of its net income is reported in the University's consolidated income and expenditure account.

	Year ended 31 July 2016		Year ended 31 July 2015	
	£m	£m	£m	£m
Income and expenditure account				
Income		31.4		30.3
Surplus (deficit) before tax		0.2		-2.2
Balance sheet				
Fixed assets	101.0		75.2	
Current assets	28.1		24.7	
		129.1		99.9
Creditors: amounts due within one year	-14.7		-7.9	
Creditors: amounts due after more than one year	-119.9		-97.7	
		-134.6		-105.6
Share of net liabilities		-5.5		-5.7

2015/16 income has been reduced to account for exchange rate loss of £0.6m

17 Stock

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£m	£m	£m	£m
General consumables	1.3	1.0	1.1	0.9

18 Trade and other receivables

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£m	£m	£m	£m
Amounts falling due within one year:				
Research grants receivables	6.2	6.2	6.4	6.4
Other trade receivables	5.2	9.7	5.1	9.1
Other receivables	6.9	6.8	11.3	11.4
Prepayments and accrued income	38.8	34.9	41.6	35.5
Amounts due from subsidiary companies	-	3.8	-	6.1
	57.1	61.4	64.5	68.5

19 Current investments

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£m	£m	£m	£m
Short term investment in shares	11.8	11.8	-	-
Short term bonds and gilts	35.7	35.7	-	-
Short term deposits	13.1	13.1	-	-
Other short-term investments	3.6	3.6	-	-
	64.2	64.2	-	-

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority and have more than three months maturity from the initial deposit. The interest rates on one deposit (£3m) is fixed for the duration of the deposit at time of placement. The other deposit (£10.1m) is in a 95-day notice account where the interest rate can change over the life of the deposit.

At 31 July 2016 the weighted average interest rate of these fixed rate deposits was 0.82% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 8 days. The fair value of these deposits was not materially different from the book value.

20 Creditors: amounts falling due within one year

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£m	£m	£m	£m
Bank overdraft	-	-	0.1	0.1
Obligations under finance leases	0.5	0.5	0.5	0.5
Trade payables	22.7	23.9	19.8	19.7
Social security and other taxation payable	6.9	6.9	5.8	5.8
Accruals and deferred income	54.0	54.0	60.5	60.5
Research grants received on account	35.0	35.0	33.6	33.6
Derivatives	0.1	0.1	-	-
	119.2	120.4	120.3	120.2

The derivatives relate to forward exchange contracts held at fair value using exchange rates at the balance sheet date.

Deferred income

Included with accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Year ended 31 July 2016		Year ended 31 July 2015	
	Consolidated	University	Consolidated	University
	£m	£m	£m	£m
Grant income	5.3	5.3	4.0	4.0
Other income	27.9	27.9	33.5	33.5
	33.2	33.2	37.5	37.5

Notes to the Accounts
for the year ended 31 July 2016

21 Creditors: amounts falling due after more than one year

	Year ended 31 July 2016 Consolidated £m	University £m	Year ended 31 July 2015 Consolidated £m	University £m
Obligations under finance lease	0.5	0.5	1.0	1.0
Unsecured loans	301.4	284.7	302.9	284.7
Other creditors	3.4	3.4	0.1	0.1
	305.3	288.6	304.0	285.8
Analysis of secured and unsecured loans:				
Due between one and two years	1.7	-	-	-
Due between two and five years	-	-	3.2	-
Due in five years or more	299.7	284.7	299.7	284.7
Total secured and unsecured loans	301.4	284.7	302.9	284.7
Bond repayable by 2055	244.7	244.7	244.7	244.7
Unsecured loans repayable by 2036	40.0	40.0	40.0	40.0
Unsecured loans repayable by 2028	15.0	-	15.0	-
Unsecured loans repayable by 2018	1.7		3.2	
	301.4	284.7	302.9	284.7

Included in loans are the following:

Lender	Amount £m	Term	Interest rate %	Borrower
Public bond	244.7	2055	3.375	University
Private placement	40.0	2036	4.99	University
	284.7			
Lloyds Bank	15.0	2028	4.975	Subsidiary
Salix Finance	1.7	2018	0	Subsidiary
Total	301.4			

In June 2015 an unsecured fixed rate public bond was issued for the sum of £250 million over a 40 year term with a coupon rate of 3.375%. There are no capital payments to be made over the term, with the bond maturing in 2055.

The bond transaction costs of £5.3m will be amortised over the life of the bond and charged to interest costs.

