

University of Surrey

Financial statements for the year ended 31 July 2014

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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 Operating and Financial Review seeks to set the financial results in the context of the University's strategy and operations.

History and constitution

The University has its origins in the Battersea Polytechnic Institute which was founded in 1891. It became a College of Advanced Technology in 1956, receiving its Royal Charter in 1966 to become the University of Surrey. The University moved to its new campus in Guildford in the late 1960s.

Although originally founded as a science and engineering focused institution, the University now offers a broad range of courses, research programmes and enterprise activity across the sciences, engineering, arts, humanities, law and business.

In addition to its core academic activities, the University owns and manages the Surrey Research Park. 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

This remains a challenging time for the UK Higher Education Sector.

Uncertainties over the future funding of higher education after the 2015 General Election are adding to the pressures already faced by institutions as a result of the continuing freeze of the £9,000 fee cap for Home/EU undergraduates. The removal of student number controls for ABB+ candidates has increased competition for the best students and, whilst universities are reluctant to add more risk to the balance sheet, they are borrowing and investing more heavily than ever before in order to provide a high quality student experience and to remain competitive in the new environment.

After a period of strong growth in international student recruitment, many universities, including Surrey, are experiencing a decline in numbers from some parts of the world as a result of government changes to immigration policies and the student visa regime. Meanwhile, the UK's public investment in research continues to lag behind its competitors, threatening the UK's ability to remain a world-leading research power.

Given the pressures and uncertainties described above, it is imperative that the sector takes action to ensure that its

pension schemes remain sustainable, attractive and affordable. Employee consultation is expected in early 2015 on benefit changes to the Universities Superannuation Scheme in order to deal with the 2014 valuation deficit and address the issue of volatility so as to mitigate the risk that contribution rates become unaffordable for both employees and employers.

In this challenging environment, the University has been working hard to ensure that it prospers as a thriving university of excellence. Its achievements and future plans are described in more detail below.

Strategy

The University has made excellent progress since it embarked, in 2007, on its ten year strategy to position itself as a leading national and international university by 2017. The University's increasing success in the main national league tables and its enhanced reputation have driven a significant rise in undergraduate applications and entry tariff; the quality of research has been recognised with three Queen's Anniversary prizes; major government funding has been awarded for the new 5G Innovation Centre; and a new School of Veterinary Medicine has been launched. At the same time the University has made a significant investment in enhancing its research credentials by recruiting new academic staff.

During 2013/14 the University introduced Vision 2020 as the next stage in the strategy to secure its position as a leading university. Recognising the increasingly competitive domestic and international higher education environment, its aim is to ensure that Surrey consistently delivers teaching and research of the highest quality across the academic subject range.

The University has a rolling four year plan which includes both one year and four year targets to help the University monitor progress towards achievement of its strategy. Key Performance Indicators (KPIs) are included in a balanced scorecard which is monitored by the University's Executive Board and Council. Relevant indicators are included in this Review.

Public benefit statement

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and is therefore exempt from registration with the Charity Commission. Its compliance with charity law is monitored by the Higher Education Funding Council for England (HEFCE) as its principal regulator. 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.

In this Operating and Financial Review, the University describes how it has delivered its charitable purposes for public benefit. The primary beneficiaries are current and

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potential students of the University, and the general public who benefit from the University's research and engagement activities.

During 2013/14 the University operated under the 2010 amended version of its original 1966 Charter. This defined the University's charitable purposes as *'the pursuit of learning and the advancement and dissemination of knowledge, in Science and Technology and all that pertains to a fuller understanding of humanity, in close co-operation with the industrial life of the country and with commerce and the professions; so that by its discipline and inspiration and by the sharing of their life and interests its Members at all levels may grow in wisdom as well as knowledge and be enabled, according to the best of their several talents and abilities, to enrich their own lives and the life and livelihood of the community.'*

In July 2014 the University received royal approval for an amendment to its Charter with the objects now defined in more succinct terms as *'to advance education, learning and teaching'*.

The quality of the University's activities, hence delivery of public benefit, is evidenced by a significant and consistent strengthening of its position across all the main UK university league tables, recent trends in which are shown below:

Chart 1 League table rankings

	2013/14	2012/13	2011/12	2010/11	2009/10
Guardian University Guide	6	8	12	19	20
The Times			26	29	32
The Sunday Times	11	12	21	21	41
The Complete University Guide	12	13	22	28	33

Public benefit is further demonstrated by the receipt of prestigious awards, media exposure, and commercialisation of the University's research for social and economic benefit.

In March 2014 Professor Jim Al-Khalili (the University's first Chair of Public Engagement in Science) was named one of the ten RISE (Recognising Inspirational Scientists and Engineers) leaders for 2014 by the Engineering and Physical Sciences Research Council (EPSRC). Having established himself in the mid-1990s as a leading nuclear reaction theorist and received over 1,000 citations for his papers on halo nuclei, he is currently gaining a reputation for his work in the emerging field of quantum biology. As an active science communicator, he has written many popular science books which between them have been translated into over 20 languages. For the past three years he has presented the highly successful BBC Radio 4 programme 'The Life Scientific' and also presented many TV science documentaries, including the BAFTA nominated 'Chemistry: A Volatile History'.

One of Jim Al-Khalili's guests on 'The Life Scientific' in March 2014 was Surrey's Distinguished Emeritus Professor of Physics, Professor Alf Adams. In February 2014 Professor Adams was awarded the Rank Prize for his research into semi-conductor lasers by the Rank Prize Funds, a charitable organisation celebrating innovators in the fields of nutrition and optoelectronics. The findings of his work now dominate the semiconductor laser market and have helped form the basis of everyday technologies including DVD, Blu-ray storage, optical fibre communications and the internet.

