



University of Surrey

Financial Statements for the year ended 31 July 2012

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Operating and financial review

Introduction

The Financial Statements comprise the consolidated results of the University (including its Foundation Fund) and its subsidiary companies, notably Surrey Sports Park Limited.

This review has been prepared in accordance with the Accounting Standard Board's Reporting Statement 'The Operating and Financial Review' and seeks to set the financial results in the context of the University's strategy and operations.

Constitution

The University has its origins in the Battersea Polytechnic Institute which was founded in 1891, with students studying for degrees from 1894. It became a College of Advanced Technology in 1956 and by 1960 had over 1,250 full-time undergraduate and postgraduate students. The move to Guildford took place in the 1960s with the University receiving its Royal Charter in 1966. Although founded as a science and engineering focused institution, it now offers a broad range of courses, research programmes and enterprise activity across the sciences, engineering, arts, humanities, law and business.

On 31 March 2012, the University consolidated its relationship with the Guildford School of Acting when the School became fully integrated within the University, having operated as a wholly owned subsidiary company since August 2008.

In addition to its core academic activities, the University owns and manages the Surrey Research Park. The Surrey Research Park houses approximately 180 companies (employing c. 3,500 staff) engaged in a broad spectrum of research, development and design activities. Widely regarded as the best of its kind in the UK, it is one of the few research parks still owned and managed by the University that founded it.

Operating environment

The University, along with the rest of the Higher Education Sector, is going through one of the most significant periods of change in the sector's history.

Following publication of the White Paper in June 2011, 2011/12 saw the first cohort of prospective undergraduates applying for entry under the new regime, which becomes effective in 2012/13. Key changes include the raising of the tuition fee cap to £9,000 to compensate for reductions in HEFCE teaching and capital grants and an increase in competition as quotas are reduced and universities are allowed to recruit as many students as they want with A level grades of at least AAB (or equivalent qualifications). In addition, quotas have been reduced in 2012/13 to enable 20,000 places to be allocated to institutions charging an average annual net fee of £7,500 or less. The University of Surrey elected to charge a £9,000 fee reflecting the funding requirements to support the quality of the education it offers students.

These changes mark a fundamental shift in funding from the state to the individual student, giving rise to increased expectations and requiring an even greater focus to be placed on both the academic and non-academic student experience. In addition to the student funding element, the government has reduced capital funding to universities by over 80%, thereby shifting the onus directly onto universities.

The government has announced a broadening of the approach for 2013/14 to treat students with A level grades of least ABB (or equivalent qualifications) as outside the quota. For 2013/14, quotas will be reduced to free up the ABB places and to create a further margin of 5,000 places. The majority of these 5,000 places will be allocated to institutions charging an average net fee of £7,500 or less, but with a 'sizeable minority' available to institutions with an average annual net fee of between £7,500 and £8,250. HEFCE may also reduce limits for institutions that recruit significantly below their limit for 2012/13.

In addition to having to manage the impact of changes to the funding regime for home/EU undergraduates, universities are being challenged in their overseas recruitment by government moves to reduce net migration. On 6 April 2012, the revised student visa rules came into effect. These rules mean that only students who graduate from a Higher Education Institution and have a job offer of £20,000 or more from 'a reputable employer accredited by the UK Border Agency' will be allowed to remain in the UK. Previously any student could remain in the UK for up to two years following completion of his/her course. The adverse impact of these changes began to be felt in 2011/12 and the effect on 2012/13 recruitment is even more marked. Adverse publicity around the globe arising from UK immigration policy and the implementation by the UK Border Agency (UKBA) has further impacted international student recruitment across the UK HE sector. Set against this background Surrey retains its Highly Trusted Status as a sponsor of student visas.

In a speech to vice-chancellors at the UUK conference in September 2012, David Willetts announced that overseas student numbers would be disaggregated from net migration figures. The implications of this statement are not entirely clear and the sector wants the government to go further and remove students from government targets to reduce net migration. Nevertheless, this announcement was considered an important first step in at least making it clear what is happening to student flows.

Vision, mission and strategy

In 2007, the University published a new 10 year strategy, setting out its vision to become a leading national and international institution by 2017. The University declared its intent to become a Top 10 UK university and to be amongst the Top 100 international universities.

In 2011, the University distilled the objects of the University, as defined in its Charter, into a new Mission Statement as set out below:-

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“The University is a research-led institution pursuing learning, scholarship and research, and advancing and disseminating knowledge. The University is committed to working closely with its students, business, government and civil society to transition knowledge to the benefit of humanity”.

Also in 2011, and in light of the announcement of fundamental changes in government funding for higher education, the University reviewed the strategy and fine tuned it to allow the University to build on its successes and continue to meet the new challenges facing higher education.

The updated strategy retains the six existing imperatives of quality, international impact, sustainability, distinctiveness, collegiality and professionalism which confirm the core values of the University, whilst redefining the key strategic objectives for the next six years.

The key strategic priority themes for the University are currently as follows:-

- Delivery of high performance in teaching and research
- Delivery of an integrated student experience
- Development of new and existing programmes and markets
- Delivery of value for money and the reduction of support costs

The University has a rolling four year plan which includes both one year and four year targets to help the University to monitor progress towards achievement of its strategy. Key Performance Indicators (KPIs) relating to students, staff, research & enterprise are included in a Balanced Scorecard which is monitored by the University's Executive Board and Council. Relevant indicators are included below.

Public benefit statement

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly Schedule 2 of the Charities Act 1993). In determining the University's strategic, operational and financial objectives, the members of Council, as trustees, have had regard to the Charity Commission's guidance on public benefit, including the specific guidance in respect of the advancement of education and research.

In this Operating and Financial Review, the University describes how it has met the two key principles of public benefit, namely that:-

- there must be an identifiable benefit or benefits; and
- the benefit must be to the public or a section of the public.

The University's objects are defined in its Charter as 'the pursuit of learning and the advancement and dissemination of knowledge'. The primary beneficiaries are current and potential students engaged in learning at the University and the general public who benefit from the University's research activities.

The quality of the University's teaching and research is evidenced by a significant and consistent strengthening of its position across all the main university league tables, including the *Guardian*, *The Times* and the *Sunday Times*. Publication of the Sunday Times League Table in September 2011 showed the University rising 20 places to 21st, a position it retained in the latest league table published in September 2012. In May 2012, it achieved its highest rating in a major UK league table when it rose seven places to 12th in the Guardian Good University Guide.

The quality of the University's research was recognised in November 2011 when it was awarded the Queen's Anniversary prize for its world-leading water research. The Queen's Anniversary Prize is considered the most prestigious honour open to a UK University and in receiving this award in recognition of its 30 year track record in improving access to safe water around the world, the University became one of only 12 institutions to win the prize for a third time.

As further evidence of public benefit, additional examples are given elsewhere in this review of how the University has continued to advance the breadth and depth of its educational activities and the strength of its research activities.

In addition to the advancement of education, the University makes a significant contribution via its research, teaching and other activities, to a number of the other categories of charitable purposes set out in the Charities Act 2011. Of particular significance are the following, examples of which are given later in this review:-

- The advancement of health or the saving of lives
- The advancement of the arts, culture, heritage or science
- The advancement of amateur sport
- The advancement of citizenship or community development
- The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship

Widening participation and student support

The University acknowledges the educational benefits that flow from a diverse student body. It recognises the need to increase and widen participation in higher education so that able students from any background are able to access the institution and enjoy the best possible student experience in order to succeed in graduate employment. The University offers a package of financial support to assist with both fees and living costs.

The University continues to monitor its commitment to widening participation through the inclusion of a Widening Participation KPI on the University's balanced scorecard. The 2011/12 HESA performance indicators show a continuing upward trend in enrolments from low participation neighbourhoods and state schools. Although the percentage of students from lower socio-economic backgrounds fell slightly from 28.8% to 27.4%, it remained above the 2010/11 location benchmark which is the target in the University's 2012/13 Access Agreement.

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In the summer of 2011, the University undertook a fundamental review of widening participation and outreach. This led to the establishment of a new Widening Participation and Outreach Department to provide a more strategic focus to the University's widening participation and outreach activity.

Alongside delivery of the University's core widening participation and outreach programme, the Department is developing additional outreach activity. This includes the establishment of a new widening participation school partnership consortium comprising schools in identified low participation neighbourhoods within the South East, South West and London. Widening participation cohorts are offered a sustained and targeted programme of on- and off-campus events to raise attainment and aspirations. The University works closely with the partnership in order to track the progress of these cohorts and to determine the impact of the programme, particularly in raising attainment.

In terms of financial support, the University has in place a generous bursary scheme which has been approved by the Office for Fair Access and offers a tiered level of support based on household income. A total of £3.2m was distributed to 1,851 students in 2011/12 compared with £3.3m to 1,820 students in the previous financial year.

The University also provides hardship loans and grants to students who face financial difficulties, from HEFCE funds, the University's own Annual Fund, and a number of charitable funds.

The University offers a wide range of support to students with disabilities or specific learning difficulties to enable them to participate fully in University life and employs a number of disability advisors who can offer information to both current and prospective students and liaise with University departments, Student Finance England and external agencies for students.

Alongside the introduction of the £9,000 home/EU undergraduate fee in 2012/13, the University has introduced a generous financial support package to assist students from low income households. In accordance with the requirements of the National Scholarship Programme, the University is providing all first year full-time undergraduates with a household income of £25,000 or less an award worth £3,000. Surrey students can opt to take this either as a £3,000 discount on accommodation charges or as a £1,000 cash bursary and £2,000 fee waiver. In addition, the University has introduced the Surrey Bursary scheme. Under this scheme, students with a household income of £25,000 or less will receive a package worth £3,000 a year for all future years of study and students with a household income of between £25,001 and £30,000 will receive a package worth £1,500 for all years of study.

In addition to the financial support packages described above, from 2012/13 the University is offering Chancellor's Scholarships worth £3,000 in the first year of study to candidates achieving the equivalent of A*AA (or AAA from the In2Surrey widening participation scheme). While these scholarships are available to all HEFCE funded students, regardless of household income, they do

provide another means of helping talented students from low income households to attend the University. Holders of Chancellors Scholarships will receive free membership to the Sports Park during their undergraduate period of study while a new range of Sports Scholarships has also been introduced for talented students.

Review of operations

Academic development and the student experience

Senior appointments

2011/12 saw further changes at Executive Board level with Professor Jonathan Seville, from the University of Warwick, taking up his post as Dean of the Faculty of Engineering and Physical Sciences on 1 October 2011. He succeeded Professor Michael Kearney who has taken on the new role of Pro-Vice-Chancellor for REF.

In May 2012, Professor Lisa Roberts was appointed Dean of the Faculty of Health and Medical Sciences, succeeding Professor John Hay who moved to the University of Hull as Pro-Vice-Chancellor for Research and Enterprise. Professor Roberts was previously head of Surrey's Department of Microbial and Cellular Sciences.

2011/12 also saw the appointment of new Pro-Vice-Chancellors for Learning & Teaching and International Relations. Professor Andrea Dlaska, Professor of Language Studies, was appointed to the new post of Pro-Vice-Chancellor (Learning & Teaching) in December 2011, while Professor Vince Emery who previously held the post of Pro-Provost (Africa and the Middle East) at University College London, was appointed to the post of Pro-Vice-Chancellor (International Relations). Professor Emery joined the University on 1 October 2012 succeeding Professor Colin Grant who moved to the University of Bath.

As reported last year, Ms Sarah Litchfield joined the University from NHS Innovations South East on 1 August 2011 to take up the new post of University Secretary and Legal Counsel.

Learning and teaching

2011/12 saw further progress against the University's Learning and Teaching Strategy 2010-17.

In line with the strategy, a fundamental review was undertaken of external examining processes and regulations during 2011/12. The review resulted in the production of a new 'Code of Practice for External Examinining' which was approved by the University's Senate in July 2012. This marked the first stage in the review of Assessment Practices and Regulations which will continue through 2012/13.

To support the strategy, the University decided to invest in a new Virtual Learning Environment (VLE) and in October 2011 it signed a six year partnership agreement with Desire2Learn for delivery of a new VLE. During 2011/12, the University worked intensively on the design and configuration of the VLE and its integration with other University systems. The University also undertook a

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significant change programme aimed at ensuring that the academic community is actively engaged with the VLE.

The new VLE 'SurreyLearn' went live on 1 August 2012. It provides a flexible and innovative system providing lecturers with a range of options for providing learning activities and resources to support students' studies and their academic and professional development. Students are able to access the system from a range of devices including iPads, iPhones and other smartphones and to work virtually with others on their course through group work, discussions and blogs.

Student experience

The University recognises the delivery of an integrated student experience as one of its key strategic priority themes.

