



Annual Report and Accounts

for the year ending 31. 07. 2006

Report and Financial Statements for the year ended 31 July 2006

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London Metropolitan University

A Company Limited by Guarantee
and not having a share capital.

Registered in the United Kingdom:
registration number 974438.

Registered Office:
31 Jewry Street
London
EC3N 2EY
Tel: 020 7423 0000
email: www.londonmet.ac.uk

The University is an Exempt Charity
under the Charities Act 1993.

Senior Officers and Advisers as at 31 July 2006

Vice-Chancellor and Chief Executive	B A Roper BSc Econ (Hons) MA (Econ) D.Univ (Hon)
Deputy Vice-Chancellor Academic	Dr R P T Aylett MA PhD
Deputy Vice-Chancellor Research and Development	C G Topley BSc
Director of Finance	P R Nelson BA (Hons) ACA
Director of Human Resources	L Link BA (Hons) FCIPD
Clerk to the Board of Governors and University Secretary	J P McParland BA (Hons) DMS
External Auditors	Grant Thornton UK LLP The Explorer Building Fleming Way Manor Royal Crawley RH10 9GT
Internal Auditors	Kingston City Group 3rd Floor Millennium House 21 Eden Street Kingston upon Thames Surrey KT1 1BL
Solicitors	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA Eversheds Senator House 85 Queen Victoria Street London EC4V 4JL Ogun @ Law 391 City Road London EC1V 1NE

Senior Officers and Advisers as at 31 July 2006 (continued)

Bankers	Barclays Bank Plc Holloway & Kingsland Business Centre London E8 2JK
	Standard Chartered Bank Plc 1st. Floor H-2 Connaught Circus New Delhi 110 001 India
	Standard Chartered Bank Plc Dhaka Main Branch 2, Dilkusha C/A Dhaka 1000 Bangladesh
	Bank of China Dongzhimen Branch No. 35 Dongzhimenwai Dajie Dongcheng District Beijing 100027 China
Insurers	AON Ltd Clarkson House Canterbury Kent CT1 2YT
	Zurich Municipal Southwood Crescent Farnborough Hampshire GU14 0NJ
Endowment Investment Managers	New Star Investment Funds 1 Knightsbridge Green London SW1X 7NE
Endowment Investment Custodians	Fidelity Investments Oakhill House Hildenborough Tonbridge Kent TN11 9DZ

London Metropolitan University

Members of the Board of Governors as at 31 July 2006

Sir John Carter – Chair (F, N [chair], P, R [chair])	J Mayhew (N)
B Roper (E, F, N, P, R) (Vice Chancellor and Chief Executive)	Dame Barbara Mills (F, W [chair])
P Anwyl (F [chair], N, R)	B Morgan (N, E)
P Bignell (A)	Prof Z Nadirshaw (F)
S Bromwich (E)	R Patel (P)
G Castle (F, P [chair], R, W)	A Rahim (F)
A Clark (A)	C Scheer (N)
J Gabriel (E, W)	F Scott (A)
M Harris (S, N)	Cllr B Smith
J Haworth (F, N, P, R)	M Snyder (A [chair])
L Ife (P)	T Thompson (E)
S John	S Tyacke (F)

The following ceased to be governors during the year, with effect from the dates shown:

B Clark	21.02.2006
J Kempton	19.09.2005
H Peters (E)	10.10.2005
Dr C Phillips	10.10.2005
F Smith (E)	18.10.2005
O Tsolak (S)	01.08.2005

The following were appointed as governors during the year, with effect from the date shown:

P Bignell	01.10.2005
S Bromwich (E)	05.12.2005
A Clark	01.10.2005
J Gabriel (E)	01.10.2005
M Harris (S)	16.10.2005
Prof Z Nadirshaw	12.10.2005
Cllr B Smith	07.11.2005
T Thompson (E)	07.10.2005

In their capacity as Directors, none of the governors held any interest in any contract with the University. Seven directors have contracts with the University in their capacity as employees. None of the Directors had a beneficial interest in any group company.

In addition, the following non-governors served in a co-opted capacity on committees of the board:

C Howe (A)	P Zinkin (P)
S Mehta (A)	

KEY:	A	Member of Audit Committee
	E	University Employee
	F	Member of Finance and Human Resources Committee
	N	Member of Nominations Committee
	P	Member of Property Sub-Committee
	R	Member of Remuneration Sub-Committee
	S	Students' Union Representative
	W	Member of Women's Library Council

Report of the Governors

REPORT OF THE GOVERNORS (AS DIRECTORS) TO THE MEMBERS OF LONDON METROPOLITAN UNIVERSITY

The Governors have pleasure in presenting the company's annual report and audited financial statements for the year ended 31 July 2006.

The financial statements have been prepared to comply with the Companies Act 1985 and the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education.

CONSTITUTION

London Metropolitan University is a company limited by guarantee, with up to twenty-five members limited in liability to the sum of £1 each.

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

MISSION STATEMENT

London Metropolitan University is committed to providing excellent educational and knowledge transfer services, engaging with real-world issues, transforming individuals in society, and enabling students to achieve their potential and London to succeed as a world city.

Our full mission statement can be found on the University's website, <http://www.londonmet.ac.uk/about/mission.cfm>

OPERATING AND FINANCIAL REVIEW

London Metropolitan University's consolidated results for the year to 31 July 2006 show a deficit of £9.0m and net assets of £23.7m which can be summarised as follows:

	Year to 31 July	
	2006	Restated 2005
	£'m	£'m
Income	151.2	147.5
Expenditure	(156.5)	(146.4)
Operating (deficit)/surplus	(5.3)	1.1
Restructuring costs	(3.7)	-
(Deficit)/surplus after Interest and Tax	(9.0)	1.1
Net assets excluding pension deficit	77.4	71.4
Net assets including pension deficit	23.7	21.1

The deficit for the year compares with a budgeted deficit of £10.5m, reflecting planned restructuring costs required to reduce the University's cost base in line with the business plan approved in December 2005.

INCOME AND EXPENDITURE

The following tables compare last years performance against 2005/06.

Income

Source of Income	Year to 31 July Movement		
	2006	2005	%
	£'000	£'000	
Funding Council grants	82,555	82,773	(0.3%)
Tuition fees and education contracts	47,111	45,836	2.8%
Research grants and contracts	4,964	3,446	44.1%
Other income	15,467	14,467	6.9%
Endowment and interest receivable	1,145	980	16.8%
Total Income	<u>151,242</u>	<u>147,502</u>	2.5%

Total income has increased by 2.5% (£3.7 million) over the 2004/05 figure.

Funding Council grants showed a slight reduction of 0.3% which was in line with expectations and with the budget.

Tuition fees and education contracts have increased in line with inflation by 2.8%. Although overall student numbers have fallen in 2005/06, the number of students attending full time courses has increased.

The University showed a strong growth in research grants and contracts, 44.1% (£1.5m), as a result of new contracts won by University research institutes.

Other operating income has grown by 6.9% (£1.0m) compared with the prior year. Increases in trading project income, sale of materials and other miscellaneous income have been more than offset by reductions in income from other grants and contracts and rental income and hire of facilities.

Expenditure

Category of Expenditure	Year to 31 July Movement		
	2006	2005	%
	£'000	£'000	
Staff Costs	99,216	93,478	6.1%
Other operating expenses	51,732	44,117	17.3%
Depreciation	7,249	6,288	15.3%
Interest payable	1,998	2,541	(21.4%)
	<u>160,195</u>	<u>146,424</u>	9.4%

Total expenditure has increased by 9.4% (£13.8m) with staff costs rising by 6.1% (£5.7m) and other operating expenses by 17.3% (£7.6m).

The increase in staff costs were expected despite the small reduction in staff numbers. A 3% pay settlement was awarded in the financial year together with a 1.4% incremental increase. Employer pension contributions increased from April 2006 and also include a £0.96m accrual to reflect the difference between the actual contribution rate required from 1 April 2005 (19.6%) and the rate at which contributions were paid (14.3%).

Report of the Governors

The main increases in other operating expenses include the following: Redundancy pay of £2.7m, included within staff related costs and £1.0m early retirement costs, included within enhanced pension liabilities. A voluntary severance scheme was announced to staff in 2004/05 which was taken up by 103 Individuals during the financial year.

A premium of £1.9m was paid on the early redemption of the inherited loan liability in November 2005. This is included in other operating expenses.

Repairs and maintenance increased by £1.7m due to an increased volume of work in the 2005 summer vacation.

Interest payable fell by 21.4% (£0.5m) which is primarily attributed to the redemption of the inherited loan.

BALANCE SHEET

The consolidated net assets of the Group stand at £23.7m. This includes the £54m pension deficit resulting from the implementation of FRS 17.

Fixed Assets

Expenditure during the year on fixed assets was £21.8m, bringing the total net book value of land, buildings and equipment to £127.8m. This expenditure has been funded by the utilisation of cash balances (£11.9m) and by capital grants (£9.9m).

The largest item of capital expenditure was the Science Centre where £13.0m was spent during the financial year on the building and laboratory equipment. The Science Centre was formally opened in November 2006, teaching and research having commenced at the start of the autumn semester.

During the year the University disposed of a freehold residential property - Parsonage Leys generating a profit on disposal of £0.1m; and a short leasehold residential property - Carleton Grange.

The most recent valuation of the group's properties, prepared by Nelson Bakewell Limited as at 28 February 2004 on an existing use basis, was £94.8m.

Endowment Assets

The value of endowment assets fell during the year by £0.1m owing largely to the release of the 'sinking' fund of £0.3m. This was offset by the addition of the 'Design Trust', transferred to the University on 1 December 2005 for £0.1m and the increase in the market value of endowment investments of £0.1m.

Current Assets

Trade debtors have increased by £0.6m with prepayments and accrued income going down by £0.3m.

Short term deposits have fallen as a result of the University's own funding of the capital programme.

Creditors

Accruals and deferred income have increased by £4.3m due in part to an increase in estate expenditure accruals together with the accrual for voluntary redundancy costs of £1.4m.