The University may, at its option, redeem some or all of the bond at the Redemption Price with interest accrued to the date of redemption. The 'Redemption Price' shall be the higher of:

(a) the principal amount of the bonds to be redeemed and
(b) the product of the principal amount of the bonds to be redeemed and the price, expressed as a percentage, at which the Gross Redemption Yield on the bond is equal to the sum of the Gross Redemption of the benchmark gilt (currently the 4.25% UK Treasury Gilt December 2055) plus 0.15%.

22 Provisions for liabilities

University and consolidated

	Obligation to fund deficit on USS Pension £m	Other provisions £m
At 1 August 2015	49.6	0.2
Utilised in year	-1.7	-
Additions in 2015/16	6.8	0.8
At 31 July 2016	54.7	1.0

USS deficit
The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision. Further information on this is provided in note 30.

Other provisions
The obligation is in respect of expected clawback on grants. Management have assessed the grants and have estimated the value based on correspondence with the funder.

23 Endowment reserves university and consolidated

Restricted net assets relating to endowments are as follows:

	Restricted permanent endowments £m	Expendable endowments £m	2016 Total £m	2015 Total £m
Balances at 1 August				
Capital	108.9	19.4	**128.3**	123.9
Accumulated income	16.1	3.5	**19.6**	17.7
	125.0	22.9	**147.9**	141.6
New endowments/released endowments	0.5	0.8	**1.3**	1.6
Investment income	3.9	0.8	**4.7**	4.9
Expenditure	-1.7	-2.2	**-3.9**	-2.7
Increase in market value of investments	5.2	0.6	**5.8**	5.2
Total endowment comprehensive income for the year	7.9	-	**7.9**	9.0
less reclassification of previously restricted funds				-2.7
At 31 July	132.9	22.9	155.8	147.9
Represented by:				
Capital	114.6	19.6	**134.2**	128.3
Accumulated income	18.3	3.3	**21.6**	19.6
	132.9	22.9	**155.8**	147.9
Analysis by type of purpose:				
Chairs	59.5	-	**59.5**	56.4
Scholarships and Fellowships	37.4	6.9	**44.3**	41.8
Prizes	4.7	0.2	**4.9**	4.5
Lectureships	6.8	7.0	**13.8**	13.3
Bequests	17.9	7.7	**25.6**	24.6
Other	6.6	1.1	**7.7**	7.3
	132.9	22.9	**155.8**	147.9
Analysis by asset				
Current and non-current asset investments			141.4	139.9
Cash & cash equivalents			14.4	8.0
			155.8	**147.9**

Deficit balances

There were no accumulated income balances in deficit at 31 July 2016.

Notes to the Accounts
for the year ended 31 July 2016

24 Cash and cash equivalents

	At 1st August 2015 £m	Cash Flows £m	At 31st July 2016 £m
Consolidated	150.2	-96.4	53.8

25 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2016:

	31 July 2016		31 July 2015	
	Consolidated £m	University £m	Consolidated £m	University £m
Commitments contracted for	143.6	141.4	77.1	74.7

26 Contingent liabilities

The University has given written undertakings to support the subsidiary companies at twelve months from the date of approval of these financial statements.

The University is in dispute with the construction company regarding the final settlement figure relating to the Central Teaching Laboratories which was completed in the financial year to 31 July 2013. The construction company is requesting £2.0m in settlement of the dispute. This has not been provided for.

27 Lease obligations university and consolidated

Total rentals payable under operating leases:

	31 July 2016			
	Land and buildings £m	Plant and machinery £m	Total £m	31 July 2015 £m
Payable during the year	2.9	0.8	3.7	1.6
Future minimum lease payments due:				
Not later than 1 year	4.8	0.7	5.5	1.4
Later than 1 year and not later than 5 years	23.5	-	23.5	13.7
Later than 5 years	60.8	-	60.8	31.4
Total lease payments due	89.1	0.7	89.8	46.5

28 Events after the reporting period university and consolidated

Nil

29 Subsidiary undertakings

The subsidiary companies, wholly-owned or effectively controlled by the University are as follows:

Company	Principal Activity	Ownership	Status
University of Liverpool Energy Company Ltd	Provision of energy supplies to the University	100% owned	Active
University of Liverpool Construction Company Ltd	Provision of construction service to the University	100% owned	Active
ULCCO (Special Projects) Ltd	Provision of construction service to the University	100% owned	Active
Liverpool University Press (2004) Ltd	Publication of books and periodicals	100% owned	Active
University of Liverpool in Singapore Pte Ltd	Provisions of academic services in Singapore	100% owned	Active
UOLM Sdn Bhd		100% owned	Dormant
Tandem Nano Ltd		100% owned	Dormant
Nidor Diagnostics Ltd		100% owned	Dormant

The University's subsidiary companies are all registered in England and Wales with the exception of the University of Liverpool in Singapore Pte Ltd and UOILM Sdn Bhd. The active companies have been consolidated.