The University has continued to invest in student facilities and the start of the 2011/12 academic year saw the opening of a new £13.3m library and learning centre. Open 24 hours a day, the new facility provides learning, teaching, retail and social space spread out over four bright, spacious, floors.

In order to deliver improvements in the academic experience, work continued during 2011/12 to recruit additional academic staff to reduce the student:staff ratio. The ratio improved from 19.4:1 at October 2011 to 18.9:1 at July 2012. A further reduction is targeted for 2012/13 as the University continues its academic recruitment campaign.

In terms of the non-academic student experience, one of the major investments of recent years has been in sporting facilities. Surrey Sports Park, which opened in April 2010, has set a new benchmark for the quality of university sports facilities in the UK and beyond, taking first place in the national student i-graduate survey in 2011. At the same time, the University increased its position in the BUCs rankings from 75th (2009/10) to 47th (2011/12), the highest position Surrey has ever achieved. This was achieved with the support of Team Surrey, a new partnership between the University (through its wholly owned subsidiary company, Surrey Sports Park Limited) and the Students Union.

Student satisfaction

The work carried out by academic and support staff across the University to improve the student experience was reflected in the results of the latest National Student Survey. The 2012 National Student Survey saw the University achieving its highest ever overall rating with 90% of students expressing satisfaction with the quality of their course. This represented a 3% rise in overall satisfaction from the previous year and an 8% rise over the past two years. The University's position relative to the 135 other institutions that took part in the survey, rose 17 places to joint 15th. This compared with its position of joint 64th just two years ago.

The University saw rises in all seven areas: Teaching, Assessment & Feedback, Academic Support, Organisation & Management, Learning Resources, Personal

Development and Overall Satisfaction. 17 subjects were ranked in the top 10 nationally, with Politics, Aerospace Engineering and Music all ranked 1st.

Chart 1 National student survey

	2012	2011	2010
Overall Satisfaction	90%	87%	82%
Position	= 15 th	=32 nd	=64 th

The University's excellent reputation amongst its students was also reflected in the 2012 *Times Higher Education Student Experience Survey*, which gathered the views of more than 14,000 undergraduates across the country. Published in April 2012, this also ranked the University 15th in the UK, a rise of 28 places from the previous year.

Student numbers

Applications

Undergraduate applications for 2011/12 entry rose by 11.6% from 2010/11. This followed a 19.5% rise for 2010/11 entry from 2009/10 and reflected the continuing increase in popularity of the University's programmes. 2011/12 enrolments were marginally higher at 2,938 compared with 2,898 for 2010/11, marking an increase in the ratio of applications to enrolments from 7.05:1 to 7.76:1.

The average UCAS entrance tariff rose from 405 to 431 points, giving a cumulative improvement of nearly 100 points in the past five years.

Chart 2 Undergraduate applications

	2011/12 Entry	2010/11 Entry	2009/10 Entry
Applications	22,788	20,427	17,087
Enrolments	2,938	2,898	2,643
Applications to Enrolments	7.76:1	7.05:1	6.47:1
Average UCAS Entry Tariff	431	405	391

Student population

Chart 3 Student numbers (headcount)

	2011/12	2010/11	2009/10
Undergraduate	10,878	10,411	9,996
Postgraduate Taught	3,157	3,099	3,991
Postgraduate Research	1,174	1,268	1,200
Total	15,209	14,778	15,187
Overseas Students included above	3,649	3,353	2,979

Postgraduate Taught numbers showed a modest rise of just under 2% in 2011/12. This followed the fall in 2010/11 which resulted from a decrease in part-time

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student numbers and a change in the basis for counting students taking continuing professional development modules. However, the overall rise masked a change in the underlying student profile with a sharp decline in overseas PGT numbers within the Faculty of Engineering and Physical Sciences, which has been attributed largely to the impact of the visa changes on potential students from the Indian sub-continent. Offset against this shortfall was an increase in overseas PGT numbers in the Faculty of Business, Economics and Law with by far the largest group of students coming from China.

Research

The University's research strategy is based on strong links between research and teaching and the concentration of research income into centres of excellence. The University is a strong advocate of multidisciplinary approaches, encouraging researchers from different fields to work closely together on key research initiatives.

Highlights of the University's research activities can be found in the 2012 Annual Review at www.surrey.ac.uk/about/corporate/documents

Despite the strength of the University's research, it is proving challenging to grow income in the current economic climate. Research income fell slightly in the year from £27.9m in 2010/11 to £27.5m in 2011/12. Research contribution (i.e. income less direct costs) fell from £6.6m to £6.3m. These results were mainly due to the performance of the Surrey Clinical Research Centre (Surrey CRC) which saw a £1.6m fall in income from £2.8m in 2010/11 to £1.2m in 2011/12.

Surrey CRC felt the impact in 2011/12 both of a downturn in UK commercial research and delays in the start of EU funded projects. On a positive note, in July 2012 the Surrey CRC became only the second non-commercial clinical trials unit in the UK to achieve MHRA Supplementary Phase 1 accreditation. This will allow it to compete with all clinical research organisations for Phase 1 commercial research and puts it in a strong position to become a core clinical trials unit for South East England.

The Faculty of Engineering and Physical Sciences, the most research intensive area of the University saw its income rise by £1.3m (7.6%) in the year to £18.4m, giving a 40% rise in the last four years.

The value of research bids remained relatively static in 2011/12 at £117m (2010/11: £118m). While the value of new awards and extensions rose by £3m to £26m, this reflected a disappointingly small recovery after a poor year in 2010/11.

Chart 4 Research bids, awards & extensions

	2011/12	2010/11	2009/10
	£m	£m	£m
Research Bids	117	118	106
Research Awards and Extensions	26	23	39

The University recognises the need to ensure that the results of its research are publicly available in order to meet the new requirements of the UK Research Councils, to satisfy the public benefit requirements arising from its charitable status, and to improve its rankings in international league tables.

The level of engagement amongst the University's academic staff with the University's open access repository (Surrey Research Insight) increased significantly during 2011/12. As at 31 July 2012, there were over 9,000 entries in the SRI Publication database (bibliographic metadata for publications issued between 1 January 2008 and 31 July 2012), of which 40% had full text attached. At the same date, 97% of all relevant academic staff (i.e. lecturers, senior lecturers, readers or professors) had at least one publication record in SRI attributed to them with 83% having at least one full text record attributed to them. The total number of downloads in 2011/12 was 371,000.

A detailed analysis of publication patterns across the University has been undertaken which has reinforced the key strategies for improving citation rates already identified i.e. targeting top ranking journals and ensuring full text versions are made publicly available via the SRI.

Enterprise and innovation

The University continues its chairmanship of SETsquared – a partnership of five southern UK universities. During the year, SETsquared successfully raised the profile of its thriving network of business incubation centres with key stakeholders, including BIS and HEFCE. As a result, SETsquared, along with the N8 group of northern universities, is quoted as an exemplar of UK university collaboration and is viewed as a major force for enterprise in the South East of England. The partnership universities also joined forces to coordinate their individual student enterprise programmes in response to the influential Wilson review, which gave a strong recommendation that all universities should focus on this particular aspect of the student experience.

2011/12 saw a 20% increase (from 50 to 60 companies) in Surrey's incubation activity. This was based on the very positive momentum achieved following the establishment of the Surrey International Space Innovation Centre (ISIC-Surrey) the previous year. Surrey's involvement in the national Satellite Applications Catapult Centre, responsible for coordinating UK academic research participation, plus the activities of ISIC-Surrey, resulted in a tremendous boost in Surrey's profile with companies and potential investors. This was most strongly illustrated by the increased level of funding raised by the University's business angel club, Surrey 100, for start-up companies. These include start-up companies based on the Surrey Research Park and others from the University's wider network of partners. Cumulative funding rose from a total of circa £3.6m in July 2011 to over £10m by August 2012. This places Surrey as one of the top performing universities in the UK in terms of provision of such start-up finance, with only Cambridge, Oxford and Imperial raising larger amounts.

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Internationalisation

The University's international strategy is core to all activities. It embraces the promotion of research collaboration, the facilitation of staff and student mobility, the raising of cultural awareness, and the development and delivery of a curriculum responsive to the needs of a global society.

Central to the international strategy is the University Global Partnership Network (UGPN) which was formally launched in August 2011. The UGPN aims to develop sustainable, world-class research, education and knowledge transfer through an active international network of universities collaborating in research, learning and teaching to benefit global society. Its core funding partners are the University of Surrey, North Carolina State University (USA) and the Universidade de São Paulo (Brazil). There are additional partnership relationships with Seoul National University, Banco Santander through the Santander Universities Network and Fapesp (the São Paulo State Research Funding Council).

In January 2012, Santander, through its Santander Universities Global Division, renewed its agreement with the University of Surrey. The new three year deal provides the University with a range of initiatives including scholarships for graduates and postgraduates; international and national mobility grants for students and staff; and support to the Universities Global Partnership Network (UGPN). Additionally the new agreement supports entrepreneurs through the funding of incubators where students will be able to develop their business ideas.

2011/12 was the fifth year of operations for Surrey International Study Centre (SISC), run by Study Group on the University campus. SISC's International Foundation Year (IFY) is designed specifically to provide international students with an intensive, direct path to degree study at the University. The intake to the IFY rose from 159 in 2010/11 to 249 in 2011/12. The 90% conversion rate to Surrey undergraduate degrees for 2011/12 was 10% higher than the previous year and well exceeded the 75% target rate.

2011/12 was also the fifth year of operations for the Surrey International Institute (SII), the University's joint venture with Dongbei University of Finance and Economics (DUFE) in China. During the year, a new staffing model was introduced to support Surrey's phase of the programmes with seven Surrey employees now permanently based in Dalian. The total student population continues to grow. During 2011/12, the population exceeded 1,700 students. Of these, 303 were studying the Surrey phase of the programme, 57 of them at the Guildford campus and the remainder in China.

Stakeholder relationships

The University engages with a wide range of stakeholders including its students, staff, funding bodies, other educational institutions, industry and commerce, government bodies, the local community and the NHS.

Student engagement

The University recognises the importance of involving students in the general management of the University and in key decisions regarding its future development. The President of the Students Union is a member of the University's Council and the President and Vice-President (Education) are both members of the Senate. The Students Union has an active representation programme and students are encouraged to participate in formal and informal discussions throughout the University, often through the membership of formal committees.

The University senior management, including the Vice-Chancellor and Deputy Vice-Chancellor (Academic Affairs) regularly attend the students' Academic Assembly which is a forum of the student representatives drawn from courses across the University. In addition, the Vice-Chancellor meets regularly with undergraduate and postgraduate student groups throughout the academic year.

2011/12 saw a strengthening of the strategic relationship between the University and the Students Union and the signing of a new Memorandum of Understanding between the two bodies.

Staff engagement

2011/12 saw further delivery against the 2010 HR Strategy with significant achievements on a broad front, including recruitment, staff development activity and health & safety performance.

The 2012 staff satisfaction survey received a 73% response rate – 11% up on the previous year and the highest response rate of the 11 universities working with our survey provider. Staff engagement, as measured by six 'core' engagement questions within the survey, improved by 1% to 69%.

A significant amount of work has been undertaken by both local and institutional level action groups in response to staff feedback in both the 2011 and 2012 satisfaction surveys. Staff are kept informed of progress made in relation to actions from the Staff Survey via the HR Director's blog and quarterly updates posted to the intranet.

Staff are encouraged to participate in formal and informal consultations at University, Faculty and Departmental level, often through membership of formal committees. Members of senior management meet regularly with representatives of trade unions who represent the interests of staff through consultative committees. Staff are advised in accordance with the University's agreed employment policies when matters affect their employment directly. A comprehensive training and development programme is available to staff covering a range of technical, managerial and interpersonal skills.

The University is committed to promoting equality of opportunity across all areas of the campus. The University gives full consideration to applications for employment from disabled persons where the candidate's aptitudes and abilities are consistent with adequately meeting the

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requirements of the job. Opportunities are available to disabled persons for training, career development and promotion. Where existing employees become disabled, it is the University's policy to provide continuing employment where practicable in the same or an alternative position and to provide training to achieve this aim.

Social responsibility and local community engagement

During 2011/12, the University launched 'Celebrate Surrey', a programme of public events, many of them free, which recognises the contribution that the University and Surrey Sports Park make to the intellectual, economic and cultural life of the local, national and global community. The programme includes a wide range of events from public lectures and arts performances to masterclasses and sporting fixtures and competitions. Celebrate Surrey has also provided the opportunity to mark and to celebrate the London 2012 Olympic and Paralympic Games. In conjunction with the University's inaugural Surrey International Alumni Day, the University held an Olympic Open Day in July 2012 which gave members of the public the chance to sample a range of sports from basketball to boxing through a mix of hands-on sporting sessions and demonstration events.