Amounts falling due after more than one year have fallen by £14.0m following the redemption of the inherited loan (£6.7m)

Deferred Capital Grants

Deferred capital grants have increased as grants have been received to fund the University's capital programme.

Revaluation Reserve

The revaluation reserve has benefited from the reimbursement of the principal on the inherited loan.

Financial Reporting Standard (FRS) 17 implementation

The financial statements as at 31 July 2006 have been drawn up in accordance with FRS17 'Retirement Benefits'.

Accounting convention requires that where a significant new accounting policy is adopted, the figures for the prior year have to be "restated". This has been the case in these financial statements.

Financial Risk Management Objectives and Policies

The University uses various financial instruments including cash and other liquid resources, and other various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the University's operations.

The governors review and agree policies for managing each of these risks and the key risk is summarised below.

Liquidity Risk

The University seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets both safely and profitably.

CAPITAL PROJECTS

Building work on the new Science Centre at Holloway Road was completed on 3 July 2006 and was opened for the 2006/07 academic year.

Report of the Governors

Funding for the Science Centre was from the following sources:

	£'m
HEFCE Capital grants	8,382
HEFCE Interest Free Loan	6,000
Cash Balances	13,218
	<u>27,600</u>

An extensive programme of refurbishment work continued during the year together with work to enable the University to comply with the Disability Discrimination Act.

STUDENT NUMBERS

Student numbers for the year 2005-06 are shown in the table below together with a comparison for the previous year.

Student numbers are taken from the Student and NCB returns submitted to HESA in November of each academic year.

	Year to 31 July	
	2006	2005
Full Time (Home/EU)	14,296	13,816
Full Time (Overseas)	3,533	3,517
Part time	13,089	13,825
Short Course	4,020	6,741
Total	<u>34,938</u>	<u>37,899</u>

RESEARCH

The University has continued to operate a wide and varied research programme, supported partly from grant funding provided by HEFCE and partly by contract income from bids submitted to the Research Council and other funders.

FUTURE DEVELOPMENTS

In December 2005, the Board of Governors approved the University's business plan 2005-2010. The business plan reflects the need for the University to plan all its activities so that, taken together, these remain sustainable over the period. The plan includes the estimated impact of changes currently underway in the higher education sector, including:

- the potential impact of the introduction of variable tuition fees and bursaries for full-time home and EU undergraduate students enrolling for the first time at the University from September 2006 onwards
- the impact of expected rises in employer pension contributions, including those required to recoup the deficit in the London Pension Fund Authority
- the impact of rises above the level of general inflation of certain other costs, particularly other staff costs and energy costs
- the need to continue to invest in the University's infrastructure, to improve the standard of facilities
- the need to set aside a substantial development fund, to be used to invest in new initiatives in both teaching and research.

The business plan demonstrates the need to reduce our cost base and, as part of our cost review, the University has planned further reductions of 70 posts over the three years to 2008/09.

Key figures in the business plan are as follows:

	Forecast			
	2006-07	2007-08	2008-09	2009-10
	£m	£m	£m	£m
Income	161.5	178.2	190.2	196.2
Operating costs	(160.9)	(172.5)	(183.0)	(185.9)
Operating (deficit)/surplus	0.6	5.7	7.2	10.3
Restructuring cost	(2.5)	-	(1.0)	-
(Deficit)/surplus	<u>(1.9)</u>	<u>5.7</u>	<u>6.2</u>	<u>10.3</u>

SUBSIDIARY TRADING COMPANIES

The University's trading subsidiary, London Metropolitan University Enterprises Limited, has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. No donation was made in 2005/06 as the company made a loss, however for the year 2004/05 £156,995 was passed via Gift Aid to the University.

This company is fully consolidated into the Group accounts, as are the University's non-trading subsidiaries.

PAYMENT OF CREDITORS

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

HUMAN RESOURCES

London Metropolitan University is committed to equality of opportunity in all aspects of its employment policy. Guidelines and procedures operate throughout the University to ensure that good employment practice prevails in terms of the recruitment and selection of staff. These guidelines reflect the relevant legislation on equal opportunities and professional codes of practice. External and internal applications for posts are treated on an equal basis, taking into account factors such as an individual's abilities, experience, knowledge and skills.

In accordance with its mission statement, the University actively seeks to recruit from all sections of the local and wider community, regardless of disability, gender, race, religion and sexuality. The University seeks to increase the number of black and ethnic minority people, women and people with disabilities that it employs where this is lower than the working population.

Our personnel policies and practices are aimed at responding

Report of the Governors

proactively to changes in employment legislation and in promoting equality of opportunity in all areas of employment within the University, for example the University has in place policies and procedures to address positively its responsibilities under the Disability Discrimination Act both for prospective and existing employees.

Staff training needs are assessed annually to enable resources to be objectively allocated to meet those priority needs which contribute to the achievement of the University's goals.

The University recognises relevant trade unions and has established a Joint Consultative and Negotiating Committee framework through which relevant issues are discussed and trade union representatives consulted.

In order to promote staff involvement in matters affecting the University, staff are elected by their colleagues to serve as members of the Board of Governors and on the Academic Board. All staff have access to the minutes of the meetings of the Board of Governors, except for those extracts which are considered to be of a confidential nature.

The remuneration framework and conditions of service operating within the University contribute towards the achievement of the University's corporate objectives. The pay and conditions policies are reviewed to consider legislative changes, best practice and the general employment market.

The University reaches sound decisions in line with its statutory obligations and local needs. The policy is based on the University's mission statement and other local and national issues which impact on the University.

EQUAL OPPORTUNITIES

London Metropolitan University is committed to equality of opportunity and treatment both as a provider of education and as an employer and to the production, implementation, review and monitoring of policies that promote equality for all those who study and work within the institution. London Metropolitan University values the diversity of its students and staff. It recognises that people from diverse backgrounds can bring new ideas and perceptions that help increase organisational efficiency and improve service.

The University recognises its commitment under the law and is committed to providing equality of opportunity by aiming to ensure that it follows legal requirements and good practice as recommended by the Commission for Racial Equality, the Equal Opportunities Commission, the Disability Rights Commission, the Chartered Institute of Personnel Development and Universities UK. It is the University's policy to treat all members of staff, students and applicants fairly and equitably regardless of gender, racial or cultural grounds, disability, age, marital status, religious beliefs, sexual orientation, trade union activity, or any other category where discrimination cannot be reasonably justified.

The full text of the University's Equality and Diversity Policy and other policies can be found on the University's website.

DONATIONS

The group makes no political or charitable donations.

AUDITORS

A resolution regarding the re-appointment of Grant Thornton UK LLP as auditors will be moved at the next Annual General Meeting.

On behalf of the Board.



J P McParland

Company Secretary

166-220 Holloway Road
London N7 8DB

13 December 2006

Statement of Corporate Governance

DIRECTORS

All Governors of the University are also Directors of the company. The names of Governors who served on the Board during the year ended 31 July 2006 are shown on page 4. The Board is grateful for the efforts of all those who served the University in this capacity during the year.

No Governor had any interest in any contract which was required to be declared and which subsisted during the period of the report except where the contractual relationship was as a full-time member of staff or as a student of the University.

RESPONSIBILITIES OF THE BOARD OF GOVERNORS OF THE UNIVERSITY

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

The Companies Act 1985 and the Financial Memorandum with the Higher Educational Funding Council for England (HEFCE) require the Board of Governors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the University and the group, and of the income and expenditure, cash flows and recognised gains and losses of the group for that period.

Under the University's rules the Board of Governors in discharging its overall responsibility requires the Finance and Human Resources Committee and, where appropriate, the Audit Committee, to:

- approve and recommend to the Board the University's annual budgets and longer term financial projections and to monitor performance against budget
- receive and approve on behalf of the Board the University's financial statements
- approve systems of internal financial control and accounting.

In causing the financial statements to be prepared the Finance and Human Resources Committee, on behalf of the Board of Governors, ensures that:

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

To assist the Board of Governors in discharging its ultimate responsibility the University's Finance and Human Resources

Committee and where appropriate, the Audit Committee, is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements comply with HEFCE's Financial Memorandum and the Companies Act 1985. They have responsibilities for ensuring that the assets of the group are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The auditors have been made aware of all relevant audit information. The Board have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

The Board of Governors is required by HEFCE to report on its responsibilities for corporate governance. Best practice in this area is set by the Combined Code on Corporate Governance, issued in July 2003. The Combined Code brings together the guidance set out in the Cadbury, Greenbury and Hempel reports. The internal control aspects of corporate governance have been amplified in the report of the Turnbull Committee (the Turnbull Report).

The relevant principles of the Combined Code having regard to the Committee of University Chairmen's Governance Code of Practice, have been tailored to the circumstances of the University and its response is as follows:

There should be an effective board, leading and controlling the organisation.

The University's Board of Governors is comprised of 24 members. The categories of governor are as defined in the company Articles of Association comprising 13 Independent Lay Governors, the Vice-Chancellor and Chief Executive, two Staff Governors elected from the Academic Board, the President of the Student Union and a balance of membership defined under the Articles as Additional Co-opted Governors. This category includes two staff governors elected by cross campus ballot among the teaching and non-teaching staff respectively together with nominees from external stakeholders.

With the exception of the Vice-Chancellor and Chief Executive, the Academic Board Governors and the elected Staff Governors none of the Board are employees of the

Statement of Corporate Governance

University. All Governors with the exception of the Vice-Chancellor and Chief Executive serve in a non-executive capacity. The University is a company limited by guarantee and the Governors are Directors and Members of the company.

The matters specially reserved to the Board for decision are set out in the Articles of Association of the University and an agreed schedule of matters which only the Board can determine. Under the Financial Memorandum with HEFCE, the Board holds to itself the responsibilities for the strategic direction of the University, approval of major developments, approval of annual estimates of income and expenditure, ensuring the solvency of the University and safeguarding its assets.

The Company Secretary is appointed under the Articles of Association to act as Secretary to the Board of Governors and its committees.