In 2012 the University established the prestigious Alf Adams annual lecture series in Professor Adams' honour. The 2014 lecture was delivered by Professor Derk-Jan Dijk, Director of the Surrey Sleep Research Centre, who took the audience on a journey of discovery that explored the profound impact of sleep and biological rhythms on all aspects of our physiology and behaviour.

Further recognition of the University's importance as a centre for sleep and chronobiology research came in May 2014 when internationally-recognised sleep experts from the University were invited by the BBC to take part in the BBC's 'Day of the Body Clock', appearing on flagship programmes such as the Today programme on Radio Four and BBC Breakfast on BBC One.

In terms of commercialisation, in March 2014 the University announced that it had signed a second licence to develop and bring to market the EN2 cancer biomarker test for the early diagnosis of prostate and bladder cancers. The March 2014 licence deal with Radox Laboratories, one of the largest medical diagnostic companies in the UK, follows the signing of the first licence with international diagnostic specialist Zeus Scientific Inc in March 2013. Both companies are now working with the University to turn the research of Professor Pandha, Dr Morgan and team into a commercial test that will improve the speed of detection and accuracy of diagnosis of these types of cancer.

Further examples of how the University's research activities are delivering public benefit can be found in the 2014 Annual Review at www.surrey.ac.uk/about/corporate/documents.

As additional evidence of public benefit examples are given elsewhere in this Operating and Financial Review of how the University is benefitting society and the economy through the advancement of its educational activities, high graduate employability rates, and engagement with business and the local community.

Widening participation and student support

The University 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 monitors its performance against the main HESA widening participation benchmarks, with the HESA

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measure for the percentage of students from lower socio-economic backgrounds included as a KPI on its 2013/14 balanced scorecard. Recent trends in this KPI are shown below:

Chart 2 Widening participation

Students in NS-SEC categories 4-7*	2013/14	2012/13	2011/12	2010/11	2009/10
	%	%	%	%	%
Actual	Est. 31.0	28.0	27.4	28.8	23.1
HESA Location Adjusted Benchmark	N/A	26.2	24.4	26.4	25.0

* Higher Education Statistics Agency (HESA) Measure T1a

The above table shows that the University exceeded the benchmark for each of the three years up to and including 2012/13. The final actual figure for 2013/14, together with the HESA location adjusted benchmark for that year, will not be available until early 2015, but the University has set itself a target to maintain its absolute performance in NS-SEC categories 4-7. This is included in the 2015/16 Access Agreement which the University has agreed with OFFA. See <http://www.offa.org.uk/access-agreements/>.

During 2013/14 the University continued to provide financial support to students from lower income households through bursary schemes delivered in conjunction with the National Scholarship Programme. In 2013/14 the University distributed bursaries totalling £3.2m to 1,068 'new regime' students i.e. those who have joined the University since the introduction of the £9,000 undergraduate fee. A further £1.0m was distributed to 615 'old regime' students under the University's existing bursary schemes. The combined figure of £4.2m for 1,683 students compared with a total of £3.5m distributed to 1,701 students in 2012/13.

Through the acceptance survey of first year undergraduates carried out in September 2013, the University learned that bursaries were only the 15th most important factor in students' decision making process. This confirmed the results of OFFA's own research and, in line with OFFA's 2015/16 access agreement guidance, the University will be reducing spending on bursaries in 2015/16 in order to increase expenditure on outreach and retention.

The University also provides hardship loans and grants to students who face financial difficulties. These are funded 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 relevant external agencies.

Review of operations

Learning and Teaching

Student numbers

The University is steadily re-building its undergraduate student population following a deliberately smaller intake in 2012 in line with its strategy to drive up quality. With entry requirements for 2013/14 remaining largely unchanged, the University achieved a 35% increase in applications and a 32% increase in enrolments. The average actual UCAS entry tariff for 2013/14 (426 points) was in line with that for the previous year, after allowing for the change in methodology described below.

Chart 3 Undergraduate applications and enrolments (excluding clearing students)

	2013/14 Entry	2012/13 Entry	2011/12 Entry	2010/11 Entry	2009/10 Entry
Applications	23,360	17,125	22,788	20,427	17,087
Enrolments	2,742	2,082	2,938	2,898	2,643
Applications to Enrolments	8.5:1	8.2:1	7.8:1	7.1:1	6.5:1
Average UCAS Entry Tariff	426*	436	431	405	391

* The entry tariff for 2013/14 follows the methodology used in the main league tables i.e. it includes students with any tariffable score. Entry tariffs for 2012/13 and earlier years don't include students with a combination of qualifications that include a single A-level.

UK and international markets are challenging the University's ability to grow its postgraduate numbers. Both postgraduate taught and postgraduate research student numbers fell slightly in 2013/14 from their 2012/13 levels.

Details of recent trends in the headcount population are shown below:

Chart 4 Student numbers (headcount)

	2013/14	2012/13	2011/12	2010/11	2009/10
Undergraduate	9,977	9,841	10,878	10,411	9,647
Postgraduate Taught	2,566	2,820	3,157	3,099	3,265
Postgraduate Research	1,163	1,214	1,174	1,268	1,040
Total	13,706	13,875	15,209	14,778	13,952
Overseas Students included above	2,840	3,205	3,649	3,353	2,652

Student satisfaction

The 2014 National Student Survey saw the University move up 1 place to 8th place in the UK (the highest it has ever achieved), despite a 1% fall in overall satisfaction. 91% of Surrey students expressed satisfaction with the quality of their course, compared with the overall average satisfaction rate for UK higher education institutions of 86%.