Surrey Sports Park continues to offer a wide range of state-of-the-art sporting facilities for people of all ages and abilities. As an official London 2012 pre-Games training camp, Surrey Sports Park played host to over 250 Olympic and Paralympic athletes and their coaching teams from no fewer than 16 nations who used the facilities to train in a range of disciplines including basketball, table tennis, badminton, swimming and triathlon events.

The University senior management continues to meet regularly with representatives from local communities and associations. Topics encompass regional engagement with University activities and areas of common interest. Local residents are encouraged to visit the University and make use of its facilities including the Lakeside Restaurant and the Ivy Theatre.

Environmental sustainability

In 2011, the University signed up to the Eco-Campus Environmental Management System (EMS). This provides a staged framework through bronze, silver, gold and platinum awards towards final achievement of accreditation under the international standard ISO14001. The University achieved the bronze award in March 2012 and has made significant progress towards the higher levels.

In the 2012 People & Planet Green League, which ranks universities according to their environmental performance, Surrey showed the most significant improvement of any university. It moved up 67 places to joint 47th out of 145 in the sector league and missed out on a first class award by just half a point. The scope for further improvement lies within the performance category, reducing carbon and waste in absolute terms.

Carbon Management continues to dominate the University's sustainability agenda. During 2011/12, the University gained further experience of the environmental and financial contribution of renewable energy systems, including biomass at the Surrey Sports Park, photovoltaic electricity generation schemes for both the new Library and Learning Centre (LC) and Advanced Technology Institute (ATI) and Solar Thermal for University Court residences. Through government legislation, Feed-In-Tariffs (FITs) and the Renewable Heat Incentive (RHI), these technologies will provide an income stream for 20-25 years. The value of this income stream is estimated at £35,000 to £40,000 per annum, or £875,000 to £1m over the lifetime of the systems.

Despite the need to reduce waste further in absolute terms, the University has already significantly exceeded its 2013 target for the percentage of waste sent to landfill. Of the University's total waste of 1,577 tonnes, 95% is now recovered or recycled compared with the 2013 target of 50%.

Financial review

Income and expenditure

Consolidated results

The University achieved a consolidated surplus for 2011/12 of £6.8m. Although lower than the previous year's figure of £10.9m, this was a good result when viewed in the context of continuing challenges for both the higher education sector and the wider economy.

Consolidated income remained static at £211.3m (2010/11: £211.6m). Excluding the distorting impact in 2010/11 of £4.2m of tenant's fit-out costs for a new building on the Research Park (£4.2m), there was a modest underlying increase in income of 1.9%. Income remained well diversified.

Core University activities

Core activities include the activities of the Guildford School of Acting (now fully incorporated within the University) and Surrey Sports Park Limited. They exclude the activities of the Surrey Research Park, which are reflected in the University's Foundation Fund accounts.

The University achieved a surplus on its core activities for 2011/12 of £1.2m. Although lower than the 2010/11 surplus of £5.4m, this reflected an improvement on budget.

Income from core activities grew by £3.6m (1.8%) to £201.7m. Tuition fee and educational grant income rose by £5.0m (6.5%) to £82.9m, with income from non-EU students rising £2.6m (8.1%) to £34.5m. Research income fell by £0.4m (1.4%) to £27.5m, as described earlier in this report.

Expenditure on core activities rose by £7.8m (4.0%) to £200.5m with staff costs (excluding restructuring costs) rising by £4.9m (4.7%) to £108.6m. This reflected the strategic decision to invest in academic staff to improve

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student:staff ratios and to boost research capacity ahead of the REF.

Foundation Fund

The Surrey Research Park, which is the Foundation Fund's main asset, delivered another strong financial performance despite the on-going challenges in the commercial property market. Income for the year totalled £9.7m. This reflected an underlying increase of £0.4m (3.8%), once the distorting impact of £4.2m of tenant's fit-out costs in 2010/11 is excluded. The 2011/12 surplus of £5.6m was £0.1m up on the previous financial year.

Balance sheet

Consolidated net assets fell in 2011/12 by £13.0m (6.4%) to £188.8m as shown below:-

Chart 5 Movement in consolidated net assets 2011/12

	£m
Consolidated Net Assets at 31 July 2011	201.8
Surplus for the Year	6.8
Actuarial Losses on Pension Schemes	(11.6)
Investment Property Revaluation	(6.1)
Other Movements	(2.1)
Consolidated Net Assets at 31 July 2012	188.8

Actuarial losses on the pension schemes were mainly the result of a fall in gilt yields which has increased the cost of future liabilities. The overall increase in the balance sheet pension liability was £11.7m. This reflected an increase in the liability for the Surrey County Council LGPS (which covers just under 25% of the workforce) from £20.3m to £32.0m. The balance sheet liability for the London Pensions Fund Authority LGPS (which covers a small number of former employees) remained at £0.9m.

The recent trend in the pension liability is shown below:-

Chart 6 Net pension liability at 31 July

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
Net Pension Liability	33	21	29	34	18

Universities Superannuation Scheme, which covers the majority of employees (including academic staff), remains off balance sheet as the University cannot separately identify its share of the underlying assets or liabilities.

Apart from the pension scheme actuarial losses, the main reason for the weakening of the balance sheet was a £6.1m negative revaluation of the Research Park investment properties. This reflected a downward pressure on rents and the market driven demand for shorter contractual commitments. This revaluation adjustment was partly offset by £1.7m of additions, to give a net fall in investment property values in the year of £4.4m.

Despite the pro-active approach being taken by the Research Park management team to maintain occupancy levels, the value of the Research Park remains well below its 2007 peak of £101m. The recent trend in investment property values is shown below:-

Chart 7 Completed investment properties at 31 July

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
Completed Investment Properties	76	*81	76	75	87

* The 2010/11 increase of £5m reflected the inclusion for the first time of the new 'Kepler' building for the University's former subsidiary Surrey Satellite Technology Limited. The underlying fall in investment property values in 2010/11 was 6%.

Cash flow

The Consolidated Cash Flow Statement on page 18 shows a fall in cash in the year of £0.8m. When combined with an increase in short term investments of £2.0m, this gave an increase in available cash of £1.2m as shown below:-

Chart 8 Movement in consolidated available cash 2011/12

	£m
Consolidated Available Cash at 31 July 2011	64.2
Net Cash Inflow from Operating Activities	24.9
Foundation Fund Surplus	5.6
Capital Expenditure - University	(18.3)
Capital Expenditure - Research Park	(1.7)
HEFCE Capital Grants Received	1.9
Financing (Net Interest and Capital Repayments)	(12.0)
Other	0.8
Consolidated Available Cash at 31 July 2012	65.4

Offset against the available cash of £65.4m were borrowings of £156.6m, giving net debt at 31 July 2012 of £91.2m. This reflected a £7.3m fall in net debt in the year. Despite this fall, the ratio of net debt to total funds remained almost static (2011/12: 48.3%, 2010/11: 48.8%) due to the impact on the balance sheet of actuarial losses on the pension schemes and the downwards revaluation of the Research Park.

Capital investment

In terms of capital investment, 2011/12 was a slightly quieter year after a very intense period of development over the previous three years. Additions to fixed assets totalled £17.4m (2010/11: £21.7m).

The major scheme completed in the year, at a cost of £5.0m, was a new hotel-style reception building on the Manor Park campus. Opened in mid-2012, the building

Operating and financial review (continued)

provides reception facilities for the current 1,600 rooms on site, with another residential block of 212 rooms due for completion in 2013 and further growth planned. In addition to the reception facilities, the building provides a social hub with catering facilities on the ground floor and 42 enhanced en-suite bedrooms on the two upper floors.

Consolidated trends

Pages 47 and 48 of the accounts show the progress made in recent years in strengthening the University's financial position.

Total income has risen by £9.8m since 2007/08 (4.9%). However, the underlying increase, excluding income from Surrey Satellite Technology Limited (SSTL) which was sold in December 2008, was £45.6m (27.6%). Net assets have risen by £23.6m (14.3%) over the same period, despite a £24.7m fall in the value of endowment assets (mainly the Research Park) and a £14.8m rise in the pension liability.

The consolidated surplus has risen from £3.3m (1.6% of income) in 2007/08 to £6.8m (3.2% of income) in 2011/12. The underlying improvement in core operating activities has been more marked. The result on core operating activities has moved from a £4.6m deficit (3.0% of income) in 2007/08 to a £1.2m surplus (0.6% of income) in 2011/12.

Operating cashflow as a percentage of income rose from a positive 5.7% to 11.8% over the period 2007/08 to 2011/12. Borrowings as a percentage of income have risen from 62% at July 2008 to 73.1% at July 2012, reflecting additional investment in student residences, the Surrey Sports Park and the Research Park. These additional borrowings are largely secured against strong income streams. Other key ratios provide further evidence of the steady improvement made in strengthening the University's financial position.

Investments, liquidity and debt

The University's investment, borrowing and hedging strategies continue to be determined by its Finance Committee.

As at 31 July 2012, the University's outstanding bank borrowings and finance lease obligations totalled £154.4m. This included £11.6m in respect of finance lease obligations relating to student residences.

In accordance with an agreement entered into in May 2007, the University termed out its £15m revolving credit facility on 30 April 2012. The debt, which is repayable over 20 years, provides the University with a valuable source of long term finance at a very competitive rate.

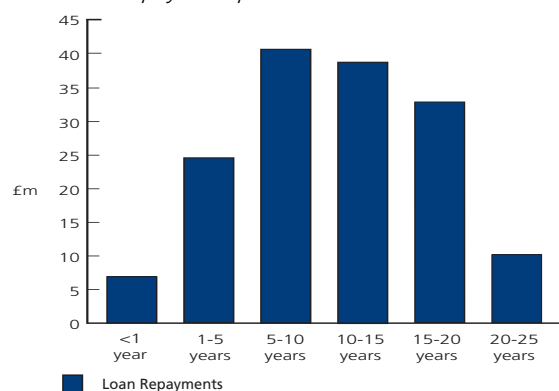
The University uses hedging instruments to limit the risk of interest rate rises. The University's policy is to hedge at least 70% of its term debt, which allows for its cash balances to act as a natural hedge against a portion of the debt. The fair value of interest rate swaps at 31 July 2012 was £28.8m in favour of the counterparty. This reflected a rise in the mark to market value in favour of the counterparty of £11.1m over the previous 12 months due to the fall in long term interest rates.

The University recognises that it has a relatively high gearing ratio, but debt continues to be secured largely against strong revenue streams, primarily from student residences and the Research Park. The University also benefits from very competitive margins on its borrowings. The weighted average cost of capital at 31 July 2012 was 3.6%.

The University's Financial Strategy states that it will consider extending its external borrowings to support further growth on the Research Park and other projects where there is a robust business plan and borrowing costs can be more than covered by reliably identified sources of income. In the absence of capital grants from HEFCE or other sources, all other capital expenditure will be funded from internally generated operating cash flows.

The loan repayment profile, as at 31 July 2012, is shown below:-

Chart 9 Loan repayment profile



The main objective in making investments is to achieve a reasonable rate of return whilst minimising risk. In view of ongoing uncertainty in the banking sector, the University has continued to adopt a prudent approach in respect of its short term investments. The University did, however, make some carefully considered changes to its short term investment criteria during the year in response to action taken by the credit rating agencies to downgrade further many of the major UK and foreign banks. The standard minimum acceptable credit rating was lowered from Standard & Poor's AA- to A+ and a lower minimum rating of A- was agreed for six institutions categorised by Standard and Poor's as being of 'high systemic importance' in the UK. The credit limits for these institutions were also increased, but restrictions were placed on the amounts that could be held with maturity dates of more than three and nine months ahead.

The University places some deposits direct with its banking partners and others via its brokers and cash managers. During 2011/12, the University established a pattern of investing in 12 month deposits, with deposits planned so as to ensure that a certain value matures each month. This assists in maximising returns, whilst ensuring that funds are readily available should they be needed. The weighted average return on short term deposits for 2011/12 was 1.40% (2010/11: 1.13%), which compared favourably with the three month LIBOR rate of 0.97% (2010/11: 0.78%).

Operating and financial review (continued)

Risks and uncertainties

The University's Executive Board closely monitors risks reflected in the high-level risk register. The risk process is overseen by the Audit Committee and the high-level risk register forms the basis of the internal audit programme.

The current high-level register comprises a total of nine risks, closely aligned to the University's strategic objectives. Mitigating actions have been identified for all the risks and a traffic light system is used to monitor progress against the actions.