The Board of Governors meets four times a year and has three formally constituted committees, namely the Finance and Human Resources, Nominations and Audit Committees. Two sub-committees, the Remuneration Sub-Committee and the Property Sub-Committee, report to the Board through the Finance and Human Resources Committee. Membership of these committees is noted in the Annual Report (page 4).

These committees are fully non-executive, except that the Vice-Chancellor and Chief Executive is a member of the Finance and Human Resources Committee, its sub-committees and the Nominations Committee.

Newly-appointed Governors are offered comprehensive briefing, and training where appropriate, on the University and their role, to ensure that they are fully conversant with their responsibilities.

All of the Governors have access to the advice and services of the Company Secretary and can seek independent professional advice at the University's expense should they wish to do so.

The Audit Committee receives and considers reports from HEFCE's Audit Service as they affect the University's business and monitors adherence with the regulatory requirements. Whilst the Vice-Chancellor and Chief Executive and the Director of Finance attend meetings of the Audit Committee, they are not members of the committee. The Audit Committee may decide to meet with the internal and /or external auditors, without any officers in attendance or for independent discussions.

There should be a clear division of responsibilities at the head of the institution, between the Chairman and Vice-Chancellor & Chief Executive to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

The role of Chair of the Board (non-executive) is separate from that of the University's Vice-Chancellor and Chief Executive.

The Board should include a balance of executive and non-executive (including independent) Governors.

The composition of the Board of Governors is established in the Memorandum and Articles of Association and is set out at the beginning of this section. The Articles of Association also lay down other formal arrangements concerning Board activities.

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Finance and Human Resources Committee, inter alia, recommends to the Board of Governors the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The committee also reviews the University's Annual Financial Statements together with the accounting policies. It also determines matters in relation to the conditions of employment of all University staff.

The Nominations Committee considers the appointment of independent and co-opted Governors.

The Audit Committee meets at least twice annually to review the work of the internal and external auditors. The committee considers detailed audit reports and 'value for money' reviews, together with recommendations for improvement of the University's systems of internal control and risk management issues. Management responses and implementation plans are considered and approved.

All committees of the Board are required to report to the Board regularly. The Finance and Human Resources Committee reports on each meeting, as does the Audit Committee, but in addition the Audit Committee provides an annual report on its activities which is also sent to the HEFCE Chief Auditor. The Vice-Chancellor and Chief Executive also provides a report on the University's activities at each Board meeting. Officers are present to expand on the reports and answer questions.

There is considerable opportunity for the Governors to request additional information through membership of Board Committees and the Board itself.

There should be a formal and transparent procedure for the appointment of new Governors.

The Board of Governors appoints independent and co-opted Governors, following recommendations by the Nominations Committee against agreed criteria.

All Governors should be required to submit themselves for re-election at regular intervals and at least every three years.

The Articles of Association determine the composition of, appointment to, tenure of and removal from membership of the Board of Governors. Tenure is limited to three years at a time.

Statement of Corporate Governance

Remuneration should be appropriate, be established by a formal and transparent procedure and be reported in the Annual Financial Statements.

Governors receive no monetary or cash-equivalent reward for their services as Governors.

The Remuneration Sub-Committee considers and recommends the annual remuneration of the Vice-Chancellor and Chief Executive and those staff specified in the Articles of Association.

The Finance and Human Resources Committee is responsible for policies for the remuneration of academic and support staff.

External professional advice is sought when required.

Disclosure is in accordance with the HEFCE Accounts Direction and Statement of Recommended Practice (SORP): Accounting for Further and Higher Education.

The Board should present a balanced and understandable assessment of the University's position and prospects.

The role of the Finance and Human Resources Committee and the responsibilities of the Governors are outlined on page 9. These specifically deal with their responsibilities as to the preparation of the Financial Statements and their reasoning behind the adoption of the going concern basis in preparing the accounts.

The Financial Statements are presented in a format which is in accordance with the Statement of Recommended Practice and other appropriate guidance.

The Board should maintain a sound system of internal financial control.

The Board of Governors acknowledges its responsibility for the University's system of internal financial control in its statement on page 9 and the response to the specific issues identified in the Turnbull report.

Control environment and control activities.

An internal audit programme is agreed by the Audit Committee every year. This programme is carried out by an internal audit consortium, Kingston City Group, of which the University is a member. The internal auditors report regularly to the Audit Committee. This assists the Audit Committee in assessing the soundness and comprehensiveness of the system of internal control, the actions necessary to remedy weakness and the appropriateness of the existing controls.

The Audit and Finance and Human Resources Committees proceedings are reported regularly to the Board of Governors and the Audit Committee Annual Report is also forwarded to the Chief Auditor of the HEFCE.

The Financial Statements are fully considered by the Finance

and Human Resources Committee prior to recommendation for acceptance by the Board of Governors.

Information communication and risk assessment.

The Board of Governors is of the view that there is an ongoing process for identifying, evaluating and managing the University's principal risks to the achievement of policies, aims and objectives.

This process is regularly reviewed by the Governing Body and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

During the year the Audit Committee has received reports on risk management at each meeting.

The University's risk register was updated to reflect the Strategic Plan adopted by the Board during the year. As part of the strategic planning process, risk registers were compiled at sub-strategy and departmental levels. The Executive Group, acting as the University's Risk Committee, considers risk as part of its regular meetings.

A Business Continuity Plan, covering all the University's buildings, was drawn up during the year. It will continue to be rolled out to all University departments during 2006/07.

The University's internal auditors reviewed risk management procedures and reported their findings to the Audit Committee. Work to implement their recommendations has been ongoing in 2005/06 and further work on implementation will take place throughout 2006/07.

Monitoring

The University, through its Audit Committee, regularly monitors the effectiveness of controls and their operation.

The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the external auditors.

The terms of reference of the Audit Committee are well established and are in full accordance with the Accountability and Audit: HEFCE Code of Practice.

The provision of external audit was the subject of a tendering exercise in 2004 and the successful bidder submitted proposals for a period of 5 years. Reappointment is considered annually and the Audit Committee make a recommendation to the Annual General Meeting in accordance with the requirements of the Companies Act.

Effectiveness Of the Board.

The Board, in accordance with the guidance of the Committee of University Chairmen, undertook a review of

Statement of Corporate Governance

the effectiveness of the Governing Body. This review commenced in 2004/05 and was concluded in September 2005. The outcomes were reported to the Board in October 2005 and actions, including a review of and changes to the Articles of Association have been implemented during the year. Final approval of a revised Memorandum and Articles and a re-constituted Board is awaited from the Privy Council.

Compliance

From the foregoing, the University believes that it has complied with the governance requirements throughout the year.

Publication of the financial statements on the University's website.

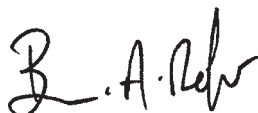
The financial statements are published on the University's website. The maintenance and integrity of the website is the responsibility of the Vice Chancellor and Chief Executive. The external auditors accept no responsibility for the accuracy of the financial statements that appear on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board.



Sir John Carter
Chair



B A Roper
Vice Chancellor and Chief Executive

13 December 2006

Report of the Independent Auditors' to the Members of the Governing Body of London Metropolitan University

We have audited the financial statements of London Metropolitan University for the year ended 31 July 2006 which comprise the principal accounting policies, the consolidated income and expenditure account, the consolidated and University balance sheets, statement of historical profits, the consolidated cash flow statement, the statement of recognised gains and losses and notes 1 to 34 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of principal accounting policies.

This report is made solely to the members of the University Board of Governors, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the members of the University Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the members of the University Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MEMBERS OF THE BOARD OF GOVERNORS AND AUDITORS

As described in the statement of responsibilities of the Board of Governors of the London Metropolitan University, the Board is responsible for the preparation of financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice - Accounting for Further and Higher Education, applicable law, and United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice - Accounting for Further and Higher Education. We also report to you whether in our opinion, monies expended out of funds from whatever source administered by the University for specific purposes were properly applied for those purposes and where relevant managed in accordance with appropriate legislation and whether monies expended out of funds provided by the Higher Education Funding Council and Training and Development Agency for Schools were applied in accordance with the financial memorandum and any other terms and conditions attached thereto.

We also report to you our opinion as to whether the information given in the Report to the Governors is consistent with the financial statements. We also report to you if, in our opinion, the University has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the Report of Governors and the Corporate

Governance Statement and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

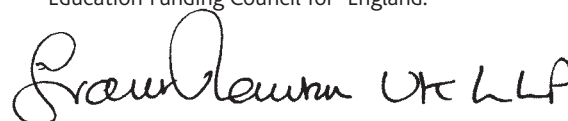
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and the HEFCE Code of Practice. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or any other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- i) the financial statements give a true and fair view of the state of affairs of the London Metropolitan University and the group as at 31 July 2006, and of the deficit of income over expenditure, of the group for the year then ended;
the statements have been properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice - Accounting for Further and Higher Education;
and the information given in the Report of the Governors is consistent with the financial statements.
- ii) in all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received.
- iii) in all material respects, funds have been applied in accordance with the financial memorandum dated December 2003 and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England.



