Accounting Policies Guide

University of Oxford

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# Introduction

This guide summarises the accounting policies followed by the University of Oxford in the preparation of its consolidated annual financial statements.

The document is intended for use by Finance Division staff and will also appear on the Finance Division website to provide guidance and information for the broader finance community within the University.

## Accounting Guidance

The accounting policies contained within this guide follow the Statement of Recognised Practice for further and higher education (the HEFE SORP) which applies to all further and higher education institutions in the United Kingdom. The SORP itself adapts the accounting and reporting requirements set out in Financial Reporting Standard 102 (FRS102) to the extent that it is meaningful and appropriate for further and higher education institutions. The University must also comply with the financial memorandum between the Office for Students (OfS) and the University and the accounts direction issued by the OfS.

The guide does not replicate the text of FRS102 (or the International Accounting Standards (IASs) on which it is based) or the SORP, nor does it include full details of the University’s financial regulations and financial procedures.

## Basic of accounting

The FEHE SORP requires that:

* The University adopts accounting policies that are judged to be the most appropriate for giving a true and fair view and should keep such policies under review.
* The financial statements be prepared in accordance with applicable accounting standards.
* The financial statements be prepared using the historical cost convention as modified for the revaluation of certain assets and contain a positive statement that they are prepared in accordance with applicable accounting standards and the SORP. Any material departures therefrom must be explained clearly in the financial statements.
* The consolidated financial statements give a true and fair view of the financial position of the University at the date of the Balance Sheet and of the income and expenditure, gains and losses, reserves and cash flows for the period then ended, whether channelled through the University or through one or more associates or subsidiary undertakings.

## The consolidated University

The consolidated financial statements of the University include the accounts of the University and of its subsidiary undertakings and the University’s share of the profits and net assets of material associated undertakings over which it has a significant but not a dominant influence.

The consolidated financial statements also include the accounts of the Oxford University Press, which is a department of the University. Prior to 2017/18, the University’s Statutes, Decrees and Regulations did not permit the inclusion of the accounts of the Press in the financial statements of the University. Instead, the Delegates of the Press were responsible for preparing separate accounts relating to the Press.

The financial statements do not consolidate the accounts of Oxford University Students Union as it is a separate body in which the University has no financial interest and over the policy decisions of which it does not exercise direct control.

The financial statements do not consolidate the accounts of those colleges of the University that are separate and independent legal entities. The accounts of Kellogg College and St Cross College are included as they are part of the University itself.

## Materiality

This document contains several references to materiality e.g. on capitalisation of refurbishment costs. Rather than prescribe amounts or percentages, materiality will be determined by current practice/precedent. If no such guidance is available, input should be sought from the Group Financial Controller.

## Changing Accounting Policies

It may be appropriate to change the University’s accounting policies, for example due to changing legislation or to create a policy where guidance has not been provided in the past. For minor changes to an existing policy these should be submitted to the Deputy Director of Finance for approval. Major changes or a new policy should be submitted to Finance Committee for approval.

# Balance sheet accounting policies

## Intangible fixed assets

* + 1. Goodwill

Goodwill is based on the difference between the fair value of the consideration given for the undertaking acquired, and the fair value of its separable net assets at the date of acquisition.

Goodwill is amortised over its estimated useful life of between five and ten years on a straight-line basis, and a full year of amortisation is taken in the year of acquisition.

Goodwill is assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the I&E statement. The recoverable amount of goodwill is the present value of the future cash flows of the cash-generating units of which the goodwill is a part.

Negative goodwill relating to non-monetary assets is released to the I&E statement as those assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets is released to the I&E statement in the period in which the non-monetary assets are recovered.

* + 1. Other internally generated intangibles

No internally generated intangibles are capitalised, research and development costs are written off to the I&E statement as incurred.

## Tangible fixed assets

The Financial Accounting Standards and the HE SORP state that Tangible Fixed Assets should be initially measured at cost, including irrecoverable VAT, and depreciated on a straight-line basis. Only those costs that are directly attributable to bringing the asset into working condition for intended use should be included in its measurement.

* + 1. Criteria for capitalisation

The following costs can be capitalised:

* Acquisition costs including items such as stamp duty
* The cost of site preparation and clearance including restoring the site
* Initial delivery and handling costs
* Installation/building costs
* Professional fees such as project management, legal, architects and engineer costs.
* if the project costs are expected to be >£100k and are for a feasibility study which is for the development of a specific high priority project which is likely to proceed then costs should be capitalized if the project is included in the University’s capital plan. This is because the costs can be regarded as an element of the design. If the feasibility study is not for a specific project or is for a speculative low priority project then costs should not be capitalised. An example maybe a general review of a site to determine its possible usage in the future. If at a later stage the full project is approved and goes ahead the feasibility costs that have gone to revenue can be reanalysed and amended to capital if appropriate.
* Material refurbishment costs which extend a buildings life and enhance functionality e.g. new air conditioning. An assessment in these cases will be needed to see if the initial functionality which is being replaced has an asset value and needs writing off.