The following continue to be the most significant areas of risk:-

- Research quality
- Student numbers / quality of students and access agreement targets
- Student experience and outcomes
- Delivery of financial surpluses

Research quality

Improving the quality of the University's research is key to successful performance in the forthcoming Research Excellence Framework (REF) and hence to future HEFCE QR (research) funding. At the same time, recognition of the quality of the University's research, in the form of citations, is the major challenge facing the University in its bid to improve its position in the World League Tables.

The University continues to build research capacity by ensuring that all newly recruited staff are research-active for REF and by investing strategically in new academic posts across all four faculties. The focus on increasing citation rates is reflected both in the drive to put all outputs on open-access as described earlier in this report and on the embedding of a requirement to publish in top quartile (or equivalent) journals in appraisals for all research active staff.

Student numbers / quality of students and access agreement targets

In order to attract the best students in an increasingly competitive market, the University continues to rationalise and improve the targeting and quality of its recruitment activities. It is working to improve its website and other recruitment-facing marketing and branding collateral for both UK and overseas applicants. During 2012/13, it will be implementing the recommendations from a review of its UCAS Days (now renamed Applicant Days) and striving for continuous improvement in its Open Days for prospective UK undergraduates. At the same time, it will focus on establishing robust recruitment activities in key new international markets to reduce its current dependence on the Chinese market.

It was agreed to raise entry standards for 2012/13 undergraduate applications and most courses were listed at AAA or AAB, with no academic subject with entry requirements below ABB. This contributed approximately a 20% reduction in applications, with the University's overall applications for home/EU undergraduate entry in

2012/13 falling by 24%. This can be set against a national decline of 9% for the same period. Having modelled the impact on planned student recruitment of both the reduction in applications and the new AAB+ policy, the University adjusted its financial plans to reflect a reduction in home/EU undergraduate numbers of c. 500. The University has recruited in line with this plan and increased its average UCAS entry tariff from 431 to 436 points in line with its strategy. Nationally most universities in the Russell and 1994 Groups struggled to meet their recruitment targets and experienced declines in entry standards. The University will maintain this focus on quality for 2013/14 entry and is managing the risk by improving the targeting and quality of its recruitment as described above.

The University has seen a significant reduction in the conversion rate of overseas applicants for 2012/13 entry to postgraduate taught programmes. Nationally there has been a marked decline in postgraduate taught admissions for this year and while the removal of post-study visas was a contributory factor, in Surrey's case increased academic standards and the University's decision to raise its English language requirements are also considered to have had an impact. The University has implemented a strategic review of PGT recruitment with the aim of refocusing its recruitment activities for future years.

The University recognises the risk that the drive to increase entrance standards could impact negatively on widening participation. However, the University has consistently exceeded its HESA widening participation benchmarks and continues to take steps, as described in the Public Benefit Statement above, to ensure that able students from any background are able to access the institution and do not face any barriers to progression.

Student experience and outcomes

As shown above, the University has achieved significant improvements in its NSS scores in recent years and attention is now focused on sustaining performance.

With regard to the academic experience, one of the key aims for 2012/13 will be to complete the review of, and implement improvements to, assessment procedures. In relation to the non-academic experience, attention is focused on delivery of a programme of change across academic administration and student services.

Delivery of financial surpluses

While the University delivered another strong financial performance in 2011/12, it has now entered a very different funding environment. Having achieved in 2010/11 – one year ahead of plan – its stated aim to break even on core activities, it has set itself the target of achieving an annual consolidated net surplus of at least 5% by 2016/17. However, for 2012/13 it has planned, for strategic reasons, to budget for a deficit on its core activities. This reflects the strategic decisions taken to focus on increasing the quality of students (knowing that this would reduce numbers) and to invest in further academic posts to improve student:staff ratios and build capacity ahead of the REF.

Operating and financial review (continued)

These strategic decisions leave little headroom in the 2012/13 budget and attention is focused on ensuring that the impact of the shortfall in tuition fees, mainly from overseas postgraduate students, is mitigated by in-year cost savings. However, the University recognises the need for a more sustained approach to value for money. Having successfully restructured its finance department to improve efficiency and service levels, it is undertaking similar process improvements in other areas including academic administration, admissions and human resources. The University will also ensure that the delivery of agreed strategic business cases, for example the investment in additional academic staff, is properly monitored and that the quantifiable benefits used to justify the cases are delivered in subsequent budgets.

Summary

The University has performed strongly in the last 12 months, achieving a healthy financial surplus and significantly strengthening its position in the league tables. It has achieved a further increase in its tariff score for 2012/13 undergraduate entry, demonstrating its success in building a first class integrated student experience that attracts high quality applicants. It faces challenges in maintaining and developing the diversity of its overseas student population, but has clear goals to maximise its success in all areas of its business.

The University continues to undertake strategic developments to strengthen its reputation as a leading institution and has recently announced two major initiatives to grow its teaching and research activities. In October 2012, the University announced its plans to open a new £37m school of veterinary medicine, with the first student intake due in 2014/15. In the same month, it also announced the receipt of a grant of nearly £12m from the UK Research Partnership Investment Fund (UKRPIF) which, together with c. £24m of co-investment from key mobile phone operators and infrastructure providers, will enable the University to establish a new 5G Research Centre.

The University has positioned itself well for the future in terms of the quality of its academic activities and is gaining increasing recognition for its achievements. Investments in academic staff and new facilities will continue to support the University's aims of becoming a leading national and international institution.



**Professor Sir Christopher M Snowden FRS FREng
FIET FIEEE FCGI
President and Vice-Chancellor**

Corporate governance

The University is committed to exhibiting best practice in all aspects of corporate governance and endeavours to conduct its business in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange and in the Governance Code of Practice provided by the Committee of University Chairs (CUC) in its 'Guide for Members of Higher Education Governing Bodies in the UK.' Its purpose is to help the reader of the accounts understand how the principles have been applied.

Statement of internal control

The University Council, as governing body, is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The University has an agreed Risk Management Policy which has been approved by Council, and its risk register is regularly reviewed and updated. The Executive Board is responsible for the consideration of issues relating to risk and this is a standing item on the Executive Board agenda. The status of the University's high level risks and actions taken to mitigate those risks are reported on regularly to Audit Committee, Finance Committee and Council. The University Council is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, and that it has been in place for the year ended 31 July 2012 and up to the date of approval of the annual accounts. The process is regularly reviewed by the Council and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for Higher Education.

Summary of the University's structure of corporate governance

The University is an independent corporation, whose legal status derives from a royal charter originally granted in 1966. Its objects, powers and framework of governance are set out in the charter and its supporting statutes.

In accordance with the requirements of its Charter and Statutes, the University's Council comprises a number of ex officio, elected and co-opted external persons, the majority of whom are non-executive. The role of the Chairman of Council is separated from the role of the University's Chief Executive, the President and Vice-Chancellor.

The powers of the Council are set out in the Statutes of the University. Under the Financial Memorandum with the Higher Education Funding Council for England, the Council is collectively responsible for overseeing the University's activities, determining its future direction and fostering an environment in which its mission is achieved.

The Council undertakes an annual review of its effectiveness. The results of the 2012 review give a clear indication that Council considers it continues to operate effectively and move in the right direction, although with an awareness of the need to continue this development in light of the present uncertainties in the University's operating environment.

The Council meets four times a year and has several committees, all of which are formally constituted with appropriate terms of reference. These include a Finance Committee and an Audit Committee.

The Finance Committee, which comprises a majority of external members, meets six times a year. It advises Council on financial policy and strategy, reviews and recommends to Council the University's financial forecasts, and keeps the University's financial position under review. It ensures that the University's assets are well managed and that a reasonable return is achieved from them. The Committee has powers delegated by Council to authorise the borrowing and investment of money on behalf of the University.

The Audit Committee meets three times annually with the External and Internal Auditors in attendance. It considers detailed reports from the Auditors, which include recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. It also receives and considers reports from the Higher Education Funding Council for England as they affect the University's business, and monitors adherence with the regulatory requirements. It reviews the University's annual financial statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee may meet with the External and Internal Auditors on their own for independent discussions. The Chair of the Audit Committee has direct access to the Chair of Council.

The University has an Executive Board which is the senior management committee of the University and meets monthly under the chairmanship of the President and Vice-Chancellor as Chief Executive. The Executive Board has a number of supporting executive and advisory committees, all of which are formally constituted with appropriate terms of reference and a number of which include external members.

Responsibilities of the Council of the University of Surrey

In accordance with the University's Charter and Statutes, the Council of the University is responsible for the management and administration of the affairs of the University and is required to present audited financial statements for each financial year.

The Council has adopted the following Statement of Primary Responsibilities which is published on the University website:-

The primary responsibilities of the Council are:

- to approve the mission and strategic vision of the University and long term academic business plans; to agree key performance indicators and annual budgets and to ensure that these meet the interests of stakeholders;
- to ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment; and procedures for handling internal grievances and for managing conflicts of interest;
- to ensure processes are in place to monitor and evaluate the performance and effectiveness of the University against its plans, previous performance and agreed key performance indicators which should be, where possible and appropriate, benchmarked against other comparable universities; and
- to appoint the President and Vice-Chancellor and to put in place suitable arrangements for monitoring his/her performance.

The Council is responsible for ensuring the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and its subsidiaries and which enable it to ensure that the financial statements are prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and its subsidiaries and of their surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and consistently applied;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University and the Group will continue in

operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps:

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

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic faculties and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee; and
- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal financial control in existence for the University for the year ended 31 July 2012. This review has been based on the risks identified and the work carried out by the Internal Audit Department taking into account matters arising from the external audit. The Committee considers that there were no weaknesses in the framework that led during the year to any material losses or contingencies. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Independent auditor's report to the Council of the University of Surrey

We have audited the Group and University financial statements (the "financial statements") of the University of Surrey for the year ended 31st July 2012, which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Council and auditor

As explained more fully in the Statement of Responsibilities of the Council set out on page 12 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31st July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

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



Chris Wilson

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 Forest Gate,
Brighton Road,
Crawley,
RH11 9PT

27 November 2012

Consolidated income and expenditure account for the year ended 31 July 2012

	Note	2011/12 £000	2010/11 £000
Income			
Funding council grants	2	46,143	47,781
Tuition fees and education grants	3	82,933	77,892
Research grants and contracts	4	27,536	27,926
Other income	5	44,097	44,022
Endowment and investment income	6	10,641	13,970
Total income		211,350	211,591
Expenditure			
Staff costs - operational	7	109,084	104,241
Staff costs - restructuring	7	2,115	1,320
Other operating expenses	10	71,029	73,500
Depreciation	10	15,776	15,797
Interest and other finance costs	9	6,736	5,961
Total expenditure	10	204,740	200,819
Surplus before taxation		6,610	10,772
Taxation	11	(119)	21
Surplus after taxation	12	6,491	10,793
Transfer from accumulated income in endowment funds		324	120
Surplus for the year retained within general reserves		6,815	10,913

All income and expenditure relates to continuing operations.

Statement of consolidated total recognised gains and losses for the year ended 31 July 2012

	Note	2011/12 £000	2010/11 £000
Surplus for the year after taxation		6,491	10,793
New endowments	24	174	143
Revaluation of permanent endowment assets	24	(6,096)	(2,307)
Increase in value of expendable endowment assets	24	2	193
Unrealised surplus on revaluation of fixed asset investments	26	44	96
Realised revaluation surplus on sale of investments	26	(76)	-
Write off of subsidiary revaluation reserve		-	(282)
Actuarial (losses)/gains in respect of pension schemes	36	(11,604)	8,541
Total recognised (losses)/gains relating to the year		<u>(11,065)</u>	<u>17,177</u>
Reconciliation			
Opening reserves and endowments		143,301	126,124
Total recognised (losses)/gains for the year		<u>(11,065)</u>	<u>17,177</u>
Closing reserves and endowments		<u>132,236</u>	<u>143,301</u>