GRANT THORNTON UK LLP

REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Gatwick
20 December 2006

Consolidated Income & Expenditure Account for the year ended 31 July 2006

	Notes	2005/06 £'000	Restated 2004/05 £'000
Income			
Funding council grants	1	82,555	82,773
Tuition fees and education contracts	2	47,111	45,836
Research grants and contracts	3	4,964	3,446
Other income	4	15,467	14,467
Endowment income and interest receivable	5	1,145	980
Total income		151,242	147,502
Expenditure			
Staff costs	6	99,216	93,478
Other operating expenses	8	51,732	44,117
Depreciation	10	7,249	6,288
Interest payable and similar charges	9	1,998	2,541
Total expenditure		160,195	146,424
(Deficit)/surplus for the year on continuing operations after depreciation of assets at valuation, disposal of assets and tax		(8,953)	1,078
(Deficit) sustained for the year/surplus retained within general reserves	20	(8,953)	1,078
Consolidated Statement of historical cost (deficit)/surplus for the year			
(Deficit)/surplus for the year on continuing operations before and after tax		(8,953)	1,078
Difference between historical cost depreciation charge and the actual charge calculated on valuation of assets.	20	104	104
Historical cost (deficit)/surplus before and after tax		(8,849)	1,182
All income and expenditure amounts are attributable to continuing activities			

Consolidated Balance Sheet

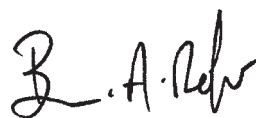
as at 31 July 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed Assets			
Tangible assets	10	127,797	113,324
Investments	12	64	64
		<u>127,861</u>	<u>113,388</u>
Endowment Asset Investments	13	<u>1,119</u>	<u>1,218</u>
Current Assets			
Stock	14	71	83
Debtors	15	12,780	12,656
Short term deposits		6,500	23,004
Cash at bank and in hand		1,400	1,523
		<u>20,751</u>	<u>37,266</u>
Creditors			
Amounts falling due within one year	16	(34,272)	(28,580)
Net Current (Liabilities)/Assets		<u>(13,521)</u>	<u>8,686</u>
Total Assets less Current Liabilities		115,459	123,292
Creditors			
Amounts falling due after more than one year	17	(35,515)	(49,554)
Provisions for Liabilities	18	(2,497)	(2,333)
Total Net Assets Excluding Pension Deficit		<u>77,447</u>	<u>71,405</u>
Pension deficit	22	(53,762)	(50,270)
Total Net Assets Including Pension Deficit		<u>23,685</u>	<u>21,135</u>
Represented by:			
Deferred Capital Grants	19	<u>43,115</u>	<u>36,565</u>
Endowments	13	<u>1,119</u>	<u>1,218</u>
Reserves			
Revaluation	20	3,906	(2,908)
General reserve	20	(24,455)	(13,740)
		<u>(20,549)</u>	<u>(16,648)</u>
Total Funds		<u>23,685</u>	<u>21,135</u>

The financial statements on pages 14 to 45 were approved by the Board of Governors of London Metropolitan University on 13 December 2006 and were signed on its behalf by:



Sir John Carter
Chair



BA Roper
Vice Chancellor and Chief Executive

University Balance Sheet

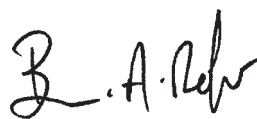
as at 31 July 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed Assets			
Tangible assets	11	124,636	106,103
Investments	12	616	1,821
		<u>125,252</u>	<u>107,924</u>
Endowment Asset Investments	13	<u>1,119</u>	<u>1,218</u>
Current Assets			
Stock	14	46	61
Debtors	15	11,930	13,990
Short term deposits		6,500	23,004
Cash at bank and in hand		1,123	418
		<u>19,599</u>	<u>37,473</u>
Creditors			
Amounts falling due within one year	16	(33,084)	(28,880)
Net Current (Liabilities)/Assets		<u>(13,485)</u>	<u>8,593</u>
Total Assets less Current Liabilities		112,886	117,735
Creditors			
Amounts falling due after more than one year	17	(35,515)	(49,554)
Provisions for Liabilities	18	(2,497)	(2,333)
Total Net Assets Excluding Pension Deficit		<u>74,874</u>	<u>65,848</u>
Pension deficit	22	(53,762)	(50,270)
Total Net Assets Including Pension Deficit		<u>21,112</u>	<u>15,578</u>
Represented by:			
Deferred Capital Grants	19	<u>41,338</u>	<u>31,805</u>
Endowments	13	<u>1,119</u>	<u>1,218</u>
Reserves			
Revaluation	21	3,906	(2,908)
General reserve	21	(25,251)	(14,537)
		<u>(21,345)</u>	<u>(17,445)</u>
Total Funds		<u>21,112</u>	<u>15,578</u>

The financial statements on pages 14 to 45 were approved by the Board of Governors of London Metropolitan University on 13 December 2006 and were signed on its behalf by:



Sir John Carter
Chair



BA Roper
Vice Chancellor and Chief Executive

Consolidated Cash Flow Statement

for the year ended 31 July 2006

		2005/06	Restated
	Notes	£'000	2004/05
			£'000
Net Cash Inflow from Operating Activities	25	428	9,557
Returns on investments and servicing of finance	26	1,175	(672)
Capital expenditure	27	(11,958)	(12,372)
		<u>(10,355)</u>	<u>(3,487)</u>
Cash Outflow before Use of Liquid Resources and Financing		(10,355)	(3,487)
Management of liquid resources	28	16,651	(14,074)
Financing	29	(6,063)	18,922
		<u>233</u>	<u>1,361</u>
Increase in Cash in the year		233	1,361
Reconciliation of Net Cash Flow to Movement in Net Debt			
Increase in cash in the year		233	1,361
Cash (outflow)/inflow from liquid resources	28	(16,651)	14,074
Net cash outflows from repayment of loans/(inflows) from new loans	29	12,815	(18,816)
Capital repayments of finance leases	29	166	129
Change in net funds resulting from cash flows	30	(3,437)	(3,252)
Net debt brought forward from previous year	30	(26,916)	(23,664)
		<u>(30,353)</u>	<u>(26,916)</u>
Net Debt at 31 July	30	(30,353)	(26,916)

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 July 2006

	<i>Notes</i>	2005/06 £'000	Restated 2004/05 £'000
(Deficit)/surplus for the year	20	(8,953)	1,078
Revaluation of endowment asset investments	13	116	177
Net (disposals)/additions to endowment asset investments	13	(215)	80
HEFCE reimbursement of principal element of inherited loan liabilities	20	6,918	235
Actuarial loss recognised in the pension fund	22	<u>(1,866)</u>	<u>(10,061)</u>
Total recognised losses relating to the financial year		(4,000)	(8,491)
Prior year adjustment - FRS 17 pension liability	20		(38,337)
Prior year adjustment - enhanced pension provision	20		491
Total losses recognised since last published financial statements			<u>(46,337)</u>
Reconciliation:			
Opening reserves and endowments as previously stated	20	(15,430)	30,907
Prior year adjustment - FRS 17 pension liability	20	-	(38,337)
Prior year adjustment - enhanced pension provision	20	-	491
Total recognised gains and losses for the year		(4,000)	(8,491)
Closing reserves and endowments	20	<u>(19,430)</u>	<u>(15,430)</u>

Principal Accounting Policies

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

(A) Basis of Preparation

Modified historical cost basis

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of endowment assets in accordance with the Companies Act 1985 as adapted to the Statement of Recommended Practice (SORP) for Further and Higher Education, and in accordance with applicable UK accounting standards.

Adoption of FRS 17 'Retirement Benefits'

The adoption of FRS 17 has resulted in a change of accounting policy in respect of the group's defined benefit pension scheme. The effect of this is to recognise in the balance sheet the pension deficit or surplus relating to the scheme. The prior year's profit and loss account and balance sheet have been restated accordingly. Full details are set out in note 22 to the financial statements.

FRS 17 has been adopted in full for the London Pension Fund Authority ("LPFA") scheme for the year ended 31 July 2006 and comparative periods have been restated accordingly.

The University also participates in The Teachers Pension Scheme ("TPS") and the Universities Superannuation Scheme ("USS"). Both are defined benefit schemes. The University is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to these schemes in respect of the relevant accounting period.

(B) Consolidation of Accounts

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

Intra-group turnover and profits are eliminated fully upon consolidation.

Under the exemption in S230 of the Companies Act 1985, the University is not required to present its own Income and Expenditure account. The University deficit for the year ended 31 July 2006 is £8,952k (2005: £986k restated surplus).

(C) Income Recognition

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

Non recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and are amortised in line with depreciation over the life of the assets, the grant being released to the income and expenditure account over the expected useful life of the related asset. Fee income is credited to the income and expenditure account using a time-apportionment method over the period of the course. It is stated gross of scholarships, fee waivers and provisions for doubtful debts, all of which are included in other operating expenses.

(D) Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University potentially is exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied exclusively to charitable purposes. The University receives no similar exemption in respect of Value Added Tax. Unrecoverable VAT is included within the appropriate expenditure heading.

The University's subsidiary undertakings are subject to corporation tax and VAT in the same way as any commercial organisation.

(E) Tangible Fixed Assets

Introduction

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

(i) Land and Buildings

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

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

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

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

Principal Accounting Policies

The freehold property at Central House is included in the balance sheet at valuation on 17 August 1996 less accumulated depreciation.

(ii) Assets held under finance leases

Leasing agreements that transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. Such assets are included in fixed assets and are depreciated over the shorter of the lease term or their useful economic life.

The capital elements of the leasing commitments are shown in creditors as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the capital element outstanding.

(iii) Assets held under operating leases

The annual rentals arising from operating leases are charged to operating profit over the lease term.

(iv) Heritage Assets

A heritage asset is an asset with historic or artistic qualities that is held and maintained principally for its contribution to knowledge and culture.

The University has a number of these assets in the form of books, pamphlets, periodicals and visual materials. These assets have no value attributed to them in the financial statements.

(v) Equipment

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

The costs associated with the development and implementation of major software systems are capitalised and depreciated over a period of 5 years.

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

Boiler System
25 years

Alterations and Building improvements
Over 20 years or their remaining expected economic useful life, if lower.

Computers and other equipment
Over 3, 5 or 10 years

(F) Stock

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

(G) Pension Scheme Arrangements

The principal pension schemes for the University's staff are the TPS and the USS for academic staff, and the LPFA for non-academic staff.

The schemes are statutory, contributory, final salary schemes and are contracted out of the State Earnings-Related Pension Scheme. The LPFA scheme and the funds of the USS are valued every 3 years. The funds of the TPS are valued every 5 years.

The funds are valued by actuaries using the aggregate method, the rates of contribution being determined on the advice of the actuaries. Pension costs are assessed on the latest actuarial valuations of the schemes and are accounted for on the basis of FRS17, except for the USS and the TPS for which contributions are charged directly to the income and expenditure account as if the schemes were defined contribution schemes.