The following costs cannot be capitalised:

* Start up operational costs for a building e.g. initial electricity usage.
* Feasibility studies which are general terms and are not directly connected to the future design of buildings on the site (see below) and are not for a building which is in the University capital plan. If the feasibility is approved and the project is then added to the University’s capital plan then the costs can be transferred from revenue to capital.
* Demolition costs unless it is demolition costs which relate to a purchased building e.g. Radcliffe infirmary site where the costs can be capitalised as initial land clearance on a new site
* Asbestos removal
* Non value adding activities e.g. cleaning streets or windows
* Communication, training costs
* Masterplans as these are usually for a site and are not connected to the design of an individual building
* Repairs and maintenance

Specific application of these criteria to University of Oxford

* The general expectation is that projects managed by the UED Projects section and approved by the University Capital Steering Group will be capitalised. Otherwise projects should be dealt with through revenue processes, such as for UED and departmental repairs and maintenance projects.
* If refurbishment project costs are expected to be >£100k and lead to (a) additional space and/or (b) improved functionality, then project costs should be capitalised. Most internal refurbishments of this size are likely to lead to improved functionality.
* Assets should be grouped in determining capitalization criteria e.g. if 5 machines are purchased at the same time then they should be treated as £125k cost rather than split into individual elements.
* If a project is expected to be £90k so is initially decided not to be capitalised as is less than £100k but final cost is £120k then the accounting criteria should be changed and the building cost should be capitalised as the final cost is in excess of £100k.
  + 1. Capitalisation of IT Services projects
* The capitalisation limit for IT Services projects is £50k, anything under this is revenue.
* The cost of a hardware purchase e.g. an IBM box to be used to host Oracle should be capitalised
* The cost of a software purchase e.g. Oracle software or Student Systems should be capitalised. Licences to use software can be capitalised if there is an irrevocable right to use, these are classed as intangible assets. If the right to use say expires after 3 years then this will be a type of support & maintenance contract and should be expensed e.g. some PC Licences are like this. Licences should be listed separately as capitalised costs for these are treated differently in the financial accounts (there is a new expenditure category in the projects module)
* System development/design costs using external contractors/companies would normally be capitalisable. This is because without the system development the IT hardware or software cannot operate and provide the University benefit.
* Process improvements i.e. how do we make a system work better e.g. by changing the links between screens etc. would not usually add value to the functionality of the asset and should be expensed.
* The external costs of installing software, delivery costs, legal fees and installation costs relating to software and hardware are capitalisable.
* Capitalised labour is carried out if the overall project is adding new or enhanced functionality to the IT systems. Each project will be reviewed and a decision made on whether the project is capital or revenue. If the project is a capital project then the associated labour will be capital in nature for the main stages of the project e.g. project initiation, analysis, design, build implementation and testing. This would also include process design.
* Labour should be capitalised at the best estimate of actual labour cost for the period. An average day rate for BSP is used as an approximation of actual labour costs. This day rate should be compared to actual costs twice a year to check that they are approximately the same. If the day rate is out by more than 5% then the day rate should be changed and the capitalised labour in the period also adjusted.
* Software as a Service (SaaS) or Cloud applications cannot be capitalised as there is no University asset to attribute the costs to. Some costs may be capitalised if they relate to work at the University’s end of the process to ensure the cloud service is fit for our use. These capital costs could be report developing in our own system, infrastructure improvements to enable use of the SaaS, integration configuration to our own other systems or boosting our own hardware to ensure compatibility with the cloud service.
* Training and communication costs are always expensed
* If a project starts out as expected to be capital but the project is rejected at the decision point on whether to proceed then all the costs incurred should be written off to I&E. If there is doubt at feasibility stage or formal sign off has not been received for the full project these initial costs should be revenue, if at a later stage the project does get approved they can be capitalised if appropriate.
* The external costs of installing software, delivery costs, legal fees and installation costs relating to software and hardware are capitalisable.
* Ongoing project management, helpdesk, and other support are always expensed.
* First year support and maintenance in fact any support and maintenance is expensed
* Any policy documents for BAU, process reviews, data improvements/clean up are all revenue.
* Anything that can be considered as BAU would normally be revenue.
  + 1. Depreciation Lives & Capitalisation Values

Fixed assets are depreciated on a straight line basis over a period of time determined by the type of asset. Financial Accounting Guidance states that where the tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes over its individual useful economic life. The different depreciation periods are applied as follows:

* The fabric of a building is depreciated over 50 years.
* Services, fixtures and fittings are depreciated over 20 years. Examples of these components include:
  + Engineering services such as heating plant, lifts etc.
  + Internal fit out costs.
  + Fixtures and fittings.
* Project fees are spread in proportion to the split between services & fixture & fittings and the fabric of the building.
* Fixed equipment built into the building is depreciated over 10 years. Examples of these components include:
  + Kitchen equipment such as ovens
* Refurbishments are depreciated over 20 years.
* Temporary Buildings are depreciated over 20 years but can be less depending on the nature of the property e.g. Portakabins
* Leasehold refurbishments are depreciated over the remaining life of the lease or 20 years, whichever is the lower.
* Infrastructure, such as utilities and roadways, is depreciated over 20 years.
* Landscaping as a one off cost >£100k can be capitalized, this cannot be regular maintenance or because regular maintenance has not been done, it has to be a single exercise to improve the outside area of a building and depreciated over 10 years.
* Land is not depreciated.
* All equipment, vehicles, major systems, etc. are only capitalized if they have a value >£50k. (Until Aug-21 there will be a number of brought forward assets capitalised under the previous policy where a minimum value of £25k was used.)
* Research funded equipment is depreciated over 5 years or the remaining life of the research project, whichever is the shorter. (Until Aug-21 there will be a number of brought forward assets capitalised under the previous policy where a useful economic life of 3 years was used.) However if the project has less than 12 months remaining then we cannot capitalise the equipment as an asset must have a useful life in excess of one year. The cost will stay as an expense in year with no depreciation.
* All other equipment is depreciated over 5 years. (Until Aug-21 there will be a number of brought forward assets capitalised under the previous policy where a useful economic life of 3 years was used.)
* Major computer systems are depreciated over 5 years. (Until Aug-21 there will be a number of brought forward assets capitalised under the previous policy where a useful economic life of 3 years was used.)
* Specialised Equipment, such as technical microscopes, MRI’s, and Autoclaves can be depreciated between 5-10 years depending on the nature of the asset.
* Software Licences are depreciated over 5 years and are classified as intangible assets.
* Heritage Assets, donated and purchased, are not depreciated.

## Fixed asset investments

The University discloses non-current investments separately on its balance sheet in accordance with the FEHE SORP, which came into force in January 2015. Non-current assets are those which the University does not hold directly for the purposes of teaching and research and which it does not expect to sell or to use in the immediate future.

* + 1. Investments Types and Valuation

Non-current investments consist of listed equities, fixed interest investments (e.g. bonds), properties held for investment purposes, associated and subsidiary undertakings, shareholdings in “Spin-Out” companies and Venture Capital investments together with other specialist unquoted investments.

Listed equities and fixed interest investments are stated at market value at 31 July. Properties held for investment purposes are valued based on the triennial valuation undertaken by an independent chartered surveyor.

Investments in associated and subsidiary undertakings are stated at cost (less any provision for impairment) in the University balance sheet. In the consolidated financial statements, investments in associated undertakings are stated at the University’s share of net assets.

Shareholdings in “Spin-Out” companies are valued by Oxford University Innovation Limited.

Venture Capital investments and other unquoted investments are valued at by the relevant external Investment Managers.

* + 1. Revaluation of investments

All gains and losses on investment income, both realised and unrealised, are recognised in the I&E in the accounting period during which they arise.

## Stocks

Stocks consist of items held in store, necessary to the research and teaching or core activity of a University department, and issued within that department or to the University, or goods for re-sale.

Stocks are stated at the lower of cost and selling price less costs to sell. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Consumables are charged to the I&E statement as purchased or released from stores.

## Debtors

Debtors are stated at their net realisable value after allowing for bad and doubtful debts.

* + 1. Research grants and contracts debtors

Uninvoiced research costs and amounts received in advance from research sponsors are disclosed by individual research contract within debtors and creditors. Where contracts are subdivided into several sub awards, balances are combined for year-end reporting.

* + 1. Bad and doubtful debt provision

The recoverability of debtors is reviewed on an quarterly basis and provision is made, either general or specific, based on value, age and composition of our year-end debtor balance.

Specific guidance will be provided in year-end guidance notes. General principles are that either Departments or Accounts Receivable can establish the requirement for provisions, however:

* Bad debts will be written off in individual departments’ accounts
* The bad debt provision will be established and managed centrally
  + 1. Debtors due after more than one year

A distinction is drawn between amounts receivable within one year and those due to be received after more than one year (long-term debtors). Where long-term debtors are material in the context of net current assets, they are disclosed separately on the face of the balance sheet and may be disclosed separately with the cash flow movement notes.

## Current asset investments

Current asset investments consist primarily of short to medium term holdings of cash, Certificates of Deposit and Money Market funds of major banks and building societies, which are stated at cost plus accrued interest and held in the University Deposit Pool (see [2.11.2](#TheOxfordEndowmentFundandtheDepositPool) below).

## Cash at bank and in hand

* + 1. Petty cash balances

At year end, petty cash transactions in the last week of July are accounted for in the following financial year (as transactions overall in this period are immaterial to the University financial statements).

* + 1. Cash flow statement

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

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. These include term deposits and other instruments held as part of the University’s treasury management activities.

Cash and cash equivalents contains sums relating to endowment reserves which the University is restricted as to how they are disbursed.

## Creditors: Amounts falling due within one year

As under normal accruals accounting principles, creditors, loans, bank overdrafts and borrowings are recognised at the contractually agreed amounts.

* + 1. Research grants and contracts advances

Uninvoiced research costs and amounts received in advance from research sponsors are disclosed by individual research contract within debtors and creditors.

* + 1. Other creditors and accruals

Accruals are measured at a realistic and prudent estimate of the amount to be paid for the goods and services received. Accruals are drawn from three sources:

* Departmental year end returns
* Review of uninvoiced receipts report
* Review of post year end invoices

The accruals value includes irrecoverable VAT where relevant.