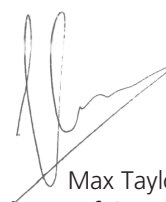
Balance sheets as at 31 July 2012

	Note	Consolidated		University	
		2012 £000	2011 £000	2012 £000	2011 £000
Fixed assets					
Tangible assets	13	276,816	275,609	277,021	275,676
Investments	14	41,891	39,484	42,748	40,372
		<u>318,707</u>	<u>315,093</u>	<u>319,769</u>	<u>316,048</u>
Endowment asset investments	15	<u>42,204</u>	48,448	<u>42,204</u>	48,091
Current assets					
Stocks and stores in hand		498	520	467	492
Assets held for resale	16	394	1,450	394	-
Debtors	17	19,094	19,675	18,637	22,280
Investments	18	28,059	26,059	28,059	26,059
Cash at bank and in hand		37,317	38,151	36,604	37,241
		<u>85,362</u>	<u>85,855</u>	<u>84,161</u>	<u>86,072</u>
Creditors : amounts falling due within one year	19	<u>(73,529)</u>	(68,379)	<u>(72,606)</u>	(68,660)
Net current assets		<u>11,833</u>	<u>17,476</u>	<u>11,555</u>	<u>17,412</u>
Total assets less current liabilities		<u>372,744</u>	381,017	<u>373,528</u>	381,551
Creditors : amounts falling due after more than one year	20	<u>(149,488)</u>	(156,614)	<u>(149,386)</u>	(156,493)
Less: Provisions for liabilities and charges	22	<u>(1,552)</u>	(1,449)	<u>(1,552)</u>	(1,449)
Total net assets excluding pension liability		<u>221,704</u>	<u>222,954</u>	<u>222,590</u>	<u>223,609</u>
Pension liability		<u>(32,925)</u>	(21,195)	<u>(32,825)</u>	(21,226)
Total net assets including pension liability		<u>188,779</u>	<u>201,759</u>	<u>189,765</u>	<u>202,383</u>
Deferred capital grants	23	<u>56,543</u>	<u>58,458</u>	<u>56,543</u>	<u>58,458</u>
Endowments					
Expendable	24	2,598	2,781	2,598	2,424
Permanent	24	39,606	45,667	39,606	45,667
		<u>42,204</u>	<u>48,448</u>	<u>42,204</u>	<u>48,091</u>
Reserves	26				
Income and expenditure account excluding pension reserve		122,718	115,777	123,604	116,789
Pension reserve		<u>(32,925)</u>	<u>(21,195)</u>	<u>(32,825)</u>	<u>(21,226)</u>
Income and expenditure account including pension reserve		89,793	94,582	90,779	95,563
Revaluation reserve		239	271	239	271
		<u>90,032</u>	<u>94,853</u>	<u>91,018</u>	<u>95,834</u>
Total funds		<u>188,779</u>	<u>201,759</u>	<u>189,765</u>	<u>202,383</u>

The financial statements and notes on pages 15 to 46 were approved by Council on 22 November 2012 and signed on its behalf by:



Professor Sir Christopher M Snowden FRS FREng FIET FIEEE FCGI
President and Vice-Chancellor



Max Taylor
Chairman of Council

Consolidated cash flow statement for the year ended 31 July 2012

	Note	2011/12 £000	2010/11 £000
Net cash inflow from operating activities	27	24,863	31,470
Returns on investments and servicing of finance	28	181	1,393
Taxation		(10)	-
Capital expenditure and financial investment	29	(17,747)	(23,412)
Management of liquid resources	30	(2,000)	(5,000)
Financing	31	(6,121)	9,917
(Decrease)/increase in cash in the year	32	<u>(834)</u>	<u>14,368</u>

	2011/12 £000	2010/11 £000
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(834)	14,368
Cash inflow from increase in loans	(450)	(1,042)
Repayment of long term loans	5,752	5,285
Drawdown of other loans	-	(15,000)
Capital element of finance lease payments	819	840
Cash outflow from decrease in liquid resources	<u>2,000</u>	<u>5,000</u>
Change in net funds	7,287	9,451
Net debt at 1 August	(98,466)	(107,917)
Net debt at 31 July	32	<u>(91,179)</u>

Notes to the financial statements

1 Accounting Policies

Basis of preparation

The financial statements were approved for issue by the University Council on 22 November 2012. The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education 2007* and in accordance with other applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The financial statements are prepared under the historical cost convention modified by the revaluation of endowment asset investments and listed fixed asset investments.

Basis of consolidation

The consolidated financial statements include the University, the Foundation Fund (an unrestricted permanent endowment fund) and the University's subsidiaries for the financial year to 31 July. Intra-group sales and profits are eliminated fully on consolidation.

The Foundation Fund was set up from the original national appeal for funds to establish the new University when it was founded in 1966. The University Council acts as trustees to the Foundation Fund with the power to act as trustees defined in the provision of the Royal Charter (Article 3 (20)). Foundation Fund surpluses are used to support specific new academic initiatives and projects.

The activities of the Students' Union are not consolidated because the University does not control those activities.

Recognition of income

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

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

Recurrent income from grants, contracts and other services rendered is accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

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

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded. Any payments received in advance of the acquisition or construction of the fixed asset are recognised on the balance sheet as liabilities.

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

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Recognition of income (continued)

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account, to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, are added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund, and are reported in the statement of total recognised gains and losses.

Pension schemes

The two principal pension schemes are the Universities Superannuation Scheme (USS) and the Surrey County Council Local Government Pension Scheme (Surrey Pension Fund). The University also participates in the Pensioner Sub-fund of the London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund). All are defined benefit schemes and contracted out of the State Second Pension (S2P), with assets held in separate trustee administered funds.

Because of the mutual nature of the USS, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The group is able to identify its share of the underlying assets and liabilities of the Surrey Pension Fund and the LPFA Pension Fund and fully adopts FRS17 'Retirement Benefits' in respect of these two schemes.

The group operates defined contribution pensions schemes for employees of certain subsidiary companies. Contributions are charged in the income and expenditure account as they become payable in accordance with the scheme rules.

Agency arrangements

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

Tangible fixed assets

a. Land and buildings

Land and buildings are initially stated at cost and buildings are depreciated over their expected useful lives of 50 to 60 years. Freehold land is not depreciated. With effect from 1 August 1999, costs which meet the FRS15 criteria for capitalisation are accounted for as additions to buildings and written off over their expected useful lives (generally between 10 and 30 years). Finance costs which are directly attributable to the construction of buildings are capitalised as part of the cost of those assets.

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

Land and buildings anticipated to be sold within 12 months of the balance sheet date are reclassified as current assets under assets held for resale.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

b. Equipment

Equipment costing less than £10,000 per individual item, or group of related items, is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its useful life, as follows:

Motor vehicles	-	5 years
Computer software	-	5 to 7 years
Other computing equipment	-	3 years
Equipment acquired for specific research projects	-	project life
Other equipment	-	5 to 20 years
Furniture	-	10 years

Leasehold improvement costs incurred by subsidiary companies are capitalised and written off over the residual life of the lease.

Fixed asset impairments

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Assets funded by specific grants

Where assets are acquired with the aid of specific grants they are capitalised and depreciated over their estimated useful lives. The related grants are credited to a deferred capital grant account and released to income over the expected useful lives of the corresponding assets.

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements that transfer to the University substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown 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 reducing capital element outstanding. Assets held under finance leases are depreciated over the useful economic lives of equivalent owned assets.

Maintenance of premises

The University has a five year rolling long term maintenance plan which forms the basis of the ongoing maintenance of the estate. Expenditure on long term maintenance which does not meet the FRS 15 criteria for capitalisation, and expenditure on all routine corrective maintenance, is charged to the income and expenditure account as incurred.

Investments

Listed fixed asset investments held as fixed assets or endowment assets are included in the balance sheet at market value. Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment. Current asset investments are included at the lower of cost and net realisable value.

Freehold investment properties held as part of the general endowment are accounted for in accordance with SSAP19 'Accounting for Investment Properties'. No depreciation is provided in respect of these properties and they are revalued annually by independent professional valuers.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

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 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits and government securities held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly Schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471 and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

The University's subsidiary companies (with the exception of The Guildford School of Acting Conservatoire) are subject to corporation tax in the same way as any commercial organisation.

Deferred taxation

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

Financial instruments

The institution uses derivative financial instruments (interest rate swaps) to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Research and development

Expenditure on general research and development is written off against profits in the year in which it is incurred.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Research and development (continued)

Design and content costs relating to the development of websites to support specific teaching or training courses, or for specific research projects, are capitalised. These are amortised over the useful economic life of projects.

Where there is uncertainty over the life of the course or its viability such costs are written off as incurred as are design and content costs for websites that are for the general use of the institution and its staff.

Foreign currency translation

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

Accounting for charitable donations

a. Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

b. Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution;
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income;
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

c. Donations for fixed assets

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

d. Gifts in kind, including donated tangible fixed assets

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

e. Heritage assets

Works of art and other valuable artefacts (heritage assets) and valued at over £10,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

Provisions, contingent liabilities and contingent assets

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

Contingent liabilities are disclosed by way of a note when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow. Contingent assets are disclosed by way of a note, where there is a possible rather than a present asset arising from a past event.

Notes to the financial statements (continued)**2 Funding Council Grants**

	Consolidated	
	2011/12	2010/11
	£000	£000
Recurrent Grant		
Teaching	22,864	23,784
Research	15,614	15,931
	38,478	39,715
Specific Grants		
Higher Education Innovation Fund	2,803	1,927
Other	756	2,125
Deferred Capital Grants released in year (note 23)		
Building	2,178	1,892
Equipment	1,928	2,122
Total grants from funding councils	46,143	47,781

3 Tuition Fees and Education Grants

	Consolidated	
	2011/12	2010/11
	£000	£000
UK & EU undergraduates	19,922	18,755
UK & EU postgraduates	8,745	9,151
Non-EU students	34,467	31,888
Non-credit bearing courses	2,975	2,531
Nurse training contract	13,123	12,733
Research training support grants	3,701	2,834
	82,933	77,892

4 Research Grants and Contracts

	Consolidated	
	2011/12	2010/11
	£000	£000
Research councils	10,673	11,192
UK based charities	1,513	1,382
UK government, health and hospital authorities	1,826	1,336
UK industry and commerce	1,775	3,166
EU bodies	11,339	10,305
Other grants and contracts	410	545
	27,536	27,926

Notes to the financial statements (continued)**5 Other Income**

	Consolidated	
	2011/12	2010/11
	£000	£000
Residences, catering and conferences	26,670	25,315
Other services rendered	3,146	3,965
Released from deferred capital grants (note 23)	129	134
Other income	14,152	14,608
	<u>44,097</u>	<u>44,022</u>

6 Endowment and Investment Income

	Consolidated	
	2011/12	2010/11
	£000	£000
Income from expendable endowments (note 24)	42	39
Income from permanent endowments (note 24)	9,563	13,176
Income from short and long term investments	1,036	755
	<u>10,641</u>	<u>13,970</u>

7 Staff

	Consolidated	
	2011/12	2010/11
	£000	£000
Staff costs - operational:		
Wages and salaries	89,568	85,311
Social security costs	7,147	6,789
Other pension costs (note 36)	12,369	12,141
	<u>109,084</u>	<u>104,241</u>
Staff costs - restructuring	2,115	1,320
	<u>111,199</u>	<u>105,561</u>

	Consolidated	
	2011/12	2010/11
	Number	Number
Full time equivalent staff numbers:		
Research & teaching	953	900
Professional	987	954
Technical and experimental	102	101
Operational	349	331
Other	11	11
	<u>2,402</u>	<u>2,297</u>

Notes to the financial statements (continued)**8 Emoluments of Higher Paid Staff**

		2011/12	2010/11
		£000	£000
Emoluments of President and Vice-Chancellor	Salary and benefits before pension allowance	320	289
	Allowance in lieu of pension contributions	23	-
		343	289
	Pension contributions to USS	23	45
		366	334

The emoluments of the President and Vice-Chancellor include all remuneration and benefits.

Remuneration of other higher paid staff, excluding employer's pension contributions and early retirement costs:

Remuneration Band	2011/12	2010/11
	Consolidated Number of Employees	
£100,001- £110,000	6	4
£110,001- £120,000	8	8
£120,001- £130,000	5	3
£130,001- £140,000	3	2
£140,001- £150,000	2	4
£150,001- £160,000	3	2
£160,001- £170,000	2	1
	29	24

These bands include the annual emoluments of staff who joined the University during 2011/12 although actual payments were pro rata to the number of months employed.

Compensation for loss of office of £146,000 was paid in respect of higher paid staff in 2011/12 (2010/11: £128,000).