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The University was pleased to achieve a 2% increase in satisfaction in the 'Assessment and Feedback' category, with the satisfaction rate rising from 75% to 77%. This is a challenging area for many HEIs.

Chart 5 National student survey

	2013/14	2012/13	2011/12	2010/11	2009/10
Overall Satisfaction	91%	92%	90%	87%	82%
Position	=8/135	=9/136	=15/135	=32/129	=64/133

Learning and teaching developments

The University has recently put significant investment into its Library and Learning Centre. The Library works closely with the University's Department of Technology Enhanced Learning to ensure that innovative teaching is supported through the online virtual learning environment (VLE).

Since installing the Desire2Learn VLE in 2010, satisfaction levels have risen steadily. In June 2014 the University announced that the latest i-graduate survey rated it at 95%, placing Surrey 2nd globally out of 45 participating institutions. The VLE already offers a rich set of curriculum-based activities and interactive materials which enable students to study and learn flexibly and effectively. During 2014/15 the University will be undertaking a pilot project to capture lectures on the VLE.

Employability

The University provides a range of resources and activities to prepare its employees for graduate employment, with employment prospects receiving increased focus from many students and their parents following the introduction of the higher undergraduate fee.

In July 2014 HESA released the results of its 2013 'Destination of Leavers from Higher Education' (DLHE) survey. This showed that 96.9% of Surrey graduates from 2013 were in work or further study six months after graduation, with more than 80% in graduate level jobs. Whilst this put the University top of the English universities (excluding private providers) in the national table, the University is not complacent.

In recent years the University has put in place a number of new schemes for students, including increased support and workshops for first years. In 2014/15 a new Director of Employability will join the University to take forward the 'new Professional Training Year' and oversee the delivery of the revised careers service strategy.

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 multi-disciplinary approaches, encouraging researchers from different fields to work closely together on key research initiatives.

Research income grew by just under 3% in 2013/14 to £29.6m (2012/13: £28.8m). This was the highest figure ever achieved by the University and broadly in line with plan. Nevertheless, the underlying trends relating to contribution and recovery, bidding rates and bid success rates suggest that there is much work still to be done before the drive for real growth can commence.

New awards announced during 2013/14 totalled £32.4m. Although marginally lower than the previous year's figure of £32.8m, this was an encouraging result with the growth in activity in the Faculty of Health and Medical Sciences towards the year end particularly pleasing.

The total value of bids submitted during 2013/14 was £139.6m. There was a significant increase in bidding towards the year end, driven mainly by the response to calls under the European Commission's Horizon 2020 Framework Programme. Particularly encouraging was the upward trajectory in the Faculty of Business, Economics and Law (FBEL). Traditionally the least research intensive of the four academic faculties, FBEL's progress reflected clearer strategic focus and the positive impact of recently appointed staff.

Chart 6 Research bids, awards & extensions

	2013/14	2012/13	2011/12	2010/11	2009/10
	£m	£m	£m	£m	£m
Research Awards and Extensions	32.4	32.8	26.5	23.3	38.5
Research Bids	139.6	159.0	117.4	117.6	106.2

With pressure on success rates continuing, the University has carried out a detailed analysis of its success rates, including an analysis by size of bid. Whilst the results of this analysis will help inform future bidding strategies, it is already known that the main key to improving success rates is to improve the quality of bids. The University will keep this in mind as it continues to develop the various processes associated with bid development, including peer review.

In November 2013 the University made its submission to the 2014 Research Excellence Framework (REF) exercise. The REF, which succeeds the Research Assessment Exercise (last run in 2008), is perhaps the most significant measure in defining a leading research profile. The results are expected in December 2014 and will determine the allocation of the government's block funding for research from 2015/16.

Considerable time and resources were devoted to the University's preparations for submission which included details of research outputs and, for the first time, case studies relating to the impact of recent research. There was a 74% submission of REF eligible staff comprising 460 academics with c. 1,670 outputs, comprising 92% journals and 8% other. The journals figure of 92% was considerably higher than in the 2008 Research Assessment Exercise.

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Recognising the increasing need to demonstrate the impact of its research, the University is now part of an Impact Network. The aim of the network is to share plans and best practice going forward to REF 2020, where impact is expected to account for a higher weighting than the 20% applied in REF 2014.

Following a Research Councils UK (RCUK) Assurance visit in March 2014 the University achieved an overall 'substantial assurance' rating, the highest of the four available ratings. This reflected an improvement on the previous visit in 2010 when the University received a 'satisfactory' rating and provided independent validation of the robustness of the University's research administration processes. For the first time, the visit included a review of the University's compliance with the Concordat to Support Research Integrity. The University received a 'satisfactory' rating on this element, recognising the University's progress in adhering to the Concordat.

Enterprise and growth

To support the University's ambitions, a new division of Enterprise and Growth was established in May 2014 under the leadership of Mr Greg Melly (previously the University's Vice-President, Corporate Services).

One of the aims of the new division is to increase focus on the University's 'game changers' including the 5G innovation centre, the development of a new strategic partnership with the National Physical Laboratory, and potential development of the University's land at Blackwell Farm. Another is to increase the University's economic impact (measured in terms of GVA) and the development of local economic clusters.