The University holds 50% of the issued ordinary capital of Xi'an Jiatong-Liverpool University, which is registered in the People's Republic of China.

Notes to the Accounts
for the year ended 31 July 2016

30 Pension Schemes

University staff are eligible to join two main pension schemes:
• Universities Superannuation Scheme (USS)
• University of Liverpool Pension Scheme (ULPF)

Due to their contractual arrangements certain staff are also eligible to join the National Health Service Pension Scheme.

The total pension cost for the University was:

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
USS (including movement on provision - see note 8)	**25.8**	46.2
ULPF	**6.4**	6.3
Other pension schemes	**1.7**	1.6
	33.9	54.1

(i) **The Universities Superannuation Scheme**

The institution participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme until 31 March 2016 which was contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and and a scheme-wide contribution rate is set. The institution is therefore exposed to the actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by section 28 of FRS102 "Employee benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

PENSION COSTS

The total costs charged to the Statement of Consolidated Income is £25.8m (2015 £46.2m).

The latest available full actuarial valuation of the scheme was at March 2014 ("the valuation date"), which was carried out using the projected unit method.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2016	2015
Discount rate	3.60%	3.30%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Pensions increases (CPI)	2.20%	2.20%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigations (CMI) S1NA tables as follows:

Male members' mortality	98% of S1NA ["light"] YoB tables - no age rating
Female members' mortality	99% of S1NA {"light"} YoB tables rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age of 65 are:

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

	2016	2015
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS102 total scheme deficit	£8.5bn	£11.1bn
FRS102 total funding level	85%	82%

30 Pension Schemes (continued)

(ii) University of Liverpool Pension Fund (ULPF)

The University of Liverpool operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet the long term pension liabilities. The final salary section of the fund closed to new entrants with effect from the 31 July 2011 and, from 1 August 2011, new members joined the CARE section of the fund. A full actuarial valuation was carried out at 31 July 2015 and updated to 31 July 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

The most recent actuarial valuation showed a surplus of £37,261,000. In accordance with the actuarial valuation, the University has agreed with the trustees that it will pay 13.4% of pensionable earning in respect of the cost of accruing benefits (increasing to 16% with effect from 1 August 2016). The rate includes a 2% (1.6% from 1 August 2016) allowance for the costs of insurance premiums for the death in service benefits and the management and administration expenses. In addition, the University will meet the costs of levies to the Pension Protection Fund. Member contributions are payable in addition at the rate of 7.5% of Earnings for Final Salary member and 6.5% of Earning for CARE members.

Assumptions

The financial assumptions used to calculate scheme liabilities under FRS102 are:

	At 31 July 2016 %pa	At 31 July 2015 %pa
Price Inflation (RPI)	3.00	3.50
Price Inflation (CPI)	2.10	2.60
Rate of increase in salaries	3.00 (plus promotional salary scale)	3.50 (plus promotional salary scale)
Discount rate	2.40	3.60
Allowance for revaluation of CARE benefit (for service for new joiners after 1 August 2011)	2.10	2.60
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.10	2.60
Allowance for revaluation of deferred pensions of CPI or 2.5% p.a. if less	2.10	2.50
Allowance for pension in payment increases of CPI or 5% p.a. if less	2.20	2.50
Allowance for pension in payment increases of RPI of 2.5% p.a. if less	2.00	2.35
Allowance for pension in payment increases of CPI of 2.5% p.a. if less	1.70	2.35
Allowance for commutation of pension cash at retirement	80% of members commute 25% for cash at retirement	80% of members commute 25% for cash at retirement

The mortality assumptions adopted at 31 July 2016 imply the following life expectancies:

	Life expectancy at age 60 (years)
Male retiring in 2016	24.4
Female retiring in 2016	26.5
Male retiring in 2036	26.6
Female retiring in 2036	29.0

The best estimate of contributions to be paid by the University of Liverpool to the scheme for the year commencing 1 August 2016 is £7,304,000.

30 Pension Schemes (continued)

Scheme assets and expected rate of return for ULPF

The assets in the scheme were:

	Fair value as at 31 July 2016 £m	Fair value as at 31 July 2015 £m	Fair value as at 31 July 2014 £m
Equities	**275.9**	253.2	229.9
Bonds	**85.5**	78.8	68.4
Property	**18.7**	12.3	11.0
Cash	**-0.8**	-0.5	-0.8
Total	**379.3**	343.8	308.5

None of the fair values of the assets shown above include any direct investments in the University's own financial instruments or any property occupied by, or other assets used by, the University of Liverpool.