Variations from regular cost are spread over the expected average remaining working lifetime of members of the scheme after making allowance for future withdrawals, with the exception of the LPFA where, on the advice of the actuary the variation is spread over 20 years.

(H) Investments

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

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

(I) Cash Flows and Liquid Resources

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

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

(J) Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Principal Accounting Policies

(K) Bad Debts Provision

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

(L) Foreign Currencies

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

Notes to the Financial Statements

	2005/06 £'000	2004/05 £'000
1. Funding Council Grants		
Higher Education Funding Council for England		
Recurrent grant	65,885	65,528
Inherited property costs	3,831	4,103
Inherited pension liabilities	1,144	1,038
Reimbursement of debt charges	1,978	611
Restructuring grant	152	1,852
Other	2,818	2,916
Other Funding Bodies		
Learning and Skills Council grant	1,867	2,424
Training and Development Agency grant	1,892	2,428
Deferred Capital Grants Released	2,988	1,873
	<u>82,555</u>	<u>82,773</u>
2. Tuition Fees and Education Contracts		
Full-time students		
Home / EU students	16,852	16,033
Overseas students	19,959	19,345
Part-time students	10,300	10,458
	<u>47,111</u>	<u>45,836</u>
3. Research Grants and Contracts		
Research councils	941	947
UK based charities	331	263
European Commission	1,416	862
Other grants and contracts	2,276	1,374
	<u>4,964</u>	<u>3,446</u>

Notes to the Financial Statements

	2005/06 £'000	Restated 2004/05 £'000
4. Other Income		
Other grants and contracts	242	326
Corporation of London grants	1,043	1,043
Consultancy	1,313	1,292
Trading project income	5,953	5,233
Sale of materials and other departmental income	1,235	1,097
Rental income and hire of facilities	194	372
Residence & catering income	3,485	3,497
Deferred capital grants released - non HEFCE	339	171
Miscellaneous income	1,663	1,436
	<u>15,467</u>	<u>14,467</u>

5. Endowment Income and Interest Receivable

Income from specific endowment asset investments	22	13
Income from general endowment asset investments	9	11
Interest receivable	1,114	956
	<u>1,145</u>	<u>980</u>

6. Staff Costs

Costs:		
Academic staff	54,112	50,665
Other staff	<u>45,104</u>	<u>42,813</u>
	<u>99,216</u>	<u>93,478</u>
Costs Comprise :		
Wages and salaries	81,145	77,790
Social Security costs	6,844	6,366
Other pension costs	<u>11,227</u>	<u>9,322</u>
	<u>99,216</u>	<u>93,478</u>

The average number of full time equivalent (FTE) employees (including senior post-holders) during the year was as follows:

	2005/06 FTE	2004/05 FTE
Academic staff	1,115	1,146
Other staff	<u>1,309</u>	<u>1,334</u>
	<u>2,424</u>	<u>2,480</u>

Notes to the Financial Statements

7. Remuneration of Directors and Higher-Paid Employees

A. Directors

The University's governors (directors) do not receive remuneration from the University in their capacity as governors or directors. During the year 7 governors (2004/05: 7) were remunerated in their capacity as employees of the University. The figures below therefore relate entirely to staff governors and to sums received by them in their capacity as employees of the University.

	2005/06 £'000	2004/05 £'000
Directors' Emoluments		
Salaries	471	417
Benefits in kind	-	1
Pension contributions	62	47
	<u>533</u>	<u>465</u>
Highest Paid Directors		
The Vice Chancellor and Chief Executive		
Salaries	219	213
Benefits in kind	-	1
Pension contributions	30	29
	<u>249</u>	<u>243</u>
The Vice Chancellor (to 31 March 2004)		
Salaries	-	-
Benefits in kind	-	-
Pension contributions	-	7
	<u>-</u>	<u>7</u>

The Vice Chancellor retired from office on 31 March 2004 and this role was combined with that of the Chief Executive from 1 April 2004. The pension contributions for the Vice Chancellor are inclusive of pension fund adjustments on early retirement.

The pension contributions in respect of the Vice Chancellor and Chief Executive are in respect of employer's contributions to the TPS and are paid at the same rate as for other employees.

B. Higher Paid Employees

Certain employees (including some staff governors shown in the table above) received remuneration (excluding pension contributions) in excess of £70,000 during the year.

These are grouped as follows:

	2005/06 No.	2004/05 No.
£70,000 to £80,000	8	8
£80,001 to £90,000	9	9
£90,001 to £100,000	2	1
£100,001 to £110,000	3	3
£110,001 to £120,000	-	2
£120,001 to £130,000	2	-
£210,001 to £220,000	1	1

Notes to the Financial Statements

	2005/06 £'000	Restated 2004/05 £'000
8. Other Operating Expenses		
Residences	2,955	2,747
Consumables & laboratories	1,734	1,635
Books & periodicals	1,760	1,819
Student travel & awards	1,310	1,347
Energy & water	1,658	1,735
Repairs & maintenance	4,889	3,190
Operating leases - property	4,374	4,655
Operating leases - equipment	243	266
External auditors' remuneration (audit)	84	59
Internal auditors' remuneration (audit)	125	141
External auditors' remuneration (other)	3	-
Internal auditors' remuneration (other)	-	1
Other audit fees	25	112
Staff related costs	6,536	6,771
Restructuring costs	3,716	-
Postage and telecommunications	1,280	1,238
IT maintenance	1,326	1,372
Design and production of software	434	-
Publicity	1,766	1,906
Facilities cost	2,557	2,729
Consultancy and subscriptions	3,613	3,331
Franchise costs	1,320	1,080
Enhanced pension liabilities	1,056	1,075
Merger related costs	-	467
Print costs	2,720	2,938
Rates	381	473
Examination and degree expenses	866	509
Insurance	731	641
Loan early redemption premium	1,862	-
Other expenses	2,525	1,880
Profit on sale of fixed asset	(117)	-
	<u>51,732</u>	<u>44,117</u>

The profit on sale of fixed asset relates to the sale of a freehold residential property.

9. Interest Payable and Similar Charges

Finance lease	542	538
Pension finance interest	930	960
Unwinding of discount in respect of the enhanced pension provision	54	120
Interest payable on bank loans, overdrafts and other loans, repayable wholly or partly in more than 5 years	472	923
	<u>1,998</u>	<u>2,541</u>

Notes to the Financial Statements

10. Tangible Fixed Assets (Group)

Cost/Valuation	Freehold Property		Alterations & Improvements £'000	Short Leasehold Property		Long Leasehold Property		Equipment owned £'000	Total £'000
	Academic £'000	Residential £'000		Academic £'000	Residential £'000	Academic £'000	Residential £'000		
At 1 August 2005	76,400	7,570	13,248	7,339	350	1,175	41,655	163,429	
Additions	-	-	2,488	-	-	-	5,468	21,784	
Disposals	-	(80)	-	-	(350)	-	-	(430)	
Transfers	-	-	2,689	-	-	-	-	-	
At 31 July 2006	76,400	7,490	18,425	7,339	-	1,175	47,123	184,783	
Depreciation									
At 1 August 2005	10,581	1,055	2,575	2,685	350	127	32,732	50,105	
Charge for year	1,509	95	926	280	-	20	4,419	7,249	
Eliminated on disposal	-	(18)	-	-	(350)	-	-	(368)	
At 31 July 2006	12,090	1,132	3,501	2,965	-	147	37,151	56,986	
Net Book Value at 31 July 2006	64,310	6,358	14,924	4,374	-	1,028	9,972	127,797	
Net Book Value at 31 July 2005	65,819	6,515	10,673	4,654	-	1,048	8,923	113,324	
Cost of land included in above	7,832	3,816	-	1,174	-	-	-	13,257	
Alterations and Improvements									
The alterations and improvements total can be allocated to the various categories of fixed assets as follows:									
Net Book Value at 31 July 2006	5,855	46	-	9,024	-	-	-	14,925	

Land and buildings are included in the accounts at either historical or revalued cost which reflects the policies adopted by the pre-merged institutions of the University of North London and the London Guildhall University following the introduction of FRS 15.

The Learning Centre

The amounts shown under 'Short Leasehold Property Academic' relate to a property known as 'The Learning Centre' against which a finance lease was signed on 29 September 1995. The building is leased to the University for 25 years with options to buy at a fixed price after 20 or 25 years. The lease has been accounted for in accordance with the procedure prescribed in SSAP 21.

The Women's Library

The Women's Library, formerly the Fawcett Library, is widely acknowledged to be the UK's most extensive library on all aspects of women in society, and has an international reputation as a research resource. It was established in 1926 and moved to London Guildhall University in 1977. It contains over 60,000 books and pamphlets dating from 1600, and includes three main collections: The Cavendish Bentick Collection, The Sadd Brown Library, and the Josephine Butler Society Library. In addition it has over 2,500 periodical titles, over 300 archival collections, a large visual materials collection and many other resources. These collections are not included in the assets of London Metropolitan University.

Jewry Street

London Metropolitan University occupies premises in Jewry Street, which are not included in the statement above. The building is occupied rent free under a right of use from Sir John Cass's Foundation by virtue of a Charity Commission Scheme dated 24 April 1970, under section 18 of the Charities Act 1960. The University also has the obligation to repair and maintain the building. The existing use value as at 28 February 2003 was estimated at £9.9m.

Assets under construction

The major asset in 'Assets Under Construction' is the Science Centre: £25,673k. This building was completed in September 2006 and formally opened in November 2006.