5G Innovation Centre (5GIC)

In October 2013 the University signed a contract with the eleven founding industry partners supporting the establishment of the University's 5G Innovation Centre (5GIC) for the development of future mobile communications and internet technologies. As at 31 July 2014 the 5GIC, combined with the University's Innovation Gateway programme for the connected digital economy, had attracted pledges of time, expertise and equipment from its industry partners totalling £45m over a five year period. These contributions, together with £15m of HEFCE funding, will enable the University to establish one of the world's foremost centres in this sector.

National Physical Laboratory (NPL)

Recognising the University's strong track record of working with business and industry, in July 2014 it was announced that Surrey and Strathclyde Universities were the preferred partners to enter into a new strategic partnership with the Department for Business, Innovation and Skills (BIS) and NPL. Subject to formal agreement, the new partnership will help to provide future leadership of NPL, a global centre of excellence in measurement and materials science.

NPL's focus on scientific excellence and industrial impact complements Surrey's world-class research in the key areas of electronics, communications, physics, health, medicine and space science. The new partnership will enable all parties to strengthen both the excellence of their science and their engagement with business. An important focus will be the establishment of a new Postgraduate Institute which will train high-calibre PhD students and provide a pipeline of skilled researchers.

Blackwell Farm development

In November 2013 the University formally submitted its initial ideas for a new urban extension for West Guildford as part of an Issues and Options consultation conducted by Guildford Borough Council (GBC). In addition to much-needed new housing, the University's proposal for development of its land at Blackwell Farm incorporates plans for an expansion of the Surrey Research Park, improved transport links, and new schools and community facilities surrounded by significant green spaces.

The University's vision is underpinned by three high-level principles:

- to ensure that any development is sustainable;
- to provide a strong sense of place and community; and
- to provide economic and social benefit to the borough and the region, and to enable the University to contribute to that economic well-being.

The draft Local Plan, published for consultation on 1 July 2014, identified part of Blackwell Farm as a possible location for a large number of homes. Whilst supporting this proposal, the University has made a case for inclusion of all of the Blackwell Farm land. Responses to the draft Local Plan are being analysed by GBC and it is expected that a revised plan will be published after the May 2015 General Election for further consultation. Meanwhile the University is progressing with the design, financial planning and environmental assessments with the objective of preparing an outline planning application for submission once the Local Plan has been adopted.

The potential development offers both significant opportunities and challenges in terms of funding and local engagement. The University has a clear interest in ensuring that the development would, and would remain, of high quality. All funds generated from the development would be reinvested in the University, with other benefits for the University being the opportunity to create affordable homes for young graduates and key workers and the extension of the Surrey Research Park referred to above.

Economic impact

The economic and social benefit of the University to Guildford, Surrey and the wider UK has been recognised in a report commissioned by the University and produced by BIGGAR Economics.

Conducted in Autumn 2013, the study found evidence that the University, together with its Research Park, generated

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£1.4bn for the UK economy and supported almost 16,200 jobs in 2012/13. This represented a £6.45 economic impact for every £1 earned by the University and indirect support for six jobs elsewhere in the UK for each direct job at the University.

Other enterprise activity

The University worked closely throughout the year with the Enterprise M3 (EM3) Local Enterprise Partnership (LEP) in the development of its regional growth strategy. UK government is placing much emphasis on the regional LEPs to help drive the UK's future prosperity. The University was therefore delighted when, in July 2014, the Rt Hon Greg Clark MP, Minister of State for Cabinet Office (Cities and Constitution) and newly appointed Minister of State for Universities and Science, signed EM3's £118 million Growth Deal, the first to be signed off in the UK. The deal includes £5m to support Surrey's 5GIC and Innovation Gateway in generating additional activity to support local businesses. EM3 is also supporting plans to connect Surrey's new Vet School and the Surrey Research Park with other regional public sector research establishments to develop a world class enterprise cluster of activity in animal health.

2013/14 also saw a further significant increase in Surrey's business incubation activity with an additional £6m of funding for new ventures raised from the Surrey 100 Business Angel Club. This increased the total raised since the Club's inception in 2007 to £25m. Surrey continues to retain its place as one of the top performing universities in the UK in terms of provision of such start-up finance, with only Oxford and Cambridge Universities and Imperial College London raising larger amounts.

Global reach

The University's international strategy sets out a series of steps to enable it to reinforce and expand the international reputation of the University in all areas of activity. Under the leadership of the Pro-Vice-Chancellor (International Relations), the University is delivering its international strategy by:

- embracing international partnerships;
- diversification of the international student and staff body;
- promotion of international research collaboration;
- facilitation of staff and student mobility; and
- development and delivery of a curriculum responsive to the needs of a global society.

The University Global Partnership Network (UGPN) continues to contribute to the University's profile and performance. As a founder member of the UGPN, Surrey played host, in February 2014, to the partnership's third conference. This saw members from the University of Surrey and its partner universities (North Carolina State University (USA) and the Universidade de São Paulo (Brazil)) come together to discuss key topics under the 'One Health' banner – the concept of human and animal health being

part of a continuum which the University is developing through its new Vet School. The Conference also welcomed three members of staff from the University of Adelaide.

An overall top 100 position in the International League Tables is contingent on the University making further progress in achieving international recognition for the quality of its research. However, the strength of the University's international student and staff numbers and the high proportion of its research papers published with a co-author from at least one other country have been recognised by the University's achievement of 39th position in Times Higher's list of Top 100 International Universities, based on the International Outlook indicator from the Times Higher Education World Rankings 2013/14.

In 2013/14 over 200 students chose to study or work abroad across 32 different countries as a formal part of their degree course. In addition, 25 academic staff and 10 support staff undertook a variety of Erasmus teaching and training activities at various European destinations and other staff received funding to enable them to visit the University's partner institutions elsewhere in the world. In 2013 52% of Surrey's research output was co-authored by an overseas partner.