* + 1. Deferred income

Deferred income (which is disclosed in the University financial statements as part of other creditors and accruals) consists primarily of non-recurrent and research grants received in advance of spend. (See also [2.9.1](#DeferredIncomeInvestmentSchemes) below for Deferred income – Investment schemes). A number of guidance notes associated with the deferral of income are set out later in this document.

## Creditors: Amounts falling due after more than one year

* + 1. Deferred income – Investment schemes

During 2007, the University entered into an agreement with Technikos LLP to fund the Institute of Biomedical Engineering over a 15-year period following completion of a new building. The building was completed on 1 October 2007. Total cash of £12m was received from Technikos and the total balance that had not been set against costs at 31 July 2016 was £4.1m.

The University entered into an agreement with Oxford Sciences Innovation plc (OSI) in 2015/16. In return for 50% of its stake in each company spun out from Medical Science and Mathematical, Physical and Life Sciences over the next 15 years, the University received a 5% non-diluted stake in OSI. This stake was valued at £17.5m and is being released to income over 15 years.

The investments of £17.5m in OSI has been treated as deferred income within the Balance Sheet is being released to the I&E statement evenly over the 15-year period of the agreement. The amount due to be released in 2016/17 is included within Creditors: within one year, with the remaining balance included within Creditors: after more than one year.

* + 1. Bank loans

The University has loan agreements with several banks. The loans are unsecured and are largely disclosed as creditors falling due after more than one year, with the exception of one loan where an element is repayable within one year.

## Provisions and contingencies

* + 1. Provisions for liabilities and charges

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 benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The University makes provision for the pension costs of members of the Federated Superannuation System for Universities (FSSU) and the Employees Pension Scheme (EPS) who receive pension supplementations. The actuarial factors used to produce these provisions are reviewed biannually.

The University also makes provision for the future disposal of High Activity Sealed Radioactive sources (HASS).

* + 1. Contingent assets and liabilities

A Contingent Liability, which is not recognised but is disclosed by way of a note, arises when the definition of a Provision is not met and includes three scenarios:

a) A possible rather than a present obligation;

b) A possible rather than a probable outflow of economic benefits;

c) An inability to measure the economic outflow.

Similarly, a Contingent Asset, which is not recognised but is disclosed by way of a note, is defined as a possible, rather than present, asset arising from a past event.

## Endowment reserves

The treatment of endowments has changed with the introduction of the 2015 HEFE SORP and endowment assets are no longer disclosed separately on the balance sheet. Instead, endowments are now maintained within the reserves section of the University’s balance sheet and are identified as either Permanent or Expendable.

* + 1. Endowment reserves

New endowments must be recorded within the I&E, under donations and endowments, on entitlement to the income. The restricted income received is held in the temporarily (expendable) or permanently restricted reserve until such time that expenditure is incurred in accordance with the restrictions.

The gain or loss on the value of any investments held by the endowment fund is recorded within the I&E within the gain or loss on investments. The gain or loss is then retained within reserves against the capital element of the endowment to which it relates.

Investment income received from the endowment fund’s investments is recorded within investment income and retained within reserves to the extent that it has not been spent in line with the restrictions of the donation during the current financial year.

The endowment reserves contain the large amount of funds which the University holds on trust. Further information about the internal process for accounting for these funds can be found on the Trusts Administration section of the Finance Division website.

For internal University purposes, endowments fall into one of three categories:

* Restricted expendable endowment: the donor has specified how the money is to be used but does not require the initial sum to be preserved - the entire donation can be spent.
* Restricted permanent endowment: the donor has specified the purpose of the gift and that the initial sum, the capital, should be preserved in perpetuity – only the income generated by the endowment can be spent.
* Unrestricted permanent endowment: the capital value of the endowment must be preserved but the income generated is available for the general purposes of the University, faculty or department
  + 1. The Oxford Endowment Fund and the Deposit Pool

The University’s investments are managed as the Oxford Endowment Fund, the Capital Fund and the Deposit Pool. The Endowment Fund and the Capital Fund are managed by Oxford University Endowment Management Limited under polices set by the Investment Committee and Council. The Deposit Pool is administered by the University.

The Oxford Endowment Fund

Most endowments are invested in the Oxford Endowment Fund ('OEF'). This is a unitised investment vehicle constituted under section 2 of the Universities and Colleges (Trusts) Act 1943, which allows the University to manage collectively the assets of trusts administered both by the University itself and by other trustees for purposes connected with the University.

The Oxford Endowment Fund is managed by Oxford University Endowment Management Limited (‘OUEM’), a wholly-owned subsidiary company of the University, under investment and distribution policies set by the Investment Committee of Council.

Deposit Pool

The University also has a Deposit Pool in which trust funds may invest cash balances for a minimum period of one month. The pool is a short to medium term investment vehicle, which invests in the cash, Certificates of Deposit and Money Market funds of major banks and building societies. The main investors in the Pool are University departments with specific cash balances and Colleges of the University.

Interest from the Deposit Pool is calculated and posted on a quarterly basis. An interest rate is calculated by taking the total income generated by the investments and dividing by the average monthly balance of the Deposit Pool. The interest rate is then used to calculate the interest due to each investor for the financial year.