Notes to the Financial Statements

11. Tangible Fixed Assets (University)

Cost / Valuation	Freehold Property		Under Construction		Alterations & Improvements £'000	Short Leasehold Property		Equipment owned £'000	Total £'000
	Academic £'000	Residential £'000	Construction £'000	Academic £'000		Residential £'000			
At 1 August 2005	68,687	7,570	15,692	7,339	12,951	350	40,672	153,261	
Additions	-	-	13,828	-	2,067	-	4,091	19,986	
Transfer in - New Benwell Road	7,713	-	-	-	-	-	-	7,713	
Disposals	-	(80)	-	-	-	(350)	-	(430)	
Transfers	-	-	(2,689)	-	2,689	-	-	-	
At 31 July 2006	76,400	7,490	26,831	7,339	17,707	-	44,763	180,530	
Depreciation									
At 1 August 2005	8,432	1,055	-	2,685	2,521	350	32,115	47,158	
Transfer in - New Benwell Road	2,149	-	-	-	-	-	-	2,149	
Charge for year	1,509	95	-	280	889	-	4,182	6,955	
Eliminated on disposal	-	(18)	-	-	-	(350)	-	(368)	
At 31 July 2006	12,090	1,132	-	2,965	3,410	-	36,297	55,894	
Net Book Value at 31 July 2006	64,310	6,358	26,831	4,374	14,297	-	8,466	124,636	
Net Book Value at 31 July 2005	60,255	6,515	15,692	4,654	10,430	-	8,557	106,103	
Cost of land included in above	7,832	3,816	435	1,174	-	-	-	13,257	
Alterations and Improvements									
The alterations and improvements total can be allocated to the various categories of fixed assets as follows:									
Net Book Value at 31 July 2006	5,227	46	-	9,024	-	-	-	14,297	

Notes to the Financial Statements

12. Investments

	1 August 2005 £'000	Transfer £'000	Impairment in value £'000	31 July 2006 £'000
Group				
CVCP Properties plc	64	-	-	64
	64	-	-	64
University				
CVCP Properties plc	64	-	-	64
London Metropolitan University Enterprises Ltd	350	-	(141)	209
London Metropolitan University Student Centre Ltd	1,047	(1,047)	-	-
Shoreditch Consortium Ltd	-	-	-	-
University of North London Ltd	-	-	-	-
Metropolitan New Media Limited (MNM)	360	-	(17)	343
	1,821	(1,047)	(158)	616

CVCP Properties plc

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

Subsidiary Undertakings

All of the subsidiary undertakings are registered and incorporated in England and are wholly owned by the University.

London Metropolitan University Enterprises Ltd

The principal business activities of London Metropolitan University Enterprises Ltd are the provision of research, short courses, and consultancy services; the operation of a print centre, production of microwave equipment and the provision of bespoke computer courses. The deficit for this subsidiary in 2005/06 is £141k (2004/05: £nil) and the net assets at 31 July 2006 are £209k (2005: £350k).

London Metropolitan University Student Centre Ltd

On the 14 July 2004 the Board of Directors passed a resolution to wind up the company on 31 July 2004. On 1 August 2004 responsibility for administration of the activities of the company transferred to the London Metropolitan University. The net assets were transferred to the University and the company is now dormant.

Metropolitan New Media Ltd

The principal business activity of Metropolitan New Media Ltd (MNM) was the provision of training courses in multimedia and information technology. Its activities were transferred to London Metropolitan University Enterprises Ltd with effect from 1 May 2003. The only remaining activity is the payment of rent on our Shoreditch building pending the transfer of the lease to the University. The deficit for this subsidiary in 2005/06 is £17k (2004/05: £10k) and the net assets at 31 July 2006 are £343k (2005: £360k).

University of North London Ltd

The building known as New Benwell Road was transferred to London Metropolitan University on 8 September 2005. The company is now dormant.

Shoreditch Consortium Ltd

The principal business activity of Shoreditch Consortium Ltd is to undertake work commissioned by the BBC for its Digital Curriculum service. The surplus for this subsidiary in 2005/06 is £nil (2004/05: £nil) and the net assets at 31 July 2006 are £2k (2005: £2k).

Notes to the Financial Statements

	2005/06 £'000	2004/05 £'000
13. Endowments		
University and Group		
Endowment Assets		
Balance at 1 August	1,218	961
Transfer in: Design Trust	70	-
Disposal: Sinking Fund	(155)	-
Capital appreciation of endowment asset investments	116	177
Revenue appreciation of endowment asset investments	16	11
Increase/(decrease) in cash balances	(109)	69
(Decrease) in debtor balances	(38)	-
(Decrease) in creditor balances	1	-
Balance at 31 July	<u>1,119</u>	<u>1,218</u>
Represented by:		
Investment in Design Trust	71	-
Fixed interest stocks	125	130
Unit Trusts	28	24
Cash and short term investments	26	173
Shares in Managed Growth Fund	869	891
Total	<u>1,119</u>	<u>1,218</u>

	2006 £'000	2006 £'000	2006 £'000	2005 £'000	2005 £'000	2005 £'000
	Specific	General	Total	Specific	General	Total
University and Group						
Endowment Reserves						
Balance at 1 August	1,026	192	1,218	790	171	961
Additions	82	25	107	74	-	74
Disposals: Sinking Fund	(337)	-	(337)	-	-	-
Appreciation of endowment asset investments	112	4	116	163	14	177
Income for year	22	9	31	16	8	24
Expenditure for year	(6)	(10)	(16)	(17)	(1)	(18)
Balance at 31 July	<u>899</u>	<u>220</u>	<u>1,119</u>	<u>1,026</u>	<u>192</u>	<u>1,218</u>
Representing:						
Special Trust Funds	828	-	828	730	-	730
Sinking Fund	-	-	-	296	-	296
Design Trust	71	-	71	-	-	-
Other Funds	-	220	220	-	192	192
	<u>899</u>	<u>220</u>	<u>1,119</u>	<u>1,026</u>	<u>192</u>	<u>1,218</u>
The Special Trust Funds as at 31 July included:						
The Women's Library Trust Fund	410	-	410	354	-	354
The Wood Brothers Prize Fund	27	-	27	23	-	23
The Sadd Brown Library Trust Fund	29	-	29	25	-	25
The Women's History Fellowship Trust Fund	110	-	110	96	-	96
The Kaufman Awards Fund	10	-	10	9	-	9
The Teaching Studies Fund	49	-	49	47	-	47
The Lord Limerick Memorial Bursary Fund	98	-	98	93	-	93
The Maggie Sanderson Memorial Fund	11	-	11	10	-	10
Other	84	-	84	73	-	73
	<u>828</u>	<u>-</u>	<u>828</u>	<u>730</u>	<u>-</u>	<u>730</u>

The net assets of the Design Trust, charity registered number 1041444 were transferred to the University on 1 December 2005.

Conditions relating to the disposal of the Sinking Fund were fulfilled during the financial year, and with HEFCE's consent the fund was released to income.

Notes to the Financial Statements

	31 July 2006 £'000	31 July 2005 £'000
14. Stocks		
Group		
Work in Progress	5	5
Goods purchased for resale	<u>66</u>	<u>78</u>
	<u>71</u>	<u>83</u>
University		
Goods purchased for resale	<u>46</u>	<u>61</u>
	<u>46</u>	<u>61</u>
15. Debtors		
Group		
Amounts falling due within one year:		
Trade debtors	6,637	6,028
Due from HEFCE	973	1,516
Loans to staff and students	135	246
Other debtors	487	35
Prepayments and accrued income	<u>4,548</u>	<u>4,831</u>
	<u>12,780</u>	<u>12,656</u>
University		
Amounts falling due within one year:		
Trade debtors	5,695	5,596
Due from HEFCE	973	1,516
Loans to staff and students	135	246
Owed by subsidiaries	492	1,884
Other debtors	338	1
Prepayments and accrued income	<u>4,297</u>	<u>4,747</u>
	<u>11,930</u>	<u>13,990</u>

Notes to the Financial Statements

	31 July 2006 £'000	Restated 31 July 2005 £'000
16. Creditors - amounts falling due within one year		
Group		
Trade creditors	9,345	10,134
Deferred HEFCE grants and amounts owed to HEFCE	6,033	5,464
Taxation and pension contributions	3,928	2,950
Bank overdrafts (unsecured)	-	356
Bank mortgage and HEFCE loans	2,559	1,540
Finance lease	205	166
Accruals	5,481	3,282
Deferred income	6,611	4,531
Other	110	157
	<u>34,272</u>	<u>28,580</u>
University		
Trade creditors	8,606	9,656
Deferred HEFCE grants and amounts owed to HEFCE	6,033	5,464
Taxation and pension contributions	3,928	2,950
Bank overdrafts (unsecured)	-	356
Bank mortgage and HEFCE loans	2,559	1,540
Owed to subsidiaries	111	1,160
Finance lease	205	166
Accruals	5,420	3,227
Deferred income	6,193	4,232
Other	29	129
	<u>33,084</u>	<u>28,880</u>

Notes to the Financial Statements

	31 July 2006 £'000	31 July 2005 £'000
17. Creditors - amounts falling due after more than one year		
University and Group		
Inherited loan liabilities (unsecured)		
Principal payable within two to five years	-	1,186
Principal payable after five years	-	<u>5,482</u>
	-	<u>6,668</u>
Bank mortgages (secured)		
Principal payable within two to five years	1,832	2,655
Principal payable after five years	<u>1,179</u>	<u>1,387</u>
	<u>3,011</u>	<u>4,042</u>
HEFCE loans (interest free, unsecured)		
Principal payable within two to five years	6,196	6,196
Principal payable after five years	698	<u>2,247</u>
	<u>6,894</u>	<u>8,443</u>
Finance lease obligations (secured)		
Principal payable within two to five years	1,296	1,096
Principal payable after five years	<u>5,541</u>	<u>5,946</u>
	<u>6,837</u>	<u>7,042</u>
Deferred HEFCE revenue grant		
To be released within two to five years	15,324	15,324
To be released after five years	<u>2,490</u>	<u>6,320</u>
	<u>17,814</u>	<u>21,644</u>
HEFCE holdback		
Payable within two to five years	-	<u>1,252</u>
	-	<u>1,252</u>
LPFA employers pension contribution		
Payable within two to five years	<u>959</u>	<u>463</u>
	<u>959</u>	<u>463</u>
Total	<u>35,515</u>	<u>49,554</u>

The unsecured inherited loan liability due to the London Borough of Kensington & Chelsea was redeemed during the year with funds provided by HEFCE.