Engagement

The University engages with a wide range of stakeholders including its students and 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.

Staff engagement

The University continues to carry out an annual staff survey in order to gain a comprehensive view of issues which have an important influence on staff satisfaction, engagement levels and business performance.

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The 2014 staff satisfaction survey received a 69% response rate. This was 7% lower than for 2013 and new strategies are being put in place to improve the response rate next year. It did, however, reflect a 7% improvement on 2012. The staff engagement score (as measured by six 'core' engagement questions within the survey) was unchanged at 68% and overall Surrey compared favourably with the benchmark institutions.

Following a detailed analysis of the results, and taking into account the fact that the lowest scoring question was 'where I work effective action has been taken on the results of the last survey', the Staff Survey Central Action Group drew up a more focused action plan. This is centred on the key topics of communication, pay and reward, and wellbeing and work. Local action plans have also been drawn up.

Community engagement

The 2013 BIGGAR study referred to earlier in this Review concluded that the University generates not only economic benefits for the local community, but also a broad range of wider, unquantifiable, benefits. Examples given in the BIGGAR report include the provision of high quality sports and leisure facilities at Surrey Sports Park, significant contributions to the local community by student volunteers and a wide range of educational benefits to local children as a result of University-led events and activities.

Despite a very competitive market, Surrey Sports Park increased its public membership during 2013/14 from 3,400 to 3,800, with student membership rising from 4,200 to 4,800. It also increased its involvement with a number of national governing bodies, strengthening its links with many sports, notably netball, swimming, lacrosse, squash and basketball. It hosted a number of major sporting events including the Danone Nations Cup (the world's biggest football tournament for children aged 10 to 12), BUCS Big Wednesday and the National Schools Lacrosse Championship. It also won the right to be an Official Training Venue for the 2015 Rugby World Cup.

Environmental sustainability

The University of Surrey has placed sustainability at the heart of its corporate social responsibility agenda for over a decade. It is a major consideration in all new builds and refurbishment projects and in the University's day-to-day operations.

The University continues to embed the EcoCampus Environmental Management System and is currently working on the Gold award accreditation.

During 2013/14 the University made further investments in improving academic buildings and student residences, using Salix funding to install new energy-efficient lighting, boilers and insulation. This work has gone hand in hand with a new series of communication and behaviour change programmes aimed at both staff and students. The NUS Green Impact Awards scheme for staff, and Student Switch Off programme for students living on campus, were both

run for the first time in 2013/14. In light of their success, the University is re-running them for the 2014/15 academic year.

Surrey's work on reducing waste has also continued, in particular the University's strong partnership with the British Heart Foundation (BHF). For the first time in 2014, the University and BHF partnered with Guildford Borough Council to extend the end of year donation campaign to students (and staff) living off campus. This resulted in an impressive collection of over 9,000 bags, estimated to raise as much as £192,000.

Another milestone for 2013/14 was the creation of the University Campus Garden. A large site on campus was identified and developed with the support of a grant of just under £10,000 from the University's Annual Fund. The site is now up and running and being managed by the Student Garden Society. All the produce will be distributed to the volunteers working in the garden, used on campus in the Lakeside Restaurant, or sold at low cost to other students.

Financial review

Income and expenditure

Consolidated results

The University achieved a consolidated surplus for 2013/14 of £4.1m. This represented a £0.9m increase on the previous financial year.

Consolidated income rose by £5.4m (2.5%) to £219.1m.

Core University activities

The University's core activities include the activities of Surrey Sports Park Limited. They exclude the activities of the Surrey Research Park.

As described elsewhere in this Review, the University has invested heavily in the past two years in the quality of its students, in academic staffing and in its new Vet School. As expected, these strategic investments, which will deliver longer term benefit, have put short term pressure on the net surplus and the University returned a deficit on its core activities in 2013/14 of £0.7m (2012/13: £2.1m deficit).

Included within this £0.7m deficit on core activities was a deficit of £1.8m attributable to the Vet School. This was broadly in line with the business plan and reflected the costs of staff recruited to develop the Vet School curriculum and other preparatory work carried out in advance of the first student intake in October 2014.

Total income from core activities grew by £5.2m (2.6%) to £209.4m.

The further shift of funding from the state to students under the new undergraduate funding regime was reflected in a £5.4m (13.4%) fall in Funding Council Grants. Funding Council Grants totalled £34.8m for

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2013/14, with the recurrent teaching grant of £12.0m representing little more than a third of the total.

Income from Home/EU Undergraduates rose by £9.4m (38.0%) from £24.7m to £34.1m. This reflected not only the second year of the £9,000 fee, but also the significant increase in the 2013/14 student intake. In contrast, income from non-EU students fell by £2.9m (7.6%) to £35.0m. This is largely explained by a change in the accounting treatment of students undertaking the Foundation Year in the Surrey International Study Centre (SISC), which is run by Study Group on the University's campus.

Research income grew by £0.8m (2.8%) to £29.6m, as described earlier in this Review.

Expenditure on core activities rose by £2.7m (1.3%) to £210.4m. Staff costs (excluding restructuring costs) rose by £5.4m (4.7%) to £120.7m, reflecting the investment in academic staff described above.

Foundation Fund

The Surrey Research Park, which is the Foundation Fund's main asset, continues to provide a useful source of independent income. Foundation Fund income for the year totalled £9.7m (2012/13: £9.5m). The surplus (before the sale of land to a subsidiary company) was £4.8m (2012/13: £5.2m).