# Income and expenditure accounting policies

## Income

The general income of the University (the use of which is not restricted to a specific purpose or activity) is credited to the income and expenditure account on a receivable basis.

Income from permanent unrestricted endowments is included in the income and expenditure account on the basis of the sustainable return (4%) on the underlying investments. This is based on the estimated long term real rate of return from endowment asset investments.

Restricted income including research grants and contracts is credited to the income and expenditure account to the extent of the related expenditure incurred during the year, including related contributions towards overhead costs.

* + 1. Transactions with commercial substance

Where a transaction has commercial substance it is accounted for as a revenue transaction. Income is recognised in line with the provision of the associated goods or services, with reference to the terms of the contract.

* + 1. Tuition fees and educational contracts

Fee income is stated gross of any expenditure and credited to the I&E statement over the period students study. Where the amount of the tuition fee is reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Tuition and other course fees relate directly to the provision of specific academic and non-academic courses. Income is recognised on a pro-rata basis across the length of the course, in line with the provision of the courses to students.

Professional course fees and other educational contracts are accounted for as for service contracts below.

* + 1. Provision of other goods and services

Income from the sale of goods or services is credited to the I&E statement when the goods or services are supplied to the external customer.

Where services are being rendered, but are not complete at the end of the period income is recognised with reference to the stage of completion/degree of provision of the service, as determined on an appropriate basis for each contract.

* + 1. Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of relevant agreements.

* + 1. Investment income

Investment income is recognised within the I&E statement as accrued and recorded as accumulated income within expendable endowment reserves. See [section 3.1.11](#Endowments) for further details on expendable endowments.

* + 1. Agency income

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the I&E of the University where the University is exposed to minimal risk

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* + 1. Transactions without commercial substance

Where the University receives income on a basis that is without commercial substance it accounts for this on a Non-Exchange Transaction basis. A Non-Exchange Transaction is defined as when:

*“An entity receives value from another entity without directly giving approximately equal value in exchange”.*

* + 1. Performance model

Income is recognised within the I&E statement when the grant is receivable (legal/contractual commitment) and performance related conditions specified in the agreement are met. In the absence of performance conditions income is recognised in full as soon as it becomes receivable.

Performance conditions are defined as follows:

*“A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance”.*

Resources received in advance of completion of performance conditions are recognised on the balance sheet as deferred income and released to the I&E as conditions are met. Where grants are received in arrears accrued revenue or receivable assets are recognised in line with income.

* + 1. Government grants

Both revenue and capital government grants are accounted for under the Performance Model.

OfS funding grants: for funding grants relating to a single academic year income is recognised in full in the period to which the grant relates. Grants relating to more than a single year are recognised pro-rata across the term of the grant.

* + 1. Non-Government grants and donations

Grant and donation income received from a non-governmental source is accounted for under the Performance Model.

The income is recognised as Donation and Endowment income, with the exception of funding for the purposes of research which is recognised as ‘Research Grants and Contracts’.

Non-government grant and donation income is split into;

* **Non-government grants and donated income with performance conditions**

Income is recognised within the I&E statement when receivable (legal/contractual commitment) and performance conditions have been met

* **Donations with restrictions**

A donation is considered to have a restriction when the gift agreement contains;

* + the donor sets out in writing the particular purpose for which the funds are to be used and this is more restricted than the funds being made available for the general purposes of the University; or
  + the donation made is for a named member of staff (see note below) or a sub-unit of a department as set out in writing by the donor; or
  + the donation is, or is one element of a number of donations, made in response to a public appeal for donations to contribute towards a particular cause and there is documentary evidence that such a public appeal has been made.

Notwithstanding the above, a donation will be regarded as being unrestricted and credited to income if the donation falls below a de minimis level of £10,000, or can be spent within the financial year.

Income with restrictions, but no performance conditions, is recognised within the I&E statement when the grant is receivable (legal/contractual commitment) and recorded within restricted reserves.

As the funding is expended against the restriction it is transferred to unrestricted reserves by way of a reserves transfer.

* **Donations without restrictions**

Income with neither restrictions nor performance conditions is recognised within the I&E statement when the grant is receivable (legal/contractual commitment) and recorded within unrestricted reserves.

The University on occasion receives donations and endowments which either take the form of a bequeathment which will be paid upon the death of donor or will be paid in a series of tranches. It is the University’s policy to recognise the income on these donations and endowments once it has a legal or constructive right to receive them, with the amounts due from the donors recognised on the Balance Sheet as Donations and Endowments Receivable.

* + 1. Endowments

Endowments are a class of donation where the donor requires the original gift be invested, with the return to be spent against the donor’s charitable aims. The donor can specify that the capital can be spent (expendable endowment) or maintained in perpetuity (permanent endowment).

Endowments are classified as ‘Non-Exchange Transactions’ and are accounted for under the Performance Model. The original endowment gift is recognised as ‘Donation and Endowment’ income when receivable.

Permanent endowments

* **Permanent Restricted**

Donor has indicated the original gift be maintained in perpetuity, with investment income spent on restricted purposes defined by the donor.

* **Permanent Unrestricted**

Donor has indicated the original gift be maintained in perpetuity, with investment income spent on the general purposes of the University.