The expected rate of return for assets held at 31 July 2016 is equal to the discount rate.

Present values of defined benefit obligation, fair value of assets and defined benefit asset

	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Fair value of plan assets	**379.3**	343.8
Present value of defined benefit obligation	**-375.7**	-319.7
Surplus in plan	**3.6**	24.1
Unrecognised surplus	**-3.6**	-24.1
Defined benefit asset to be recognised	**-**	-

Under section 28.22 (Employee Benefits - Defined benefit plan asset) of FRS 102 the University does not recognise the surplus of the scheme as it is unable to recover the surplus through reduced contributions in the future or through refunds from the plan. As a result the information below is for disclosure purposes only and is not recognised within the financial statements.

Analysis of movement in the present value of ULPF liabilities	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Present value of ULPF liabilities at the start of the year	**319.7**	280.3
Current service cost	**10.0**	7.5
Expenses	**0.6**	0.8
Interest expense	**11.5**	11.7
Contributions by plan participants	**2.8**	2.8
Actuarial losses (gains)	**44.4**	28.3
Benefits paid and expenses	**-13.3**	-11.7
Present value of ULPF liabilities at the end of the year	**375.7**	319.7

Analysis of movement in the fair value of scheme assets	Year Ended 31 July 2016 £m	Year Ended 31 July 2015 £m
Fair value of assets at the start of the year	**343.8**	308.5
Interest income	**12.3**	12.9
Actuarial gains (losses)	**28.6**	24.8
Contributions by the University	**5.1**	6.5
Contributions by plan participants	**2.8**	2.8
Benefits paid and expenses	**-13.3**	-11.7
Fair value of scheme assets at the end of the year	**379.3**	343.8

30 Pension Schemes (continued)

	As at 31 July 2016 £m	As at 31 July 2015 £m
Analysis of movement in surplus for ULPF		
Surplus at the beginning of the year (unrecognised)	**24.1**	28.2
Contributions or benefits paid by the University	**5.1**	6.5
Current service cost	**-10.0**	-7.5
Expenses	**-0.6**	-0.8
Actuarial loss	**-15.8**	-3.5
Net interest	**0.8**	1.2
Surplus at end of year (unrecognised)	**3.6**	24.1

As the surplus is unrecognised no amounts have been recognised in the statement of other comprehensive income.

31 Accounting estimates and judgements

USS provision and scheme treatment

FRS 102 makes a distinction between a Group Plan and a multi-employer scheme. A Group Plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as that provided by USS. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense is recognised in profit or loss. The Council are satisfied that the scheme provided by USS meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

At the year end the University has recognised a provision of £54.7m in respect of the liability for the contributions payable under the deficit recovery plan. The calculation of the liability is based on a number of assumptions which could represent a source of material uncertainty within the financial statements. The University acknowledges this risk and has done detailed work to ensure the assumptions used are as robust as possible. This has been achieved by using historical trends, planning information and 3rd party expertise. The University therefore considers that whilst there is a degree of uncertainty in the liability calculation these will not be materially different from the actual amounts recognised over the period of the recovery plan.

The key assumptions of the USS liability calculation are the discount rate, salary inflation and staff member changes in the scheme.

For the calcualtion of the provision at the 31st July 2016 the assumption values were as follows:

Discount rate	3.05%
Salary growth	3% 2017, 3.9% thereafter
Member growth	5% 2017, 1.2% 2018, 0.5% 2019, 1% thereafter

The table below indicates the sensitivity of the provision calculation to a 0.5% increase and decrease in each assumption parameter whilst holding the other parameters fixed.

		Revised provision value	Difference to provision recognised
		£m	£m
Discount rate	-0.50%	57.0	2.3
	0.50%	52.5	-2.2
Salary growth	-0.50%	52.4	-2.3
	0.50%	56.8	2.1
Member growth	-0.50%	52.4	-2.3
	0.50%	56.9	2.2

The above highlights the sensitivity of the provision calculation each of the variables.

Bad debt provision

The recoverability of debtor balances is an area of uncertainty. The University provides for all debt over 180 days old at the year-end date. The provision is adjusted for any post year end receipts and is extended to any items less than 180 days old where recovery is deemed to be a potential issue. The bad debt provision at 31.07.16 is £6.8m (2015: £7.2m). The University deems the provision to be adequate based on the aged profile of debt and the nature of the underlying discussions around recovery.