Notes to the financial statements (continued)**11a Taxation**

	Consolidated	
	2011/12	2010/11
	£000	£000
UK corporation tax relief on the losses of certain subsidiaries for the year	-	(21)
Tax on subsidiary profits	19	-
Foreign tax	100	-
	119	(21)

11b Factors Affecting Current Tax Charge

	Consolidated	
	2011/12	2010/11
	£000	£000
Surplus before taxation	6,610	10,772
Surplus multiplied by standard rate of corporation tax in the UK of 25.33% (2011: 27.33%)	1,674	2,801
Factors affecting charge:		
University and Foundation Fund surplus exempt from tax	(1,616)	(3,160)
Subsidiary's profit exempt from tax	(35)	252
Subsidiary losses carried forward	-	7
Adjustment for small company rate (20%, 2011: 20.67%)	(11)	73
Accelerated capital allowances and other timing differences	13	-
Utilisation of tax losses by subsidiaries	(17)	-
Adjustment respect of prior periods for subsidiary	18	-
Tax charged on profits earned overseas	100	-
Other	(7)	7
Total current tax charge (note 11a)	119	(21)

12 Surplus for the Year After Taxation

	Consolidated	
	2011/12	2010/11
	£000	£000
The surplus after taxation for the year is made up as follows:		
University surplus before Gift Aid (excluding Foundation Fund)	759	6,644
Foundation Fund surplus	5,621	5,510
Surpluses generated by subsidiaries and transferred to the University as Gift Aid donations	-	-
Unconsolidated surplus after Gift Aid	6,380	12,154
Net surpluses/(deficits) retained by subsidiaries	177	(2,093)
Balances eliminated on consolidation	(66)	732
	6,491	10,793

Notes to the financial statements (continued)

13 Tangible Fixed Assets

Consolidated	Land and Buildings		Assets under Construction £000	Equipment £000	Total £000
	Freehold £000	Leasehold £000			
Cost					
At 1 August 2011	301,451	14,811	14,888	78,495	409,645
Additions at cost	1,283	-	14,110	1,986	17,379
Transfers	21,634	-	(23,760)	2,126	-
Disposals at cost	(302)	-	-	(636)	(938)
At 31 July 2012	<u>324,066</u>	<u>14,811</u>	<u>5,238</u>	<u>81,971</u>	<u>426,086</u>
Depreciation					
At 1 August 2011	66,465	2,801	-	64,770	134,036
Charge for the year	10,726	297	-	4,704	15,727
Eliminated on disposal	(135)	-	-	(358)	(493)
At 31 July 2012	<u>77,056</u>	<u>3,098</u>	<u>-</u>	<u>69,116</u>	<u>149,270</u>
Net Book Value					
At 31 July 2012	<u>247,010</u>	<u>11,713</u>	<u>5,238</u>	<u>12,855</u>	<u>276,816</u>
At 31 July 2011	<u>234,986</u>	<u>12,010</u>	<u>14,888</u>	<u>13,724</u>	<u>275,609</u>
University					
	Freehold £000	Leasehold £000	Assets under Construction £000	Equipment £000	Total £000
Cost					
At 1 August 2011	301,760	14,811	14,887	78,184	409,642
Additions at cost	1,283	-	14,111	1,936	17,330
Transfer from subsidiary	-	-	-	27	27
Transfers	21,634	-	(23,760)	2,126	-
Disposals at cost	(302)	-	-	(301)	(603)
At 31 July 2012	<u>324,375</u>	<u>14,811</u>	<u>5,238</u>	<u>81,972</u>	<u>426,396</u>
Depreciation					
At 1 August 2011	66,564	2,801	-	64,601	133,966
Charge for the year	10,732	297	-	4,683	15,712
Eliminated on disposal	(135)	-	-	(168)	(303)
At 31 July 2012	<u>77,161</u>	<u>3,098</u>	<u>-</u>	<u>69,116</u>	<u>149,375</u>
Net Book Value					
At 31 July 2012	<u>247,214</u>	<u>11,713</u>	<u>5,238</u>	<u>12,856</u>	<u>277,021</u>
At 31 July 2011	<u>235,196</u>	<u>12,010</u>	<u>14,887</u>	<u>13,583</u>	<u>275,676</u>

All leasehold land and buildings are long leases.

Included within the cost of land & buildings (Consolidated and University) is £1,828,000 (2011: £1,828,000) which represents interest charges on loans taken out to fund the cost of buildings and incurred before the buildings came into use.

The net book value of land & buildings and equipment (Consolidated and University) includes £11,714,000 (2011: £12,010,000) and £237,000 (2011: £577,000) respectively for assets held under a finance lease, and depreciation charged for the year of £297,000 (2011: £297,000) and £340,000 (2011: £345,000) respectively.

£27,000 of assets were transferred from The Guildford School of Acting Conservatoire in the year.

Notes to the financial statements (continued)**14 Fixed Asset Investments**

	Consolidated		University	
	2012	2011	2012	2011
	£000	£000	£000	£000
Subsidiary companies	-	-	1,404	1,345
Investments in spinouts	486	396	6	6
Investment: Research Park	39,298	37,039	39,298	37,039
Listed investments	1,731	1,654	1,731	1,654
Cash held as part of investment portfolio	79	18	79	18
Other investments	297	377	230	310
	<u>41,891</u>	<u>39,484</u>	<u>42,748</u>	<u>40,372</u>

Significant Shareholdings in Subsidiaries

Name	Nature of Business	Class of Share	% held
Surrey Social and Market Research Limited	Market research	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100
UniSGrist Limited	Grants to entrepreneurs	Ordinary	100
Surrey Sports Park Limited	Sports park	Ordinary	100
The Guildford School of Acting Conservatoire (note 25)	Drama school	Limited by guarantee	100

All subsidiaries are incorporated in Great Britain and registered in England and Wales.

Notes to the financial statements (continued)

15 Endowment Assets

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Balance at 1 August	48,448	50,539	48,091	50,190
Net disposals	(227)	(146)	(230)	(148)
Decrease in market value of investments	(6,094)	(2,114)	(6,092)	(2,123)
Transfer from The Guildford School of Acting Conservatoire	-	-	352	-
Increase in cash balances held for endowment funds	77	169	83	172
Balance at 31 July	42,204	48,448	42,204	48,091
Represented by:				
Foundation Fund land and buildings	39,242	45,338	39,242	45,338
Listed investments	1,644	1,869	1,644	1,735
Cash held as part of investment portfolio	94	28	94	24
Cash held at bank for endowment funds	1,224	1,213	1,224	994
Total endowments	42,204	48,448	42,204	48,091

16 Assets Held for Resale

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Freehold land and buildings	-	1,050	-	-
Leasehold land and buildings	394	400	394	-
	394	1,450	394	-

17 Debtors

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	7,344	7,628	6,677	7,504
Amounts owed by subsidiary companies	-	-	423	3,072
Other debtors	292	326	292	314
Deferred tax	204	222	-	-
Prepayments and accrued income	11,254	11,499	11,245	11,390
	19,094	19,675	18,637	22,280

Other debtors in the Consolidated and University balance sheets include £117,000 which is due after more than one year (2011: £197,000).

Amounts owed by subsidiary companies in the University balance sheet includes £nil which is due after more than one year (2011: £601,000).

The deferred tax debtor relates to a deferred tax credit arising in one of the subsidiaries, Surrey Sports Park Limited, the recoverability of which is dependent on future trading surpluses.

Notes to the financial statements (continued)**18 Current Asset Investments**

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Short term deposits (maturing within 1 year)	28,000	26,000	28,000	26,000
Other investments	59	59	59	59
	<u>28,059</u>	<u>26,059</u>	<u>28,059</u>	<u>26,059</u>

Short term deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority with more than 24 hours maturity at the balance sheet date.

Other investments represents shares with a market value at the balance sheet date of £1,628,000 (2011: £1,954,000).

19 Creditors : amounts falling due within one year

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank loans (note 21a)	6,083	5,067	6,083	5,067
Obligations under finance leases (note 21b)	476	819	476	819
Other loans	610	298	610	298
Payments received on account	5,363	5,687	5,363	5,565
Trade creditors	5,653	4,186	5,570	4,098
Amounts owed to group companies	-	-	10	809
Other creditors including taxation and social security	10,293	8,971	10,148	8,882
Accruals and deferred income	45,051	43,351	44,346	43,122
	<u>73,529</u>	<u>68,379</u>	<u>72,606</u>	<u>68,660</u>

20 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank loans (note 21a)	136,710	142,981	136,710	142,981
Obligations under finance leases (note 21b)	11,164	11,640	11,164	11,640
Other loans	1,512	1,871	1,512	1,872
Other creditors	102	122	-	-
	<u>149,488</u>	<u>156,614</u>	<u>149,386</u>	<u>156,493</u>

Notes to the financial statements (continued)

21 Borrowings

a. Bank loans	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Bank loans are repayable as follows:				
In one year or on demand	6,083	5,067	6,083	5,067
Between one and two years	5,281	5,333	5,281	5,333
Between two and five years	18,008	15,861	18,008	15,861
In five years or more	113,421	121,787	113,421	121,787
	142,793	148,048	142,793	148,048
Due within one year or on demand	(6,083)	(5,067)	(6,083)	(5,067)
Due after more than one year	136,710	142,981	136,710	142,981
Unsecured loans repayable by 2035	142,793	148,048	142,793	148,048

Consolidated bank loans at 31 July were as follows:

Lender	Amount £000	Term	Interest Rate %	Borrower
Lloyds	28,525	2031	0.20 above base/LIBOR	University
Lloyds	29,046	2022-2026	0.20 above base/LIBOR	University
National Westminster	1,070	2013	0.20 above base/LIBOR	University
National Westminster	18,338	2030	0.20 above base/LIBOR	University
National Westminster	2,980	2022	0.20 above base/LIBOR	University
National Westminster	14,812	2032	0.20 above base/LIBOR	University
Santander	48,022	2035	0.17 above LIBOR	University
	142,793			

b. Finance leases	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
The net finance lease obligations to which the University is committed are:				
In one year or less	476	819	476	819
Between two and five years	2,091	2,005	2,091	2,005
Over five years	9,073	9,635	9,073	9,635
	11,640	12,459	11,640	12,459

c. Other loans	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
HEFCE repayable capital:				
In one year or less	250	200	250	200
Between two and five years	300	550	300	550
Over five years	-	-	-	-
	550	750	550	750
Other loans:				
In one year or less	360	298	360	298
Between two and five years	635	744	635	745
Over five years	577	577	577	577
	1,572	1,619	1,572	1,620
Total other loans	2,122	2,369	2,122	2,370

Notes to the financial statements (continued)**22 Provisions for Liabilities and Charges**

	Consolidated	University
	2012	2012
	£000	£000
At 1 August 2011	1,449	1,449
Utilised in year	(108)	(108)
Transfer from income and expenditure account	211	211
At 31 July 2012	<u>1,552</u>	<u>1,552</u>

The provision relates to premature retirement compensation.

23 Deferred Capital Grants

Consolidated	Funding Council	Other Grants	Total
	£000	£000	£000
At 1 August 2011			
Building	48,714	4,161	52,875
Equipment	5,560	23	5,583
Total	<u>54,274</u>	<u>4,184</u>	<u>58,458</u>
Grants received/receivable			
Building	752	5	757
Equipment	1,448	115	1,563
Total	<u>2,200</u>	<u>120</u>	<u>2,320</u>
Released to income and expenditure account			
Building	2,178	111	2,289
Equipment	1,928	18	1,946
Total	<u>4,106</u>	<u>129</u>	<u>4,235</u>
At 31 July 2012			
Building	47,288	4,055	51,343
Equipment	5,080	120	5,200
Total	<u>52,368</u>	<u>4,175</u>	<u>56,543</u>
University	Funding Council	Other Grants	Total
	£000	£000	£000
At 1 August 2011			
Building	48,714	4,161	52,875
Equipment	5,560	23	5,583
Total	<u>54,274</u>	<u>4,184</u>	<u>58,458</u>
Grants received/receivable			
Building	752	5	757
Equipment	1,448	115	1,563
Total	<u>2,200</u>	<u>120</u>	<u>2,320</u>
Released to income and expenditure account			
Building	2,178	111	2,289
Equipment	1,928	18	1,946
Total	<u>4,106</u>	<u>129</u>	<u>4,235</u>
At 31 July 2012			
Building	47,288	4,055	51,343
Equipment	5,080	120	5,200
Total	<u>52,368</u>	<u>4,175</u>	<u>56,543</u>

Notes to the financial statements (continued)

24 Endowments

Consolidated

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2012 Total £000	2011 Total £000
Balances at 1 August 2011						
Capital	45,338	248	45,586	2,493	48,079	50,269
Accumulated income	-	81	81	288	369	270
	<u>45,338</u>	<u>329</u>	<u>45,667</u>	<u>2,781</u>	<u>48,448</u>	<u>50,539</u>
New endowments	-	30	30	144	174	143
Investment income	9,556	7	9,563	42	9,605	13,215
Expenditure	(9,556)	(2)	(9,558)	(371)	(9,929)	(13,335)
	-	35	35	(185)	(150)	23
(Decrease)/increase in market value of investments	(6,096)	-	(6,096)	2	(6,094)	(2,114)
At 31 July 2012	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,448</u>
Represented by:						
Capital	39,242	273	39,515	2,380	41,895	48,079
Income	-	91	91	218	309	369
	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,448</u>

University

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2012 Total £000	2011 Total £000
Balances at 1 August 2011						
Capital	45,338	248	45,586	2,169	47,755	49,945
Accumulated income	-	81	81	255	336	245
	<u>45,338</u>	<u>329</u>	<u>45,667</u>	<u>2,424</u>	<u>48,091</u>	<u>50,190</u>
New endowments	-	30	30	136	166	114
Transfer from subsidiary	-	-	-	352	352	-
Investment income	9,556	7	9,563	38	9,601	13,210
Expenditure	(9,556)	(2)	(9,558)	(356)	(9,914)	(13,300)
	-	35	35	170	205	24
(Decrease)/increase in market value of investments	(6,096)	-	(6,096)	4	(6,092)	(2,123)
At 31 July 2012	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,091</u>
Represented by:						
Capital	39,242	273	39,515	2,380	41,895	47,755
Income	-	91	91	218	309	336
	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,091</u>

Notes to the financial statements (continued)**25 Connected Charitable Institutions**

A number of charitable institutions are administered by or on behalf of the University and have been established for its general or specific purposes. As a result, under paragraph 28 of schedule 3 to the Charities Act 2011, these connected institutions are exempt from registration with the Charity Commission. All of these connected institutions are included in these consolidated financial statements. The movements in the year on the total funds of all connected institutions, as reported in their own accounts, were as follows:

Connected institutions with income over £100,000

	At 1 August 2011 £000	Income £000	Expenditure £000	Transfer to University £000	At 31 July 2012 £000
Subsidiary company:					
The Guildford School of Acting Conservatoire	<u>171</u>	<u>2,758</u>	<u>(2,573)</u>	<u>(356)</u>	<u>-</u>

The purpose of The Guildford School of Acting Conservatoire was to advance the education of students through the provision of a drama school. On 31 March 2012, all the assets and liabilities, as well as the activities of the Guildford School of Acting were transferred to the University of Surrey.