Balance sheet

Consolidated net assets rose in 2013/14 by £4.3m (2.2%) to £202.5m, with the upward revaluation of the Research Park largely offset by pension fund actuarial losses and other downward movements.

Chart 7 Movement in consolidated net assets 2013/14

	£m
Consolidated Net Assets at 31 July 2013	198.2
Surplus for the Year	4.1
Actuarial Losses on Pension Schemes (LGPS)	(8.5)
Investment Property Revaluation	11.3
Other Movements	(2.6)
Consolidated Net Assets at 31 July 2014	202.5

Pension fund actuarial losses of £8.5m were mainly the result of a fall in the net discount rate (from 1.8% at 31 July 2013 to 1.3% at 31 July 2014) which has increased the liabilities. The overall increase in the balance sheet pension liability was £7.9m. The liability for the Surrey County Council LGPS (which covers approximately 25% of the workforce) increased by £8.2m to £34.7m. The balance sheet liability for the London Pensions Fund Authority LGPS (which covers a small number of former employees) fell by £0.3m to £0.6m.

The recent trend in the pension liability is shown below:

Chart 8 Net pension liability at 31 July

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Net Pension Liability	35.3	27.4	32.9	21.2	28.9

It should be noted that the liability in respect of the 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 and liabilities.

The value of completed investment properties on the Research Park rose by £12.0m to £91.2m. This represented the highest carrying value of the Park since its peak of £101.4m in 2007 and reflected a significant increase in demand for investment opportunities coupled with yield compression. These two factors contributed to an £11.7m upward revaluation to market value with net capital additions accounting for the remaining £0.3m of the increase. The recent trend in investment property values is shown below:

Chart 9 Completed investment properties at 31 July

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Completed Investment Properties	91.2	79.2	76.4	*80.8	76.5

* The 2010/11 increase of £4.3m 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 19 shows a rise in cash in the year of £22.3m. When combined with an increase in short term investments of £9.0m, this gave a total increase in available cash of £31.3m to £74.4m. This rise was driven largely by the receipt of £34.0m of loan drawdowns and HEFCE capital grants in advance of spend. The movement in available cash is shown below:

Chart 10 Movement in consolidated available cash 2013/14

	£m
Consolidated Available Cash at 31 July 2013	43.1
Net Cash Inflow from Core Operating Activities	20.4
Foundation Fund Surplus (excluding profit on intra-group land sale)	4.8
Capital Expenditure – University	(27.3)
Capital Expenditure – Research Park	(1.2)
Capital Grants Received	11.5
New Loans Received	35.5
Financing (Net Interest and Capital Repayments)	(12.2)
Other Movements	(0.2)
Consolidated Available Cash at 31 July 2014	74.4

Operating and financial review (continued)

Offset against the available cash of £74.4m were borrowings of £178.8m, giving net debt at 31 July 2014 of £104.4m. This reflected a £2.5m fall in net debt in the year, with net debt representing 51.5% of total funds at 31 July 2014 compared with 53.9% at the start of the financial year.

Capital investment

Additions to tangible fixed assets in the year totalled £27.4m.

The £3.2m increase from 2012/13's figure of £24.2m reflected the start of construction of the 5G Innovation Centre and the Vet School. 2013/14 expenditure on these schemes amounted to £2.6m and £6.7m respectively. Total capital costs, including equipment costs, for the schemes are budgeted at £12m (5GIC) and £45m (Vet School). The 5GIC capital project is being funded mainly by a grant from the UK Research Partnership Investment Fund (with matched revenue funding from industry) while the University has secured long term bank financing and a £4.9m grant from HEFCE's Catalyst Fund for the Vet School. Both schemes are on track and on budget with the former due for completion in March 2015 and the latter in time for the start of the 2015/16 academic year.

The University's current strategic investments (student quality, academic staffing and the Vet School) are putting necessary focus on the need to manage cash reserves carefully. In the absence of general teaching and research capital grants from HEFCE, the University is delaying some elements of its Estates long term maintenance and IT capital programmes in order to target the available cash on the areas of highest priority.

Consolidated trends

Pages 48 and 49 of the financial statements provide a five year summary of the University's historic financial results.

The five year trends show the University's surplus peaking at 5.1% of income in 2010/11. This marked the culmination of four years of strengthening surpluses. This trend has changed more recently as a result of the strategic decisions taken to achieve longer term growth, namely the investments in the quality of the student intake, in academic staff and in the Vet School.

The ratios on page 49 show a generally positive trend in 2013/14. However, the receipt of cash from loan drawdowns and capital grants in advance of associated spend has resulted in several ratios looking more favourable than the underlying position.

Treasury management

The University's investment, borrowing and hedging strategies are determined by its Finance Committee in accordance with a Treasury Management Policy approved by the University Council.

As at 31 July 2014 the University had outstanding borrowings and finance lease obligations of £178.8m (2013: £150.0m). This figure included £10.7m (2013: £11.1m) in respect of finance lease obligations relating to student residences.