32 Related Parties

Due to the nature of the University's operations and the composition of its Council (being drawn from local public and private sector organisations) and Senior Executive Group, it is inevitable that transactions will take place with organisations in which a member of Council or the Senior Executive Group may have an interest. All such transactions are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. The University has taken advantage of the exemption within FRS102 Section 33 'Related Party Disclosures' and has not disclosed transactions with other wholly owned group entities.

Included within the financial statements are the following transactions with related parties:

	Income	Expenditure	Balances at 31.7.16 due to/(from) the University
	£m	£m	£m
Professor Janet Beer			
Member of Board of Trustees, British Council	-	0.2	-
Director of the Board, The Russell Group of Universities	-	0.1	-
Member of Board, UCAS	-	0.1	-
Vice-Chair of Board, Xi'an Jiaotong-Liverpool University	0.7	-	0.6
Mr Patrick Hackett			
Director, University of Liverpool Pension Fund (ULPF)	0.3	5.1	1.2
Director, Xi'an Jiaotong-Liverpool University	0.7	-	0.6
Mrs Carol Costello			
Member, Board of Trustees, University of Liverpool Pension Fund (ULPF)	0.3	5.1	1.2
Mr Rob Eastwood			
Trustee, University of Liverpool Pension Fund (ULPF)	0.3	5.1	1.2
Mr David McDonnell			
Arena and Convention Centre Liverpool Ltd	-	0.1	-
Mr Steve Smith			
University appointed Trustee of Liverpool College	0.2	-	-
The Earl of Derby DL			
President, Liverpool College	0.2	-	-

Nature of transactions

The expenditure with the ULPF relates to employer contributions payable during the year in respect of scheme members. The income from the ULPF relates to the annual service charge for payment of services provided by the University to the scheme. The majority of the income from XJTLU is for accreditation fees and the income for Liverpool College is for accommodation fees. All other expenditure disclosed relates to supplier invoices processed through the accounts payable system and payable in the normal course of business.

33 Trustees Expenses

Expenses of £7,560.37 were paid to Trustees of ULPF during the year.
There were no payments made for serving as a Trustee.
There were no payments made for services provided by a Trustee.

34 Financial Instruments

Risk Management

The University operates a centralised treasury management function which is responsible for managing the credit, liquidity, interest and foreign currency risk. These financial risks are managed within the parameters specified by the Planning and Resource Committee approved Treasury Management Policy. The Treasury Management Policy adopts the key recommendations of the Code of Practice on Treasury Management in Public Service as issued by Chartered Institute of Public Finance and Accountancy (CIPFA) as recommended by the Higher Education Funding Council for England (HEFCE) and is reviewed, updated and approved annually.

The University's principal financial instruments are the bond, cash, investments and loans. The core objective of these financial instruments is to meet the financing needs of the University's operations. Additionally, the University has other financial assets and liabilities arising directly from its operations i.e. trade debtors and creditors.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the University.

The University's credit risk arises from bank balances, investments, student debtors and commercial organisations as customers. Management of credit risk is a prime objective of the Treasury Management Policy. At 31 July 2016, the maximum exposure is represented by the carrying value of each financial asset in the balance sheet.

The credit risk of liquid funds and financial instruments is limited because the counterparties are banks with investment grade credit ratings assigned by international credit-rating agencies. The University's exposure and the credit ratings of its counterparties are monitored regularly. The credit exposure is limited by counterparty limits and minimum counter party credit ratings set within the Treasury Management Policy.

Student and commercial debtors are reviewed on an ongoing basis and a bad debt provision is made if recovery becomes uncertain. If a debtor is deemed irrecoverable it is written off. The concentration of risk is limited due to a large number of diverse customers across both students and commercial customer populations.

Liquidity risk

Liquidity risk refers to the risk that the University will not be able to meet its financial obligations as they fall due. Regular monitoring of liquidity risk is an essential feature of treasury management activities.

Cash flow forecasts form part of the University 3 year planning process and are revised during the financial year when 2 re-forecasts are made. The University policy is to maintain a minimum of £60m in on-call cash balances. Excess funds are invested to maximise the return whilst observing the Treasury Management Policy limits.

34 Financial Instruments (continued)

The long-term financing of the University has been secured by the issue of a £250m public bond in June 2015. The capital amount will be paid at maturity in 2055 with the annual coupon of 3.375% paid bi-annually. The University may, at its option, redeem some or all of the bond at the Redemption Price with interest accrued to the date of redemption. The 'Redemption Price' shall be the higher of:

(a) the principal amount of the bonds to be redeemed and

(b) the product of the principal amount of the bonds to be redeemed and the price, expressed as a percentage, at which the Gross Redemption Yield on the bond is equal to the sum of the Gross Redemption of the benchmark gilt (currently the 4.25% UK Treasury Gilt December 2055) plus 0.15%.