Upon initial income recognition permanent endowments are recorded as endowment capital within permanent endowment reserves.

Investment income and endowment spend is accounted for under the Total Return model.

Total return

The University operates a Total Return endowment investment management policy for permanent endowments and an associated Total Return Accounting policy. Total Return Accounting allows the spending of permanent endowment investment gains regardless of whether they are realised/unrealised capital gains or dividend/interest income.

Investment gains on permanent endowment assets are recognised in the I&E statement as accrued. The gains are recorded within the University’s permanent endowment reserves as unapplied return.

For permanent restricted endowments unapplied return is transferred to unrestricted reserves as expenditure is incurred against the charitable purposes of each endowment.

Indexation of permanent endowment capital

UK charity law requires the University to maintain the charitable benefit of all permanent endowments in perpetuity. The University has adopted a policy of indexing brought forward permanent endowment capital by CPI to maintain the original capital value in real terms. A transfer is made on an annual basis from unapplied return to an indexation reserve (a subset of permanent endowment capital).

Expendable endowments

* **Expendable Restricted**

The donor has indicated the original gift may be spent, but unspent funds be invested. The original gift and investment gains are to be spent on restricted purposes defined by the donor.

Expendable restricted endowments upon initial income recognition are recognised within expendable endowment reserves.

Accumulated income is released to unrestricted reserves as a reserves transfer in line with spend against the restricted purposes of each endowment.

* + 1. Capital grants

Non-government grants, for the purpose of purchasing or constructing specific assets are recognised as income upon the asset being brought into use, or in line with phase completion of large construction projects. Grants where the University has discretion over the assets purchased/built are recognised in full as income when the grant becomes receivable. Government grants are taken as income as they become receivable.

Grant income is only recognised across the useful life of an asset to the extent that the grant specifically funds the operation/maintenance of the asset.

* + 1. Research income

Income recognition for research funding is dependent upon the source of the funding and the nature of the transaction. Income is classified as ‘Research Grants and Contracts’ regardless of source when it meets the Frascati definition of research.

The following specific research income recognition criteria have been applied;

Research funding from United Kingdom Research Councils, and the European Commission is received on the basis of reimbursing the University for costs incurred in performance of the research. Income is recognised in line with expenditure which creates a right to receive funding from these bodies.

Funding from charities and industry is recognised on bases set out in the terms of individual funding agreements. In the majority of cases income is recognised on a reimbursement basis, with income recognised as costs are incurred for which the University has a right to reimbursement.

The following specific research income recognition criteria have been applied;

* Where funding is from a government body, expenditure on the grant purpose is presumed to be the performance condition unless specifically disallowed under the funding agreement.
* Funding from charities and industry is accounted for as non-government grant income unless it is demonstrable that a revenue transaction has taken place with near equal value being exchanged.

## Expenditure

* + 1. Staff costs

“Staff costs” in the financial statements includes both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; performance pay or bonuses payable; overtime; recruitment and retention allowances, other allowances to the extent that they are subject to UK taxation, the UK Apprenticeship Levy and employer’s pension and National Insurance contributions. “Staff costs” does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

Payments made on behalf of the National Health Service in respect of its contractual obligations to University staff under separate National Health Service contracts of employment are excluded from the University’s income and expenditure account.

Pension costs

The two principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS) and the University of Oxford Staff Pension Scheme (OSPS). The schemes are contributory defined benefit schemes (i.e. they provide benefits based on length of service and pensionable salary) and until April 2016 were contracted out from the State Second Pension Scheme. The assets of USS and OSPS are each held in separate trustee-administered funds. The schemes are multi–employer schemes and the University is unable to identify its share of the underlying assets and liabilities of each scheme on a consistent and reasonable basis. Therefore, in accordance with the accounting standard FRS 102 paragraph 28.11, the University accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the I&E statement represents the contributions payable to the schemes in respect of the accounting period.

In the event of the withdrawal of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot be otherwise recovered) in respect of that employer will be spread across the remaining participating employers and reflected in the next actuarial valuation of the scheme.

However, in OSPS the amount of any pension funding shortfall in respect of any withdrawing participating employer will be charged to that employer.

The University also has a small number of staff in other pension schemes, including the National Health Service Pension Scheme (NHSPS), the Superannuation Arrangements of the University of London (SAUL) and the Medical Research Council Pension Scheme (MRCPS). The University’s participation in NHSPS is in respect of employees who meet certain eligibility criteria, including being an active member of the scheme prior to joining the University. The University’s participation in SAUL is in respect of employees of the Gray Laboratory Cancer Research Trust which was acquired by the University on 30 June 2006. The University’s participation in MRCPS is in respect of employees of whose units transferred from other MRC funded institutions.

The University has made available the National Employment Savings Trust for non-employees who are eligible under automatic enrolment regulations to pension benefits.

* + 1. Other operating expenses

Repairs and maintenance

The cost of routine maintenance is charged to the income and expenditure account in the period it is incurred. The University has a planned maintenance programme, which is reviewed on an annual basis. Actual expenditure on planned maintenance is charged to the income and expenditure account in the period it is incurred.