Other connected institutions with income under £100,000

	At 1 August 2011 £000	Income £000	Expenditure £000	Change in Market Value £000	At 31 July 2012 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	573	13	(56)	(3)	527
Research (2 funds)	847	19	(133)	(4)	729
Other (1 fund)	75	1	-	3	79
	<u>1,495</u>	<u>33</u>	<u>(189)</u>	<u>(4)</u>	<u>1,335</u>

26 Reserves

	Consolidated 2012 £000	University 2012 £000
Income and expenditure reserve		
At 1 August 2011	115,777	116,789
Surplus for the year	6,815	6,693
Add back pension deficit	126	122
At 31 July 2012	<u>122,718</u>	<u>123,604</u>
Pension reserve		
At 1 August 2011	(21,195)	(21,226)
Actuarial losses in respect of pension schemes (note 36)	(11,604)	(11,477)
Deficit retained within reserves	(126)	(122)
At 31 July 2012	<u>(32,925)</u>	<u>(32,825)</u>
Revaluation reserve		
At 1 August 2011	271	271
Revaluation of investments in year	44	44
Realised revaluation surplus on sale of investments	(76)	(76)
At 31 July 2012	<u>239</u>	<u>239</u>

Notes to the financial statements (continued)**27 Reconciliation of Surplus Before Taxation to Net Cash Inflow from Operating Activities**

	Consolidated	
	2011/12	2010/11
	£000	£000
Surplus before tax	6,610	10,772
Depreciation and amortisation	15,756	15,797
Deferred grants released (note 23)	(4,235)	(4,148)
Investment income	(952)	(692)
Interest payable	6,736	5,813
Decrease/(increase) in stocks	22	(57)
Decrease in debtors	706	737
Increase in creditors and accruals	5,445	8,332
Increase/(decrease) in provisions	103	(127)
Loss on disposal of property	471	302
Fixed asset impairment	-	380
Foundation Fund appropriation	(5,621)	(5,510)
Net expenditure relating to restricted endowments	314	120
Revaluation of investments	107	17
Profit on sale of fixed asset investments	(135)	(113)
Pension cost (excluding interest) less contributions payable (note 36)	(464)	(153)
Net cash inflow from operating activities	<u>24,863</u>	<u>31,470</u>

28 Returns on Investments and Servicing of Finance

	Consolidated	
	2011/12	2010/11
	£000	£000
Foundation Fund appropriation received	5,538	5,606
Income from other endowments	49	45
Interest and dividends received	761	519
Interest element of finance lease rental payments	(766)	(817)
Interest paid	(5,401)	(3,960)
	<u>181</u>	<u>1,393</u>

Notes to the financial statements (continued)**29 Capital Expenditure and Financial Investment**

	Consolidated	
	2011/12	2010/11
	£000	£000
Purchase of tangible fixed assets	(18,267)	(23,085)
Endowments invested	(175)	(143)
Purchase of long term investments	(237)	(82)
Proceeds from sale of fixed assets and investments	1,053	453
Increase in investment in Research Park	(2,187)	(3,064)
Deferred capital grants received	1,892	2,366
Endowments received (note 24)	174	143
	<u>(17,747)</u>	<u>(23,412)</u>

30 Management of Liquid Resources

	Consolidated	
	2011/12	2010/11
	£000	£000
Cash invested in short term deposits	(2,000)	(5,000)
	<u>(2,000)</u>	<u>(5,000)</u>

31 Financing

	Consolidated	
	2011/12	2010/11
	£000	£000
New long term loans	450	1,042
Repayment of long term loans	(5,752)	(5,285)
Movement on revolving credit facility	-	15,000
Capital element of finance lease payment	(819)	(840)
Net cash flow from financing	<u>(6,121)</u>	<u>9,917</u>

32 Analysis of Changes in Net Debt

Consolidated	At 1 August		Non-cash	At 31 July
	2011	Cash flows	changes	2012
	£000	£000	£000	£000
Cash at bank and in hand	38,151	(834)	-	37,317
Short term deposits (note 18)	26,059	2,000	-	28,059
Debts due within one year (note 19)	(5,365)	5,552	(6,880)	(6,693)
Debts due after one year (note 20)	(144,852)	(250)	6,880	(138,222)
Finance leases (note 21b)	(12,459)	819	-	(11,640)
	<u>(98,466)</u>	<u>7,287</u>	<u>-</u>	<u>(91,179)</u>

Notes to the financial statements (continued)

33 Capital Commitments

	Consolidated		University	
	2012 £000	2011 £000	2012 £000	2011 £000
Commitments contracted at 31 July	11,545	8,735	11,545	8,735
Authorised but not contracted at 31 July	7,800	9,239	7,800	9,239
	19,345	17,974	19,345	17,974

34 Lease Obligations

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

Consolidated	2012		2011	
	Land & Buildings £000	Plant & Equipment £000	Land & Buildings £000	Plant & Equipment £000
Expiry date:				
Within one year	864	50	902	78
Between two and five years	-	365	7	455
Over five years	-	-	-	-
	864	415	909	533

University	2012		2011	
	Land & Buildings £000	Plant & Equipment £000	Land & Buildings £000	Plant & Equipment £000
Expiry date:				
Within one year	864	50	902	61
Between two and five years	-	365	-	448
Over five years	-	-	-	-
	864	415	902	509

35 Contingent Assets and Liabilities

As part of the agreement for the sale of Surrey Satellite Technology Limited on 31 December 2008, the University gave certain standard warranties and indemnities. The warranties remaining at the balance sheet date are as follows:

Tax warranties expire 31 December 2015

There have been no claims to date in respect of these warranties and indemnities and the possibility of a future claim is considered unlikely.

There are no other known contingent assets or liabilities.

Notes to the financial statements (continued)**36 Pension Schemes**

The total pension cost for the University and its subsidiaries was:

	Consolidated	
	2011/12	2010/11
	£000	£000
USS contributions paid	9,827	9,717
Local Government Pension Scheme charge to the income and expenditure account	2,327	2,258
Contributions paid to other pension schemes	215	166
Total pension cost (note 7)	<u>12,369</u>	<u>12,141</u>

The following amounts were paid in respect of early retirements and are included in restructuring costs:

	Consolidated	
	2011/12	2010/11
	£000	£000
USS	220	212
Local Government Pension Scheme curtailments	92	63
Other	8	129
	<u>320</u>	<u>404</u>

a) Universities Superannuation Scheme (USS)

USS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contributions payable being determined by the trustees on the advice of the actuaries. The actuary carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are included in this note.

The latest triennial actuarial valuation of the scheme was 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum, (with short term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for three years following the valuation then 2.6% per annum thereafter. The assumed life expectations on retirement at age 65 were as follows:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

Notes to the financial statements (continued)

36 Pension Schemes (continued)

a) Universities Superannuation Scheme (USS) (continued)

The following amounts were measured at the valuation date:	£000
Value of scheme assets	32,433,500
Value of the scheme's technical provisions	(35,343,700)
Deficit	<u>(2,910,200)</u>

The assets were therefore sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

As part of this valuation, the trustees determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

Since the previous valuation as at 31 March 2008, there have been a number of changes to the scheme which became effective from October 2011. Other than in specific, limited circumstances, new entrants now join a new career revalued benefits section with member contributions of 6.5%, rather than the existing final salary section. Contributions for existing members have increased to 7.5%. The employer contributions remains at 16% for both sections of the scheme. Other changes to the scheme rules include an increase in the normal pension age for future service and new entrants to age 65; cost sharing arrangements if the total contribution level exceeds 23.5% of salaries; and the introduction of a pension increase cap.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained relatively constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the March 2012 estimation.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

At 31 March 2012, USS had over 145,000 active members and the University had 1,645 active members participating in the scheme.

The total pension cost for the institution for 2011/12 was £9,827,000 (2010/11: £9,717,000). This includes £1,366,000 (2011: £1,228,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

Notes to the financial statements (continued)

36 Pension Schemes (continued)

b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund)

The Surrey Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contributions being determined by the trustees on the advice of the actuaries. In the intervening years, the actuary reviews the progress of the scheme.

The contribution payable by the employer, as a percentage of payroll, was reduced from 19.3% to 16.4% from 1 April 2011. This revised percentage reflects the future service contribution. The past service deficit will be met by the payment of monetary amounts with the increase phased in over three years. The amounts payable in respect of the past service deficit in the three years to 31 March 2014 are £492,000, £823,000 and £1,153,000 respectively.

Under the definitions set out in FRS17, the Surrey Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2012.

The pension scheme assets are held in a separate trustee-administered fund to meet long term liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the scheme after consultation with professional advisers.

A full actuarial valuation was carried out at 31 March 2010 and updated to 31 July 2012 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2012 were:

	Consolidated	
	2012	2011
Pension increase rate	2.2%	2.7%
Salary increase rate (see * below)	4.5%	5.0%
Discount rate	4.1%	5.3%

* The salary increase assumptions are 1% per annum until 31 March 2015, reverting to 4.5% thereafter.

Life expectancy is based on the PMA92/PFA92 year of birth tables, with improvements from 2007 in line with the medium cohort and a 1% underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.0 years
Future pensioners (assumed age at 31 July 2010 is 45 years)	23.9 years	25.9 years

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

The Group's estimated share of the assets in the scheme and the expected rates of return were:

	Consolidated	
	2012	2011
	£000 (%)	£000 (%)
Equities	41,059 (5.5%)	40,605 (7.0%)
Bonds	10,835 (3.3%)	10,568 (4.6%)
Property	2,852 (3.7%)	3,338 (5.1%)
Cash	2,281 (2.8%)	1,113 (4.0%)
	<u>57,027 (4.9%)</u>	<u>55,624 (6.4%)</u>

The following amounts were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	Consolidated	
	2012	2011
	£000	£000
Fair value of employer assets	57,027	55,624
Present value of funded liabilities	(89,081)	(75,974)
Net underfunding in funded plans	(32,054)	(20,350)
Present value of unfunded liabilities	(1,441)	(1,342)
Net liability	<u>(33,495)</u>	<u>(21,692)</u>

Notes to the financial statements (continued)

36 Pension Schemes (continued)

b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) (continued)

Analysis of amounts recognised in the income and expenditure account

	Consolidated	
	2011/12	2010/11
	£000	£000
Current service cost	2,327	2,258
Interest cost	4,102	4,529
Expected return on employer assets	(3,573)	(3,580)
Losses on curtailments and settlements	92	63
	<u>2,948</u>	<u>3,270</u>

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	Consolidated	
	2011/12	2010/11
	£000	£000
Actuarial (losses)/gains	<u>(11,553)</u>	<u>8,797</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2012	2011
	£000	£000
Opening defined benefit obligation	77,316	83,810
Current service cost	2,327	2,258
Interest cost	4,102	4,529
Contributions by members	797	832
Other actuarial losses/(gains)	8,935	(11,257)
Losses on curtailments	92	63
Estimated unfunded benefits paid	(96)	(97)
Estimated benefits paid	(2,951)	(2,822)
Closing defined benefit obligation	<u>90,522</u>	<u>77,316</u>

Changes in the fair value of employer assets

	Consolidated	
	2012	2011
	£000	£000
Opening fair value of employer assets	55,624	54,071
Expected return on assets	3,573	3,580
Contributions by members	797	832
Contributions by the employer	2,602	2,423
Contributions in respect of unfunded benefits	96	97
Actuarial losses	(2,618)	(2,460)
Unfunded benefits paid	(96)	(97)
Benefits paid	(2,951)	(2,822)
Closing fair value of employer assets	<u>57,027</u>	<u>55,624</u>
Actual return on plan assets	<u>967</u>	<u>7,417</u>

Notes to the financial statements (continued)**36 Pension Schemes (continued)****b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) (continued)****Consolidated amounts for the current and previous accounting periods**

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Fair value of employer assets	57,027	55,624	54,071	44,109	46,494
Present value of defined benefit obligation	(90,522)	(77,316)	(83,810)	(78,380)	(65,422)
Deficit	(33,495)	(21,692)	(29,739)	(34,271)	(18,928)
Experience (losses)/gains on assets:	(2,618)	(2,460)	5,894	(7,019)	(10,013)
Experience (losses)/gains on liabilities:	(1,284)	8,128	91	(67)	2,846
Actuarial (losses)/gains	(11,553)	8,797	5,982	(14,822)	(5,484)
Cumulative actuarial (losses)/gains	(7,135)	4,418	(4,379)	(10,361)	4,461

c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund)

The University participates in the Pensioner Sub-fund of the London Pensions Fund Authority LGPS. The LPFA Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method. In the intervening years, the actuary reviews the progress of the scheme.