Unless previously redeemed or purchased, the bonds will be redeemed at their principal amount on 25 June 2055.

Moody's reviewed the credit rating of the bond in June 2016, which remained unchanged at Aa2 but the outlook revised to negative. Please see note 21 for maturity profile of all borrowings.

Foreign currency risk

Foreign currency risk refers to the risk that unfavourable movement in exchange rates may cause financial loss to the University. The University's principal foreign currency exposure is to the euro. On an annual basis after satisfying euro denominated liabilities the University is left with a surplus of euros. The operating level of euros holding is set at €750,000 and after accounting for any forecast liabilities any surplus euros above this level are converted into sterling. Surplus euros are converted at spot rates or via forward contracts that are used to mitigate the risk of adverse exchange rate movements.

Interest rate risk

Interest rate risk refers to the likelihood that changes in interest rates will result in fluctuations of the value of balance sheet items (i.e. price risk) or changes in interest income or expenses (i.e. re-investments risk).

The University's main financing relates to 40 year £250m bonds. The interest rate attached to the bond is fixed over the term. Due to the low interest rate environment most of the University cash deposits at the 31 July 2016 are on-call as these offer competitive rates of return whilst offering liquidity. Such deposits have limited re-investment risk.

34 Financial instruments (continued)

Financial instruments – fair values

The fair values of each category of the University's financial instruments are the same as their carrying value in the balance sheet, other than as noted below:

	2016 Carrying value net of charges	**2016 Fair value**	2015 Carrying value net of charges	2015 Fair value
	£m	**£m**	£m	£m
3.375%, unsecured bonds due 2055	**-244.7**	**-342.8**	-244.7	-259.3
Bond investment portfolio	**35.0**	**35.5**	-	-

The unsecured bond is listed on the London Stock Exchange, therefore, categorised as level 1 under the requirements of FRS29 (IFRS 7) and valued using a quoted ask price as at 31 July 2016 in compliance with FRS 26 (IAS 39). The fair value of the bond is its market value at the balance sheet date. Market value includes accrued interest and changes in credit risk and interest rate risk, and is therefore different to the reported carrying amounts.

The bond investment portfolio is managed by an external fund manager and was set up to invest surplus cash following the public bond issue. The bonds within the portfolio are held at amortised cost in line with FRS 102 section 11 ('Basic Financial Instruments') which is marginally different from the fair value.

35 Transition from 2007 SORP to 2015 SORP in compliance with FRS102

These are the University's first financial statements prepared in accordance with FRS102. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ending 31st July 2016 and the comparative information presented in these financial statements for the year ended 31st July 2015. In preparing the financial statementsthe University has adjusted amounts reported previously in financial statements prepared in accordance with the old basis of accounting (UK GAAP). An explanation of how the transition to FRS 102 has affected the University's financial perfromance is set out in the following tables and the notes that accompany them.

Statement of Consolidated Income and Expenditure

	Notes	2007 SORP £m	STRGL Items* £m	Total 2007 SORP £m	FRS102 Changes £m	2015 SORP £m
Income						
Tuition fees and education contracts **	a	239.9	-	239.9	-26.9	213.0
Funding body grants	b	75.0	-	75.0	-1.8	73.2
Research grants and contracts	c	101.8	-	101.8	-0.2	101.6
Other income **	d	76.3	-	76.3	-4.2	72.1
Investment income	e	15.5	-	15.5	-8.9	6.6
Total income before donations and endowments		508.5	-	508.5	-42.0	466.5
Donations and endowments	d,f	-	-	-	2.9	2.9
Total income		508.5	-	508.5	-39.1	469.4
Less: Share of income from joint ventures		-30.3	-	-30.3	30.3	-
Net income		478.2	-	478.2	-8.8	469.4
Expenditure						
Staff costs	g	241.6	-	241.6	22.7	264.3
Other operating expenses **		157.4	-	157.4	-	157.4
Depreciation	h	38.3	-	38.3	0.2	38.5
Interest and other finance costs	i	6.4	-	6.4	0.7	7.1
Total expenditure		443.7	-	443.7	23.6	467.3
Gain on disposal of fixed assets		0.5	-	0.5	-	0.5
Gain on investments	j	-	4.0	4.0	1.1	5.1
Share of operating deficit in joint venture		-2.2	-	-2.2	-	-2.2
Surplus before tax		32.8	4.0	36.8	-31.3	5.5
Taxation		-1.9	-	-1.9	-	-1.9
Surplus after tax		30.9	4.0	34.9	-31.3	3.6
Unrealised surplus-revaluation of land	k	-	0.6	0.6	-0.6	-
Actuarial (loss)/gain in respect of pension schemes	l	-	-8.2	-8.2	8.2	-
Total comprehensive income for the year		30.9	-3.6	27.3	-23.7	3.6

* This column represents items that were previously recorded within the Statement of Total Recognised

Gains and Losses (STRGL) and are now recorded within the statement of Comprehensive Income (SoCI).