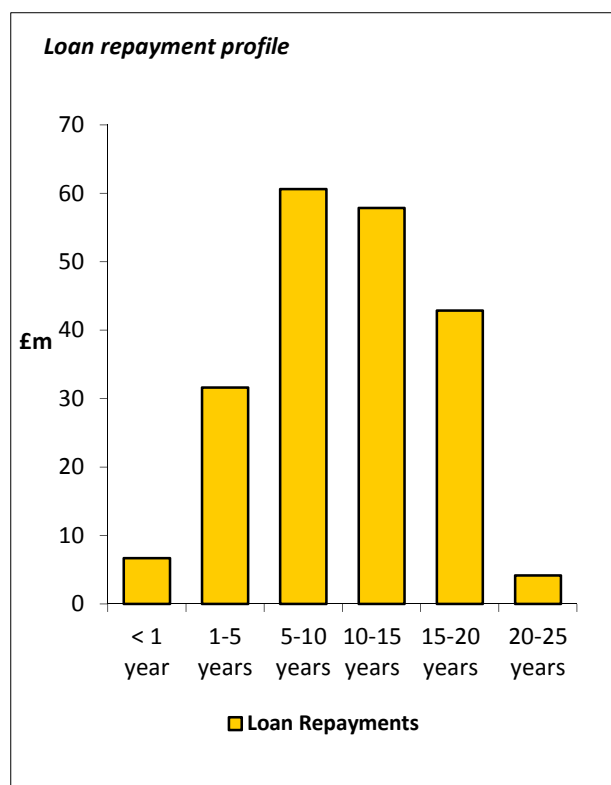
The University recognises that it has a relatively high gearing ratio. However, debt continues to be secured largely against strong and profitable revenue streams, primarily from student residences and the Research Park. The University also benefits from competitive margins on its borrowings and light financial covenants. The weighted average cost of capital at 31 July 2014 was 4.1%, little changed from the previous year's figure of 4.0%.

The University manages the risk of interest rate rises through standalone hedging instruments and (from 31 July 2014) through a fixed rate on 50% of the 2013 £60m Lloyds loan facility. The University's policy is to fix the interest rate on at least 70% of its total term debt. This allows for cash balances to act as a natural hedge against a portion of the debt.

The fair value of interest rate swaps at 31 July 2014 was £18.3m in favour of the counterparty, an improvement from the University's perspective of £3.1m since 31 July 2013.

The loan repayment profile as at 31 July 2014 (including the £25m undrawn element of the £60m Lloyds facility) is shown below:

Chart 11 Loan repayment profile



Operating and financial review (continued)

The main objective in making investments is to achieve a reasonable rate of return whilst minimising risk. The University places short term monies in accordance with criteria approved by its Finance Committee, based on minimum Standard and Poor's credit ratings and counterparty limits.

Despite a continuation of the strategy to maximise, where possible, the use of 12 month deposits, the weighted average return on short term deposits fell from 1.47% in 2012/13 to 0.90% in 2013/14. This reflected the worsening impact of the government's funding for lending scheme on short term interest rates. Despite this fall, the University outperformed its target of average 3 month LIBOR (0.53%) + 0.25%.

Risks and uncertainties

As described in the Corporate Governance Statement on pages 12 and 13, the University's Executive Board is responsible for identifying and evaluating the major risks faced by the University and for ensuring that appropriate actions are taken to mitigate those risks. The risk process is overseen by the Audit and Assurance Committee and the high-level risk register forms the basis of the internal audit programme.

The current high-level register comprises a total of fifteen 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
- student experience and outcomes
- delivery of sustainable financial surpluses

Research quality

Recognition of the quality of the University's research continues to be the major challenge facing Surrey in its bid to improve its position in the International League Tables.

The University invested heavily in academic staff ahead of the 2014 REF exercise, increasing the academic headcount by c. 25% over the three years to 2013/14. Through the implementation of Vision 2020, it is now working to ensure that all eligible research-active staff are in a position to be submitted to the REF 2020 exercise.

Student numbers / quality of students

The University faces short term challenges in balancing its strategic aims to drive up both student numbers and quality.

With the ongoing strategic aim to raise student quality, there is a risk that the student population falls short of sustainable levels. This would be mitigated by maintaining a strong league table position which, in turn, would attract more students as has been seen in recent years.

Current indications are that the University has broadly maintained its undergraduate entry tariff for 2014/15, whilst achieving the highest ever first year intake.

Student experience and outcomes

The new undergraduate funding regime has raised student expectations in terms of both the academic and non-academic student experience. Having achieved a top ten position in the National Student Survey for the past two years, the University is firmly focused on maintaining its strong performance.

Whilst student satisfaction levels, as measured by the NSS, are high and the University has a very strong employability record, the University has seen slightly weaker than expected progression and completion rates. Additionally, in the THE April 2014 'Good Degrees' feature, Surrey was ranked amongst the universities awarding fewer first class and 2.1 degrees than expected. The University is reviewing for effectiveness its new Code of Practice on Assessment and additional measures have been put in place to improve progression and completion rates in 2014/15.

The University enjoys a strong relationship with its Students' Union and the two bodies are jointly reviewing the provision of student services to ensure that they are provided in the most effective manner.

Delivery of sustainable financial surpluses

The University has made significant investments in quality over recent years; through higher entry tariffs, additional academic staff, and a new Vet School. As explained earlier in this Review, these investments have put pressure on the level of surplus in the short term.

The University aims to deliver a higher, more sustainable surplus in the medium / longer term and is putting in place clearly identified plans to deliver growth in income and surpluses for the three main areas of teaching, research and enterprise.

At the same time, it has established a new Executive Board level 'Creating Value' group to subsume existing value for money activity and governance arrangements. Chaired by the Chief Financial Officer, this will look at all aspects of University life to see where further efficiencies can be found.

Operating and financial review (continued)

Summary and Future Outlook

2013/14 has seen the University achieve its highest ever rankings in the three main national league tables and in the National Student Survey. This is testament to the University's continuing progress in delivering the best student experience it possibly can. As a result, it is attracting more highly talented applicants than ever before.

Despite the challenge of the new fees environment, the University has achieved record growth in student numbers, with October 2014 seeing the University's highest ever undergraduate intake.