Bank mortgages include (a) mortgages repayable in quarterly instalments until September 2008 and September 2016 at fixed rates of interest of 6.6% and 6.7% respectively (b) Euro denominated mortgages repayable in quarterly instalments until October 2017 at 1.25% and 1.5% over EURIBOR, currently 3.34% and 3.59% respectively. Mortgages detailed in (a) and (b) are secured on the University's Holloway Road site and Stapleton House.

The HEFCE loans consist of (a) a loan for the construction of the Law Building drawn down in 2002/03 and repayable in annual equal instalments over a period of 10 years until June 2013 and (b) a loan for the construction of the Science Centre drawn down in 2004/05 and repayable in annual equal instalments over a period of 5 years until April 2011.

The HEFCE deferred revenue grant relates to the lump sums received in March 2004 and March 2005 to compensate the University for the cancellation of HEFCE's obligation to reimburse the University for the revenue costs associated with certain liabilities inherited on incorporation. These deferred revenue grants are being released over a period of 7.4 years.

Notes to the Financial Statements

	2006 £'000	Restated 2005 £'000
18. Provisions for Liabilities and Charges (University and Group)		
Enhanced Pensions		
At 1 August	2,148	2,178
Increase	262	-
Unwinding of discount	54	120
Provision utilised in year	(152)	(150)
At 31 July	<u>2,312</u>	<u>2,148</u>
Building Contracts		
At 1 August	185	421
Provision utilised in the year	-	(236)
At 31 July	<u>185</u>	<u>185</u>
Total		
At 1 August	2,333	2,599
Increase	262	-
Unwinding of discount	54	120
Provision utilised in year	(152)	(386)
At 31 July	<u>2,497</u>	<u>2,333</u>

The pension provision is in respect of pension enhancements payable to staff who took early retirement pre 1994. Payments will be made over the lives of the pensioners concerned.

The building contracts provision is in respect of work carried out on the University's estate for which no final claim has been agreed with the contractor. A settlement was agreed on one of the contracts during the year and negotiations continue in regard to the remaining contract.

Notes to the Financial Statements

	2006 £'000	Restated 2005 £'000
19. Deferred Capital Grants		
HEFCE		
At 1 August		
Buildings	28,191	23,288
Equipment	<u>1,011</u>	<u>1,171</u>
	<u>29,202</u>	<u>24,459</u>
Cash Received		
Buildings	8,241	5,947
Equipment	613	177
Accrued income	-	492
	<u>8,854</u>	<u>6,616</u>
Released to Income & Expenditure Account		
Buildings	(2,564)	(1,536)
Equipment	<u>(424)</u>	<u>(337)</u>
	<u>(2,988)</u>	<u>(1,873)</u>
At 31 July		
Buildings	33,868	28,191
Equipment	<u>1,200</u>	<u>1,011</u>
	<u>35,068</u>	<u>29,202</u>

Notes to the Financial Statements

	2006 £'000	Restated 2005 £'000
19. Deferred Capital Grants (Continued)		
Other		
At 1 August		
Buildings	6,441	6,612
Equipment	922	-
	<u>7,363</u>	<u>6,612</u>
Cash Received		
Buildings	382	-
Equipment	641	922
	<u>1,023</u>	<u>922</u>
Released to Income & Expenditure Account		
Buildings	<u>(339)</u>	<u>(171)</u>
	<u>(339)</u>	<u>(171)</u>
At 31 July		
Buildings	6,484	6,441
Equipment	1,563	922
	<u>8,047</u>	<u>7,363</u>
Group total at 31 July		
Buildings	40,352	34,632
Equipment	2,763	1,933
	<u>43,115</u>	<u>36,565</u>
University total at 31 July		
Buildings	40,138	30,794
Equipment	1,200	1,011
	<u>41,338</u>	<u>31,805</u>

The group total includes deferred capital grants awarded to London Metropolitan University Enterprises Limited.

Notes to the Financial Statements

	2006 £'000	Restated 2005 £'000
20. Movement on Consolidated Reserves		
Revaluation Reserve		
At 1 August	(2,908)	(3,039)
Reimbursement of principal on inherited loan	6,918	235
Transfer to general reserve - depreciation	(104)	(104)
At 31 July	<u>3,906</u>	<u>(2,908)</u>
General Reserve		
At 1 August	(13,740)	32,985
Prior year adjustment - FRS 17 pension liability	-	(38,337)
Prior year adjustment - enhanced pension provision	-	491
Restated balance at the beginning of the year	<u>(13,740)</u>	<u>(4,861)</u>
Transfer from revaluation reserve - depreciation	104	104
(Deficit)/surplus for the year	(8,953)	1,078
Actuarial loss on pension fund	(1,866)	(10,061)
At 31 July	<u>(24,455)</u>	<u>(13,740)</u>
Endowments		
At 1 August	1,218	961
Net movement in endowments (note 13)	(99)	257
At 31 July	<u>1,119</u>	<u>1,218</u>
Total Reserves	<u>(19,430)</u>	<u>(15,430)</u>
Prior Year Adjustment		
The prior year adjustment relates to the implementation of FRS 17 'Retirement Benefits', the adoption of which resulted in the following movements:		
Increase in staff costs		(1,124)
Decrease in other operating expenses		212
Increase in pension finance interest		(960)
Actuarial loss on pension fund		(10,061)
Increase in total recognised gains and losses		<u>(11,933)</u>
Analysis of Prior Year Adjustment		
FRS 17 pension liability		
Adjustment to opening reserves as at 1 August 2003		(37,510)
Adjustment to income and expenditure for the year ended 31 July 2004		(3,536)
Adjustment to total recognised gain and losses for the year ended 31 July 2004		2,709
		<u>(38,337)</u>
Enhanced Pension Provision		
The University has made a prior year adjustment to reflect the elimination of LPFA members from the enhanced pension provision (see note 18) who are now included within the FRS 17 pension liability calculation.		

Notes to the Financial Statements

	2006 £'000	Restated 2005 £'000
21. Movement on University Reserves		
Revaluation Reserve		
At 1 August	(2,908)	(3,039)
Reimbursement of principal on inherited loan	6,918	235
Transfer to general reserve - depreciation	(104)	(104)
At 31 July	<u>3,906</u>	<u>(2,908)</u>
General Reserve		
At 1 August	(14,537)	32,280
Prior year adjustment - FRS 17	-	(38,337)
Prior year adjustment - enhanced pension provision	-	491
Restated balance at the beginning of the year	<u>(14,537)</u>	<u>(5,566)</u>
Transfer from revaluation reserve - depreciation	104	104
(Deficit)/surplus for the year	(8,952)	986
Actuarial loss on pension fund	(1,866)	(10,061)
At 31 July	<u>(25,251)</u>	<u>(14,537)</u>
Endowments		
At 1 August	1,218	961
Net movement in endowments (note 13)	(99)	257
At 31 July	<u>1,119</u>	<u>1,218</u>
Total University Reserves	<u>(20,226)</u>	<u>(16,227)</u>

Notes to the Financial Statements

22. Pension Arrangements

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

A. THE LONDON PENSION FUND AUTHORITY

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

The University pays contributions to the Fund at rates determined by the Fund's actuaries, based on regular actuarial reviews of the financial position of the Fund.

The University's contribution to the Fund for 2005/06 was £4,312,192 (2004/05: £2,805,743).

In addition to the above, at 31 July 2006 the University accrued a sum of £959,223 (2005: £463,048) to reflect the difference between the actual contribution rate required from 1 April 2005 (19.6%) and the rate at which contributions were paid (14.3%). Agreement was reached with the Fund to phase contributions paid to the required rate of 19.6% over a 3 year period to 31 March 2008.

The pension cost, which includes the liability for pension increases, has been determined in accordance with the advice from the Fund's actuaries, Hymans Robertson, and is based on an actuarial valuation as at 31 March 2004 using the projected unit method. The rates certified at the actuarial valuation as at 31 March 2004 applied from the year 2005/06. The main financial assumptions in the 2004 actuarial valuation were:-

Rate of investment return	6.3% per annum
Rate of salary increases	4.4% per annum
Rate of pension increases	2.9% per annum

The actuarial valuation as at 31 March 2004 showed that the market value of the Fund's assets attributable to the University was estimated at approximately £72.39m and that the actuarial value of those assets represented 74% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases.

The valuation showed that, with effect from 1 April 2005, the required level of long term contributions to be paid by the University to the Fund was 26.8% of pensionable payroll. This contribution rate is calculated to be sufficient to cover the employer's liabilities. This comprises of a future service rate of 12.7% of pensionable payroll, together with an increase in the future service rate of 14.1% of pensionable payroll to take account of a deficit position as at the valuation date.

The future service rate of contribution is the rate that, in addition to contributions paid by members, is sufficient to meet the liabilities arising in respect of service after the valuation. The addition to the future service rate reflects the deficit of the value of the University's notional share of the Fund's assets below its accrued liabilities, allowing, in the case of members in service, for future pay increases. The shortfall is spread over the average future service working lifetime of employees.

The actual contribution rate certified for the University is less than the future service rate as it is based on the 20 year spread recommended by the actuaries to the Fund.

The market value of the Fund's assets at the date of the most recent formal actuarial valuation was £1,419m which represented 74% of the Fund's accrued liabilities, allowing for future pay increases.

The next actuarial valuation is due at 31 March 2007 and any change in certified contribution rates will take effect from 1 April 2008.

The actuaries undertook further calculations at 31 July 2004, 2005 and 2006 for the purpose of providing information required to be disclosed under the accounting standard on Retirement Benefits (FRS17) and these are detailed on pages 39 and 40.

Notes to the Financial Statements

22. Pension Arrangements (Continued)

LONDON PENSION FUND AUTHORITY - FRS 17 STATEMENTS

The University participates in a defined benefit scheme in the UK, operated by the London Pension Fund Authority. A full FRS 17 actuarial valuation was carried out at 31 July 2006 by a qualified independent actuary.