** The figures for 2007 SORP are after restating £6.6m of studentship fees previously reported under Other Income now included under Tuition fees and education contracts. In addition £2.2m of VAT recovery is offset against Other costs, previously reported under Other Income.

Notes to the Accounts
for the year ended 31 July 2016

35 Transition from 2007 SORP to 2015 SORP in compliance with FRS102 (cont)

Balance Sheet - Transition from 2007 SORP to 2015 SORP in compliance with FRS102

	Notes	01-Aug-14 2007 SORP	01-Aug-14 Effect of transition to 2015 SORP	01-Aug-14 2015 SORP	31-Jul-15 2007 SORP	31-Jul-15 Effect of transition to 2015 SORP	31-Jul-15 2015 SORP
		£m	£m	£m	£m	£m	£m
Non-current assets							
Intangible assets and goodwill		0.1	-	0.1	0.1	-	0.1
Fixed Assets	m	526.0	47.0	573.0	581.7	46.8	628.5
Heritage assets	n	-	17.0	17.0	-	17.0	17.0
Investments	o	3.4	139.3	142.7	21.0	145.0	166.0
Investment in joint venture		-3.5	-	-3.5	-5.7	-	-5.7
		526.0	203.3	729.3	597.1	208.8	805.9
Endowment assets	p	141.7	-141.7	-	147.9	-147.9	-
Current assets							
Stock		1.0	-	1.0	1.1	-	1.1
Trade and other receivables		52.2	-	52.2	64.5	-	64.5
Assets held for resale		-	-	-	0.3	-	0.3
Investments	q	14.0	-	14.0	20.0	-20.0	0.0
Cash and cash equivalents	q	54.8	-	54.8	130.2	20.0	150.2
		122.0	-	122.0	216.1	-	216.1
Less: Creditors: amounts falling due within one year	r	-93.3	-9.7	-103.0	-97.0	-23.3	-120.3
Net current (liabilities)/assets		28.7	-9.7	19.0	119.1	-23.3	95.8
Total assets less current liabilities		696.4	51.9	748.3	864.1	37.6	901.7
recorded within other Comprehensive Income.							
Creditors: amounts falling due after more than one year		-180.9	-	-180.9	-304.0	-	-304.0
ULPF net pension asset	s	28.2	-28.2	-	24.1	-24.1	-
USS net pension liability provision	t	-	-23.1	-23.1	-	-49.6	-49.6
Provisions	u	-	-	-	-	-0.2	-0.2
Total net assets		543.7	0.6	544.3	584.2	-36.3	547.9
Deferred capital grants	v	194.8	-194.8	-	208.0	-208.0	-
Restricted Reserves							
Income and expenditure reserve - endowment reserve		141.7	- 0.1	141.6	147.9	-	147.9
Income and expenditure reserve - restricted reserve		-	-	-	-	-	-
Unrestricted Reserves							
Income and expenditure reserve - unrestricted	w	204.6	198.1	402.7	228.3	171.7	400.0
Revaluation reserve	x	2.6	-2.6	-		-	
		348.9	195.4	544.3	376.2	171.7	547.9
Total Reserves		543.7	0.6	544.3	584.2	-36.3	547.9

Notes to the Accounts
for the year ended 31 July 2016

35 Transition to FRS102 and the 2015 SORP (cont)

Explanation of transition to FRS102 from old UK GAAP

The University of Liverpool has adopted FRS102 for the year ended 31st July 2016 for the first time and has restated prior year amounts. The reasons for each material change arising out of the adoption of FRS102 in the prior year accounts are as follows:

a **Tuition fees and education contracts**
The reduction in reported income in solely due to the reclassification of income in the joint venture (XJTLU) to a separate reporting line in the Statement of Consolidated Income.

b **Funding body grants**
The University reports income from capital grants when it is entitled to the income and performance related conditions have been met. Consequently the deferred capital grant release of £1.6m under the old UK GAAP is eliminated. The reclassification of XJTLU funding accounts for a further reduction of £0.3m offset by an increase in other grants of £0.1m

c **Research grants and contracts**
Similarly to funding body grants, recognising income when performance conditions have been met has increased research income by £1m under FRS102 compared to the old UK GAAP. Reclassification of XJTLU research income offsets this increase by £0.4m. Other reductions account for a further decrease of £0.8m.