Research and development costs

Costs of research and development are written off as incurred.

* + 1. Interest payable

Interest payable includes interest on long term bank loans and is charged to expenditure in the period in which it is due.

* + 1. Taxation

Corporation Tax

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 Taxes Act 1988. Accordingly, the University is exempt from Corporation, Income and Capital Gains Tax to the extent that any income or gains arising are applied to exclusively charitable purposes.

VAT

Except for its trading activities and certain research and consultancy activities, the University cannot recover the Value Added Tax suffered on its expenditure (input VAT) and this cost is included in the income and expenditure account under the appropriate expenditure headings. To the extent VAT is recovered the associated costs are shown ‘net’.

Any irrecoverable VAT included in the purchase price of tangible fixed assets is included in their cost.

Subsidiary companies

The University’s subsidiary companies are subject to Corporation Tax and Value Added Tax in the same way as any commercial organisation.

* + 1. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the I&E statement.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates prevailing at the balance sheet date. Exchange differences arising from this translation of foreign operations are reported as an item of Other Income.

* + 1. Exceptional items

Exceptional items are material items which derive from events or transactions falling within the ordinary activities of the reporting entity which need to be disclosed by nature of their size or incidence, in order that the accounts represent fairly the transactions for the year.

Exceptional items are credited or charged to the income and expenditure account, and included under the normal format headings to which they relate. The amount of each item should be disclosed separately by way of a note, or on the face of the income and expenditure account if that degree of prominence is warranted because of the nature of the item.

## OfS hardship funds and National College for Teaching and Leadership (NCTL) bursaries

The University acts as an agent in the collection and payment of training bursaries from the National College for Teaching and Leadership and of hardship funds from the OfS. The funds received and subsequent disbursements to students are therefore excluded from the income and expenditure account and disclosed separately in the financial statements.

# Group accounts

## SORP Guidance on consolidation

All institutions with subsidiary undertakings are required to prepare consolidated financial statements as defined in FRS102 and, where relevant, the Companies Act.

Guidance on the definition of subsidiary undertakings is given in the SORP and FRS102, in particular in section 9 of the standard.

FRS 102 requires that they must be excluded if:

* The institution’s rights over the assets, or the management, are severely restricted; or
* Subsequent resale of the subsidiary undertaking was intended at the time of acquisition and the subsidiary undertaking has not previously been included in the consolidated financial statements.

Where subsidiary undertakings are excluded FRS 102 sets out the differing treatments to be adopted for each category of subsidiary undertaking to be excluded from the consolidation.

## Scope of the University of Oxford financial Statements

The financial statements (apart from the University’s own balance sheet, income statement and related notes) consolidate the accounts of the University and of its subsidiary undertakings.

The consolidated financial statements include the University’s share of the profits and net assets of material associated undertakings and joint ventures over which the University has a significant but not a dominant influence.

Non-company charitable subsidiaries, including trusts, are aggregated into the University accounts where they meet the definition of a ‘Special Trust’ as per section 287 of the Charities Act 2011. Where a trust does not meet the definition of a special trust, but control can be demonstrated by the University, it is consolidated.

Investment funds where the University is the majority investor, but does not exercise any management control are excluded from consolidation in accordance with the provisions of Section 9 of FRS 102, and accounted for as Investment Assets.

* + 1. Subsidiary undertakings

A listing of subsidiary undertakings is included in the Financial Statements.

Intra-group transactions and balances are eliminated on consolidation.

See [section 4.3](#_Accounting_policies_of) for details of accounting policies of subsidiaries.

* + 1. Associated undertakings and joint ventures

A listing of associated undertakings is included in the Financial Statements.

In the Consolidated Financial Statements, associated undertakings are accounted for using the ‘Equity Method’. They are initially recognised at transaction price (including transaction costs) adjusted each year to reflect the University’s share of the associates’ Comprehensive Income, recognised through Other Comprehensive Income.

The University accounts for jointly controlled assets and operations based upon its share of costs incurred, and recognises its share of liabilities incurred pro-rata. Income and expenditure is recognised based upon the University’s share.

* + 1. Oxford University Press

The consolidated financial statements include the accounts of the Oxford University Press, which is a department of the University. Prior to 2017/18, the University’s Statutes, Decrees and Regulations did not permit the inclusion of the accounts of the Press in the financial statements of the University. Instead, the Delegates of the Press were responsible for preparing separate accounts relating to the Press.

* + 1. Colleges

The consolidated Financial Statements do not include the accounts of those colleges of the University that are separate and independent legal entities. The accounts of Kellogg College, and St Cross College are included as they are part of the University itself.