The major assumptions used by the actuary were as follows:

	2005/06	2004/05	2003/04
Rate of increase in salaries	4.6%	4.3%	4.4%
Rate of increase in pensions in payment	3.1%	2.8%	2.9%
Discount rate	5.1%	5.0%	5.8%
Inflation assumption	3.1%	2.8%	2.9%

Fund assets

The assets in the Fund and the expected rate of return were:

	Long term rate of return expected at 31 July 2006	Value at 31 July 2006 £'000	Long term rate of return expected at 31 July 2005	Value at 31 July 2005 £'000	Long term rate of return expected at 31 July 2004	Value at 31 July 2004 £'000
Equities	7.6%	1,225,500	7.3%	1,389,000	7.9%	1,092,600
Bonds	6.3%	386,500	4.7%	169,800	5.4%	159,300
Property	6.7%	238,800	5.4%	119,600	6.7%	105,100
Cash	4.8%	157,800	4.5%	82,400	4.5%	17,500
Total		<u>2,008,600</u>		<u>1,760,800</u>		<u>1,374,500</u>

Net pension liability

The following amounts at 31 July related to London Metropolitan University measured in accordance with the requirements of FRS 17:

	31 July 2006 £'000	31 July 2005 £'000
Assets allocated to employers	101,301	87,889
Present value of scheme liabilities	(152,120)	(135,225)
Present value of unfunded liabilities	(2,943)	(2,934)
Total value of liabilities	<u>(155,063)</u>	<u>(138,159)</u>
Net pension liability	<u>(53,762)</u>	<u>(50,270)</u>

Analysis of the amount charged to operating profit

	2005/06 £'000	2004/05 £'000
Current service cost	5,214	3,889
Past service costs	55	-
Impact of curtailment and settlement	460	36
Total operating charge	<u>5,729</u>	<u>3,925</u>

Notes to the Financial Statements

22. Pension Arrangements (Continued)

	2005/06 £'000	2004/05 £'000
Analysis of net return on pension fund		
Expected return on pension Fund assets	6,076	5,773
Interest on Fund liabilities	(7,006)	(6,733)
Net Return	<u>(930)</u>	<u>(960)</u>

Analysis of amount recognised in statement of total recognised gains and losses

Actuarial return less expected return on Fund assets	4,068	9,078
Experience losses arising on Fund liabilities	(28)	(2,436)
Changes in assumptions	(5,906)	(16,703)
Actuarial loss recognised in STRGL	<u>(1,866)</u>	<u>(10,061)</u>

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

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

At 1 August	(50,270)	(38,337)
Movements in year:		
- current service cost	(5,214)	(3,889)
- contributions	4,817	2,801
- contributions in respect of unfunded benefits	216	212
- past service costs	(55)	-
- impact of curtailment and settlements	(460)	(36)
- net return on assets	(930)	(960)
- actuarial losses	(1,866)	(10,061)
At 31 July	<u>(53,762)</u>	<u>(50,270)</u>

Experience gains and losses in the year

The experience gains and losses for the year were as follows:

	2005/06 £000	2004/05 £000	2003/04 £000	2002/03 £000	2001/02 £000
Difference between the expected and actual return on Fund assets	4,068	9,078	45	(4,810)	(17,060)
Value of assets	101,301	87,889	76,699	70,230	67,740
Percentage of Fund assets	4.0%	10.3%	0.1%	(6.8)%	(25.2)%
Experience gains and (losses) on Fund liabilities	(28)	(2,436)	384	1,100	(2,910)
Present value of liabilities	155,063	138,159	115,036	107,740	85,390
Percentage of the present value of Fund liabilities	(0.0)%	(1.8)%	0.3%	1.0%	(3.4)%
Total amount recognised in the statement of total recognised gains and losses	(1,866)	(10,061)	276	(16,410)	(11,190)
Present value of liabilities	155,063	138,159	115,036	107,740	85,390
Percentage of the present value of the Fund liabilities	(1.2)%	(7.3)%	0.2%	(15.2)%	(13.1)%

Notes to the Financial Statements

22. Pension Arrangements (Continued)

B. THE TEACHER'S PENSION SCHEME

The Teachers Pension Scheme (TPS) is a statutory, contributory, final salary scheme.

The TPS is administered by the Teachers Pensions Agency in accordance with the Teachers' Pensions Regulations 1997, as amended.

Contributions are paid by the University and charged to the Income and Expenditure account at a current rate of 13.5% of teachers salaries.

The University's contribution to the TPS for 2005/06 was £4,929,173 (2004/05: £4,741,365).

The Government Actuary (GA) performs a valuation of the scheme not less than every five years. The last valuation covered the period 1 April 1996 to 31 March 2001. The GA's report dated March 2003 revealed that the total liabilities of the fund (pensions currently in payment and the estimated cost of future benefits) amounted to £142,880 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £142,880 million.

The financial assumptions in the GA report were that prices would increase by 3.5% and salaries by 2%, and the rate of return on investments would be 7%, and the rate of real earnings growth 1.5%.

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

C. THE UNIVERSITIES SUPERANNUATION SCHEME (USS)

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

The assets of the fund are held in a separate trustee-administered fund. Under definitions set out in FRS 17, the USS is a multi employer pension scheme. The University is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly the University has accounted for its contributions to the scheme as if it was a defined contribution scheme. The cost recognised in the income and expenditure account is regarded as being equal to the contributions payable to the fund for the year.

The University's contribution to the USS for 2005/06 was £152,997 (2004/05 : £129,340) including outstanding contributions at the balance sheet date.

The contribution rate payable by the University was 14% of pensionable salaries.

The actuarial assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the fund was £19,938 million (including an estimated £18 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

Notes to the Financial Statements

	31 July 2006 £'000	Restated 31 July 2005 £'000
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23. Capital Commitments

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

Commitments contracted	4,112	13,653
Authorised but not contracted	18,040	18,676
	<u>22,152</u>	<u>32,329</u>

24. Commitments Under Operating Leases

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

Land and buildings:

Expiring within one year	390	-
Expiring between two and five years inclusive	34	424
Expiring in over five years	5,397	5,240

Other:

Expiring in over five years	326	331
	<u>6,147</u>	<u>5,995</u>

25. Reconciliation of Consolidated Operating (Deficit)/Surplus to Net Cash Inflow from Operating Activities

	2005/06 £'000	Restated 2004/05 £'000
(Deficit)/surplus on continuing operations	(8,953)	1,078
Depreciation	7,249	6,288
Deferred capital grants released to income	(3,327)	(2,044)
Interest payable	1,998	2,541
Decrease in stocks	12	18
Increase in debtors	(100)	(3,141)
Increase in creditors	4,924	4,271
Increase/(Decrease) in provisions	164	(266)
Interest receivable	(1,145)	(980)
Reimbursement of debt charges	(1,978)	(611)
Donations received	(8)	(3)
Adjustment to deferred capital grants	-	492
Adjustment to endowments	83	(13)
Difference between pension charge and cash contributions	1,626	1,872
Exchange rate loss	-	55
Profit on sale of fixed asset	(117)	-
	<u>428</u>	<u>9,557</u>

Notes to the Financial Statements

	2005/06 £'000	Restated 2004/05 £'000
26. Returns on Investments and Servicing of Finance		
Donations received	8	3
Interest paid	(1,932)	(2,266)
HEFCE reimbursement of interest payable	1,978	611
Income from endowments	31	24
Other interest received	1,090	956
Net cash inflow / (outflow)	<u>1,175</u>	<u>(672)</u>
27. Capital Expenditure		
Purchase of tangible fixed assets	(21,784)	(19,492)
Cash received on disposal of fixed assets	179	-
Deferred capital grants received	9,877	7,046
Endowments received	107	74
Endowments disposed	(337)	-
Net cash outflow	<u>(11,958)</u>	<u>(12,372)</u>
28. Management of Liquid Resources		
Decrease / (Increase) in short term deposits	16,504	(14,004)
Movement in endowment cash investments	147	(70)
Net cash inflow / (outflow)	<u>16,651</u>	<u>(14,074)</u>
29. Financing		
Debt due beyond one year:		
New long-term loans	-	21,791
Repayment of long term loans	(12,815)	(2,975)
Repayment of capital element of finance lease	(166)	(129)
HEFCE reimbursement of inherited debts	6,918	235
Net cash (outflow) / inflow	<u>(6,063)</u>	<u>18,922</u>

Notes to the Financial Statements

	As at 1 August 2005	Other Changes	Cashflows	As at 31 July 2006
30. Analysis of Changes in Net Debt				
Cash at bank and in hand	1,523	-	(123)	1,400
Bank overdraft	(356)	-	356	-
Endowment asset investments	173	-	(147)	26
	<u>1,340</u>	<u>-</u>	<u>86</u>	<u>1,426</u>
Short term deposits	23,004	-	(16,504)	6,500
Debt due within 1 year	(1,540)	(2,559)	1,540	(2,559)
Debt due after 1 year	(42,512)	2,559	11,275	(28,678)
Finance leases	(7,208)	-	166	(7,042)
	<u>(26,916)</u>	<u>-</u>	<u>(3,437)</u>	<u>(30,353)</u>

31. Access Funds

	2005/06 £'000	2004/05 £'000
Balance at 1 August	203	195
Funding Council grant	1,510	1,838
Interest	30	42
Disbursed to students and administration charge	(1,536)	(1,872)
Balance at 31 July	<u>207</u>	<u>203</u>

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

The grant from HEFCE is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account.

32. Teacher Training Bursary Funds

	2005/06 £'000	2004/05 £'000
Balance at 1 August	259	179
Funding Council grant	1,285	1,927
Disbursed to students and administration	(1,441)	(1,847)
Balance at 31 July	<u>103</u>	<u>259</u>

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

The grant from the TDA is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account.

Notes to the Financial Statements

33. Contingent Liabilities

University

The University is in negotiation with a contractor over a final claim for building works. The University's professional advisers have indicated that there are very good grounds to consider that any significant payments on items not provided for in these accounts is unlikely. The amount claimed not provided for is £ 361,308.

34. Related Party Transactions

The University maintains a Register of Interests of all Governors and also specified Senior Officers. Further, policies incorporated into the University's Financial Regulations require staff to declare an interest and withdraw from any commercial discussions should a conflict of interest potentially arise. There were no such declarations during the year.



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