d **Other income**
Donations previously reported under other income have now been reclassified reducing other income by £4.0m. Reclassification of XJTLU income reduces the previously reported figure by £1.2m. This is offset by an increase due to capital grant income now recognised as performance conditions were met during the year of £0.3m. Other changes accounted for a further increase of £0.7m.

e **Investment income**
The major reduction in investment income under FRS102 is the elimination of the FRS17 benefit arising from the University's pension fund, ULPF. As the fund is currently in surplus there is no accounting for this required under FRS102. Reclassification of XJTLU investment income further reduces the figure by £1.5m. Other adjustments account for the reduction of £0.1m.

f **Donations and endowments**
The increase is as a result of the reclassification of other income and the entitlement to income when performance related conditions have been met accounting for a further increase of £1.6m.

g **Staff costs**
This is the most significant change to the reported financial performance of the University, as under FRS102 the University is required to include an estimate of its share of the deficit contributions to the sector pensions scheme, USS. This increased the staff costs in the year to 31st July 2015 by £25.8m. This was offset by the elimination of the FRS17 charge arising from ULPF of £3.1m.

h **Depreciation**
The increase under FRS102 was caused by additional depreciation of buildings.

i **Interest and other finance costs**
The increase was caused by the financing costs associated with the financial statements including costs arising from the University's participation in USS.

j **Gain/Loss on investments**
Under FRS102 this includes both realised and unrealised gains on endowment assets.

35 Transition to FRS102 and the 2015 SORP (cont)

Explanation of transition to FRS102 from old UK GAAP

k **Unrealised surplus on revaluation of land and buildings**
Under the old UK GAAP this item was reported within the statement of total recognised gains and losses which has been removed under FRS102. In addition FRS102 reports land and buildings at either actual or deemed cost eliminating the impact of revaluations.

l **Actuarial (loss)/gain in respect of pension schemes.**
Under the old UK GAAP this item was reported within the statement of total recognised gains and losses which has been removed under FRS102. This charge related to the University's own pension fund, ULPF, which remains in surplus. FRS102 does not require accounting for pensions schemes that are in surplus so this charge is eliminated.

m **Revaluation of fixed assets**
The opportunity was taken on FRS102 to revalue land and to reclassify investment properties as fixed assets. The revaluation of the land increased fixed assets by £44.1m and the transfer of investment properties increased fixed assets by £2.9m.

n **Heritage assets**
The opportunity was taken on transition to bring two of the University's heritage assets onto the balance sheet at a value of £17m. Further details are provided at note 14.

o **Fixed asset investments**
Endowment assets totalling £147.9m have been reclassified as fixed asset investments (point p below refers). Also investment properties of £2.9m were reclassified as fixed assets resulting in a net increase in fixed asset investments of £145m.

p **Endowment assets**
Endowment assets have been reclassified as fixed asset investments. The 1.8.14 opening balance of £141.7m and the 2014/15 in year movement of £6.2m totalling £147.9 has been transferred and is no longer separately analysed on the balance sheet.

q **Current asset investments**
The nature of the £20m closing 2014/15 current asset investments required reclassification as cash and cash equivalents.

r **Creditors: amounts falling due within one year**
The removal of deferred capital grants on transition resulted in both release of grant income to the statement of comprehensive income and expenditure and reclassification as deferred income. £23.3m of the deferred capital grant closing 2014/15 balance was reclassified is an increase of £23.3m.

s **ULPF net pension asset**
The ULPF is in surplus and as such is no longer accounted for as a balance sheet asset. The 1.8.14 opening balance of £28.2m, and the 2014/15 in year movement of deficit £4.1m, totalling to net £24.1m, has been removed.

t **USS net pension liability**
Provision has been made for the University's estimated share of the USS pension deficit. The 1.8.14 opening liability provision is £23.1m and the 2014/15 in year movement is £26.5m totalling and giving a revised 2014/15 closing position of £49.6m.

u **Provisions**
£0.2m of creditors falling due within one year have been reclassified as provisions (note r refers).

v **Deferred capital grants**
The removal of deferred capital grants on transition resulted in both release of grant income to the statement of comprehensive income and expenditure and reclassification as deferred income. £23.3m of the deferred capital grant closing 2014/15 balance was reclassified is an increase of

w **Income and expenditure reserve unrestricted**
The impact changes to the statement of comprehensive income and expenditure resulted in a net movement in the unrestricted income and expenditure reserves of £171.7m.

x **Revaluation reserve**
The revaluation reserve related to the investment properties which have been reclassified as fixed assets. Therefore the 1.8.14 opening balance of £2.6m was written off to the statement of consolidated income and expenditure.