The other Colleges of the University of Oxford are independent legal entities and are therefore not included in the financial results of the University itself. The collegiate nature of Oxford does however give rise to certain financial interaction between the University and those colleges:

* The University pays over part of the OfS recurrent funding to colleges as part of the JRAM based on the number of students enrolled by the college and other factors including teaching and research. Tuition fees collected by the colleges from the students are deducted from their JRAM allocation.
* Hardship funds: A large part of OfS hardship funds received by the University are passed to colleges to administer. The University acts only as a paying agent in relation to Funding Council hardship funds and NCTL bursaries, distributing them to students. The funds received and related disbursements are therefore excluded from the income and expenditure account. See [section 3.3](#_HEFCE_hardship_funds) for more details.
* Investments: the colleges are able to invest in the University’s own investment funds; such investments are treated as ‘amounts attributable to outside bodies’ and are deducted from investments.
* General trading also takes place between the University and colleges, including the provision of research, accommodation, and teaching facilities. These arrangements are undertaken on a commercial basis.
  + 1. Oxford University Students Union

The Financial Statements do not consolidate the accounts of the Oxford University Student Union and its subsidiary company, as they are separate and independent legal entities in which the University has no financial interest and it does not exercise direct control or dominant influence over their policy decisions.

* + 1. Courtesy accounts

Courtesy accounts are commonly established to:

* Administer events on behalf of an outside body (for example an annual international symposium held at a different location each year);
* An organisation associated with the University but outside its control;
* Courtesy accounts are only established in limited circumstances for activities which:
* Are not part of the University (including its subsidiary undertakings) i.e. the activity belongs to an outside body or undertaking; and
* When the University does not control the use of the resources on a day to day basis.

The activities, balances, and transactions recorded by courtesy accounts are not part of the financial statements of the University (and are set up in Organisation 65 rather than Organisation 10 to reflect this fact). At the year end the balances on the courtesy accounts are taken to debtors or creditors in the financial statements.

Departments should carry out a review of their Courtesy Account activities in July each year to ensure:

* It is still appropriate to treat each activity as external to the University and there is sufficient external evidence in place to support this treatment.
* Transactions during the year have been correctly coded to Organization 65.
* Where the University is owed money by the outside body (i.e. where the reserves brought forward on GL Account 99949 from a previous year plus the surplus/deficit arising in the year are less than zero) that the department seeks re-payment from the outside body before the year end or, if payment is not expected, writes off the balance to a departmental account in the year.
* The reserves on Courtesy Accounts are automatically bought forward on their own cost centre, source of funds code. The amounts **cannot** be included in the University reserves process as the reserves do **not** belong to the University.

## Accounting policies of subsidiaries

Oxford University has interests in a number of associated and subsidiary undertakings, some of which prepare their accounts using different accounting policies from the central University, either because of the different nature of their business, their size, or the need to prepare accounts under FRS102 without the application of the FEHE SORP because they are constituted as companies.

The most significant of the University’s trading subsidiaries are:

* Oxford University Trading Limited, which carries out a range of activities related to the commercial exploitation of the knowledge, skills and crest of the University;
* Oxford University Fixed Assets Limited, which is responsible for the construction of buildings and the operation of certain commercial ventures;
* Oxford University Innovation Limited, which is responsible for developing, patenting, and exploiting of ideas emanating from the University;
* Oxford Mutual Limited which is responsible for discretionary insurance for the University
* Oxford Said Business School Limited which provides executive education to visiting students and to companies; and
* Oxford University Endowment Management Limited which is responsible for managing the endowments of the University and other college or University bodies which want to subscribe.
  + 1. Income

Subsidiaries’ income is generally credited to the income and expenditure account on a receivable basis as for the central University, although certain different categories of income are recorded in subsidiary accounts, including royalty income and licence income:

* In the Oxford University Trading Limited accounts, royalty income is recorded substantially gross as detailed in the licensing agreement;
* In the Oxford University Innovation Limited accounts income from royalty agreements is recorded only to the extent of related cash has been received or is known to be receivable. Income from licence fees is recognised when the company becomes entitled to it and no significant obligations remain;
* For Oxford University Fixed Assets Limited, turnover consists of value of construction work completed and income from the hire of the hockey pitch and the running of the swimming pool.
  + 1. Deferred tax

Neither Oxford Limited, nor Oxford University Fixed Assets Limited, nor other trading companies within the group, make provision for current/deferred tax on the grounds that those companies transfer their taxable profits by Gift Aid to the University and therefore no tax asset or liability will be realised in the company.

* + 1. Fixed assets

Different capitalisation thresholds and depreciation policies apply in subsidiary companies. The University does not disclose these differences in the consolidated financial statements. The depreciation and capitalisation policies is kept under review to ensure risk of misstated disclosure is controlled. Some examples are in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Capitalisation threshold | Computer Equipment | Fixtures and Fittings / Equipment | Other variations from University policies |
| University | £50,000 | 5 years | 5 years |  |
| Oxford University Fixed Assets Limited |  |  | 3 years; hockey pitch 25 years | Hockey pitch carpet 10 years |
| Oxford Limited | £5,000 | 4 years | 3 years | Leasehold improvements over life of lease |
| Oxford Saïd Business School Limited |  | 3 years | 3 to 10 years | Motor vehicles 4 years |
| Oxford University Development (North America), Inc. | $2,000 and useful life greater than 2 years | Straight-line basis over estimated useful life | Straight-line basis over estimated useful life | Straight-line basis over estimated useful life |
| Oxford University Endowment Management Limited |  |  | 3 years | Land and buildings 10 years |
| Oxford University Innovation Limited |  | 3 years | 3 to 5 years | Leasehold improvements over life of lease or period of lease if shorter |