Under the definitions set out in FRS17, the London Pensions Fund Authority LGPS is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2012. The pension scheme assets are held in a separate trustee-administered fund.

A full actuarial valuation was carried out at 31 March 2010 and updated to 31 July 2012 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2012 were:

	2012	2011
Pension increase rate	1.8%	2.7%
Salary increase rate	3.5%	4.5%
Discount rate	3.9%	5.3%

The average future life expectancies at age 65 are summarised below:

	Males	Females
Retiring today	20.6 years	22.8 years
Retiring in 20 years	22.6 years	24.8 years

An allowance is included for 20% of future retirements to elect to take additional tax-free cash up to HMRC limits.

The University's estimated share of the assets in the scheme and the expected rates of return were:

	2012	2011
	£000 (%)	£000 (%)
Cashflow matching	582 (2.8%)	1,572 (4.0%)
Equities	225 (5.8%)	388 (7.0%)
Cash	56 (0.5%)	(19) (3.0%)
Target return portfolio	1,014 (4.3%)	-
	1,877 (3.9%)	1,941 (4.6%)

Notes to the financial statements (continued)

36 Pension Schemes (continued)

c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund) (continued)

The following amounts at 31 July 2012 were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	2012 £000	2011 £000
Fair value of employer assets	1,877	1,941
Present value of funded liabilities	<u>(2,748)</u>	<u>(2,786)</u>
Net underfunding in funded plans	(871)	(845)
Present value of unfunded liabilities	<u>(111)</u>	<u>(107)</u>
Net liability	<u>(982)</u>	<u>(952)</u>

Analysis of amounts recognised in the income and expenditure account

	2011/12 £000	2010/11 £000
Expected return on employer assets	(86)	(86)
Interest cost	147	153
Net charge	<u>61</u>	<u>67</u>
Actual return on plan assets	<u>(105)</u>	<u>(169)</u>

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	2011/12 £000	2010/11 £000
Actual return less expected return on employer assets	18	84
Experience losses	(10)	(505)
Changes in assumptions underlying the present value of the scheme liabilities	(59)	165
Actuarial loss recognised in the STRGL	<u>(51)</u>	<u>(256)</u>

Changes in the present value of the defined benefit obligation

	2012 £000	2011 £000
Opening defined benefit obligation	2,893	2,659
Interest cost	147	153
Other actuarial losses	69	310
Estimated unfunded benefits paid	(13)	(12)
Estimated benefits paid	<u>(237)</u>	<u>(217)</u>
Closing defined benefit obligation	<u>2,859</u>	<u>2,893</u>

Changes in the fair value of employer assets

	2012 £000	2011 £000
Opening fair value of employer assets	1,941	1,949
Expected return on assets	86	86
Contributions by the employer	65	69
Contributions in respect of unfunded benefits	17	12
Actuarial gains	18	54
Unfunded benefits paid	(13)	(12)
Benefits paid	<u>(237)</u>	<u>(217)</u>
Closing fair value of employer assets	<u>1,877</u>	<u>1,941</u>

Notes to the financial statements (continued)**36 Pension Schemes (continued)****c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund) (continued)****Amounts for the current and previous accounting periods**

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Fair value of employer assets	1,877	1,941	2,127	1,771	2,052
Present value of defined benefit obligation	(2,859)	(2,893)	(2,446)	(2,872)	(2,813)
Deficit	(982)	(952)	(319)	(1,101)	(761)
Experience gains/(losses) on assets:	18	54	287	(182)	124
Experience (losses)/gains on liabilities:	(10)	(475)	64	-	(49)
Actuarial (losses)/gains	(51)	(256)	429	(303)	(117)
Cumulative actuarial losses	(597)	(546)	(290)	(719)	(416)

37 Access Funds

	Consolidated and University	
	2011/12	2010/11
	£000	£000
Balance at 1 August	6	(2)
Funding Council Access funds	153	164
	159	162
Disbursed to students	(151)	(156)
Administration costs	(5)	-
Balance unspent at 31 July	3	6

Funding Council Access funds are available solely for students. The University acts as paying agent only. The grants and related disbursements are therefore excluded from the Income and Expenditure account.

38 Related Party Transactions

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

The University has taken advantage of the exemption under FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries that are wholly owned.

In accordance with FRS 2, the activities of the University of Surrey Students Union have not been consolidated on the grounds that the University does not operate dominant influence over its activities. During the year ended 31 July 2012 transactions with the Students Union totalling £736,000 net were charged to the Income & Expenditure Account (2010/11: £784,000). As at 31 July 2012, the Students Union owed a net balance of £154,000 (2011: £261,000).

Five year summary

Summary Consolidated Income and Expenditure Account

	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000
Total income	211,350	211,591	193,827	191,296	201,504
Total expenditure	(204,740)	(200,819)	(190,083)	(191,300)	(197,637)
Surplus/(deficit) before taxation	6,610	10,772	3,744	(4)	3,867
Taxation, minority interest and transfers from/(to) endowments	205	141	311	158	(540)
Surplus/(deficit) before exceptional items	6,815	10,913	4,055	154	3,327
Exceptional items	-	-	-	33,894 (a)	-
Retained surplus/(deficit) for the year	6,815	10,913	4,055	34,048	3,327

Summary Consolidated Balance Sheet

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fixed assets	318,707	315,093	308,939	285,080	243,797
Endowment asset investments	42,204	48,448	50,539	48,785	66,963
Current assets	85,362	85,855	65,511	60,697	58,894
Creditors: amounts falling due within one year	(73,529)	(68,379)	(67,544)	(59,759)	(61,395)
Total assets less current liabilities	372,744	381,017	357,445	334,803	308,259
Creditors: amounts falling due after more than one year	(149,488)	(156,614)	(146,951)	(131,750)	(123,369)
Provisions for liabilities and charges	(1,552)	(1,449)	(1,576)	(1,700)	(1,548)
Pension liability	(32,925)	(21,195)	(28,873)	(33,672)	(18,141)
Total net assets	188,779	201,759	180,045	167,681	165,201
Deferred capital grants	56,543	58,458	53,921	53,876	50,682
Endowments	42,204	48,448	50,539	48,785	66,963
Reserves	90,032	94,853	75,585	65,020	46,109
Minority interests	-	-	-	-	1,447
Total funds	188,779	201,759	180,045	167,681	165,201

a) 2008/09 Exceptional items comprised the profit on sale of Surrey Satellite Technology Ltd on 31 December 2008 and the write off of negative goodwill arising on the acquisition of The Guildford School of Acting Conservatoire on 1 August 2008.

This page does not form part of the audited financial statements.

Five year summary (continued)**Key Ratios**

	2011/12	2010/11	2009/10	2008/09	2007/08
Surplus (calculated before transfer from/(to) endowments) as % of income	3.1%	5.1%	2.0%	17.8%	1.6%
Return on net assets (excluding pension liability)	2.9%	4.8%	1.9%	16.9%	1.8%
Staff costs as % of income	52.6%	49.9%	52.7%	55.0%	51.7%
Discretionary reserves (excluding pension reserve) as % of income	59.4%	56.2%	55.2%	52.8%	36.5%
Gross borrowing as % of income	73.1%	75.9%	78.1%	70.4%	62.0%
Net debt as a % of total funds	48.3%	48.8%	59.9%	55.7%	58.1%
Current ratio	1.16	1.26	0.97	1.02	0.96
Net liquidity / (expenditure - depreciation) in days	126	127	94	87	62
Operating cashflow as % of income	11.8%	14.9%	10.7%	5.1%	5.7%

This page does not form part of the audited financial statements.

Council Members (Trustees) for 2011/12

The Council members who held office during the year and until the date on which the financial statements were formally approved were as follows:-

Chair

Mr M Taylor

Vice-Chairman

Mr D Eustace

Ex officio members

President & Vice-Chancellor
Professor Sir C M Snowden

University Treasurer
drs J Derwig (to Jan 12)
Mr T Chambers (from Feb 12)

Senior Deputy Vice-Chancellor
Professor N Seaton (to May 12)

VP & Deputy Vice-Chancellor, Academic Affairs
Professor G Nicholls

VP & Deputy Vice-Chancellor, Research & Innovation
Professor S Williamson

Chairman, Academic Assembly
Professor M E H Olssen (to Jan 12)
Ms S Ryle (from Jan 12)

President, Students' Union
Mr O Salih (to July 12)
Mr D Halls (from Aug 12)

Elected by the Senate

Professor D Allen
Professor M Kearney (to Sep 11)
Professor A Sterr (to Dec 11)
Professor S Price (from Jan 12)
Professor J Seville (from Jan 12)

Elected by non-academic staff

Vacancy

Co-opted members

Mr T Chambers (to Jan 12)
Dr J Forrest
Mr J Glover (from Aug 12)
Mr A Herman
Ms D Langston (to Jun 12)
Mr D McNulty
Mr I Robertson
Mr D Rogers
Mr K Taylor
Ms A Watts
Professor Lord R Winston

Clerk to the Council

Ms S Litchfield

Finance Committee Members for 2011/12

Ex officio

Chair

University Treasurer
drs J Derwig (to Jan 12)
Mr T Chambers (from Feb12)

President & Vice-Chancellor
Professor Sir C M Snowden

Chairman of Council
Mr M Taylor

Vice-Chairman of Council
Mr D Eustace

Senior Deputy Vice-Chancellor
Professor N Seaton (to May 12)

VP & Deputy Vice-Chancellor, Academic Affairs
Professor G Nicholls

VP & Deputy Vice-Chancellor, Research & Innovation
Professor S Williamson

Chairman of the Academic Assembly
Professor M E H Olssen (to Jan 12)
Ms S Ryle (from Jan 12)

Nominated Dean of Faculty
Professor P Powrie

Lay members appointed by Council

Mr T Chambers (to Jan 12)
Mr I Robertson
Mr D Rogers

Co-opted members

Vacancy
Vacancy

Audit Committee Members for 2011/12

Chair

Mr D McNulty

Lay members of Council

Mr K Taylor
Ms A Watts

Co-opted members

Ms L Benson
Vacancy

Officers of the University for 2011/12

Chancellor
HRH The Duke of Kent, KG, GCMG, GCVO

Pro-Chancellors
Rt Hon Baroness Bottomley of Nettlestone DL
Dr John R Forrest, CBE, FREng, FIET
Miss Penelope Keith, CBE, DL
Sir William Wells, FRICS

Chairman of Council
Mr M Taylor

University Treasurer
drs J Derwig, RA (to Jan 12)
Mr T Chambers, FCA, AMCT, FIET (from Feb 12)

President & Vice-Chancellor
Professor Sir C M Snowden, FRS, FREng, FIET, FIEEE, FCGI

Senior Deputy Vice-Chancellor
Professor N Seaton, CEng FICChemE (to May 12)

Vice-President & Deputy Vice-Chancellor, Academic Affairs
Professor G Nicholls, FInstP FRSA

Vice-President & Deputy Vice-Chancellor, Research &
Innovation
Professor S Williamson, FREng, FIET, FIEEE, FCGI,

Vice-President, Corporate Services
Mr G K Melly, CAIB

Chief Financial Officer
Mr D J Sharkey, ACA

Vice-President, Administration and Registrar
Dr D Ashton

University Secretary & Legal Counsel (Clerk to Council)
Ms S Litchfield

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