The University has put in place a strategy taking it through to 2020 and beyond and plans to grow its research income and student numbers, building on its successes and investments to ensure its financial sustainability.



**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 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 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'.

Summary of the University's structure of corporate governance

The University is a body incorporated by Royal Charter originally granted in 1966. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes and Ordinances (the 'Governing Documents').

During 2013 the University undertook a fundamental review of its Charter and Statutes. The principal aim of the review was to streamline the Charter and Statutes to enable day to day operational matters to be dealt with by Ordinances (which can be made and amended by the Council). Royal approval for the amendments to the Charter and Privy Council approval for the revised Statutes was received in July 2014 and the revised Charter and Statutes came into effect on 1 August 2014.

In July 2014 revised Ordinances were approved by the Council and received the concurrence of the Senate. The revised ordinances came into effect on 1 August 2014, with the exception of the provisions relating to the employment of academic staff which will come into effect on 1 September 2015.

In accordance with the requirements of its Governing Documents, the Council comprises a majority of external members, together with ex officio and elected University representatives. The role of the Chair 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 and Ordinances 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 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.

In addition, the Council cannot delegate responsibility for:

- varying the governing documents;
- approving the annual audited accounts; or
- appointing the External Auditor of the University.

The Council meets formally at least four times a year and holds a strategic away-day jointly with the Executive Board. It has a number of committees, all of which are formally constituted with appropriate external membership and terms of reference. These include a Finance Committee, an Audit and Assurance Committee, a Nominations Committee and a Remuneration Committee.

The Finance Committee, which comprises a majority of external members, meets six times a year. It advises the Council on financial policy and strategy, reviews and recommends to the 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 the Council to authorise the borrowing and investment of money on behalf of the University.

The Audit and Assurance Committee meets three times annually with the External and Internal Auditors in attendance. It oversees the risk process and 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 and Assurance 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 Committee has direct access to the Chair of Council.

Corporate governance (continued)

The Nominations Committee, under the chairmanship of the Chair of Council, meets as required to consider and make recommendations to the Council on the appointment of external members to the Council and on the deployment of external members (including external co-opted members) to certain committees, including the Finance Committee and the Audit and Assurance Committee. It also makes recommendations to the Council on the appointment of University directors to wholly owned subsidiary companies and on nominations for civil honours.

The Remuneration Committee, under the chairmanship of the Vice-Chair of Council, monitors the performance of the President and Vice-Chancellor and meets annually to determine the salary and conditions of service of the President and Vice-Chancellor and such other senior staff as the Council may from time to time deem appropriate. It also approves any severance payments made to staff earning over £100,000 per annum.

The University has a Senate which meets four times a year and is responsible, subject to the approval of the Council, for oversight of the University's Academic Endeavour, which includes teaching and research, and the regulation and direction of the education and conduct of students.

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.

During 2013/14 the University instigated a governance review to enable the Council to assure itself that the most appropriate governance framework is in place to equip the University to address the challenges it faces in a rapidly changing environment and to ensure governance is aligned with the University's Top Ten strategy. With support from an external consultant, this included a review of the governance of the development of major strategic projects and a review of the effectiveness of the Executive Board. In response to the review the University has established a Development Board for major projects and refreshed the timetable for information and meetings of the Council, Finance Committee, Audit and Assurance Committee and Executive Board. From the work carried out so far, the Council is satisfied that its governance processes are fit for purpose. However, work continues to finalise the various outcomes of the review and to ensure that sub-ordinate governance processes are aligned and that the structure supports the constitutional framework of the revised Charter, Statutes and Ordinances.

Statement of internal control

The 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 key elements of the University's system of internal control 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;
- Financial Regulations, approved by the Finance Committee together with supporting financial policies and procedures; and
- a professional Internal Audit team whose annual programme is approved by the Audit and Assurance Committee.

The University has an agreed Risk Management Policy and a Risk Appetite Statement which have been approved by the Council. The Executive Board is responsible for identifying and evaluating the major risks faced by the University and for ensuring that appropriate actions are taken to mitigate those risks. The University's High Level Risk Register is regularly reviewed and updated and the status of the University's high level risks and actions taken to mitigate those risks are reported on regularly to the Audit and Assurance Committee, the Finance Committee and the Council.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks; that it has been in place for the year ended 31 July 2014 and up to the date of approval of the financial statements; and that it accords with HEFCE guidance.

Responsibilities of the Council of the University of Surrey

In accordance with the University's Charter and Statutes, the Council 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 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 Council is responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2014 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 Charters and Statutes of the institution. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and auditor

As explained more fully in the Statement of Responsibilities of the Council set out on page 14 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31st July 2014 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

28 November 2014

Consolidated income and expenditure account for the year ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Income			
Funding council grants	2	34,786	40,157
Tuition fees and education grants	3	97,012	92,549
Research grants and contracts	4	29,588	28,811
Other income	5	47,278	41,824
Endowment and investment income	6	10,424	10,326
Total income		<u>219,088</u>	<u>213,667</u>
Expenditure			
Staff costs - operational	7	121,217	115,843
Staff costs - restructuring	7	439	483
Other operating expenses	10	69,436	72,546
Depreciation	10	17,529	15,950
Interest and other finance costs	9	6,673	7,197
Total expenditure	10	<u>215,294</u>	<u>212,019</u>
Surplus before taxation and exceptional items		3,794	1,648
Taxation	11a	<u>(86)</u>	<u>(44)</u>
Surplus before exceptional items		3,708	1,604
Exceptional items - surplus on disposal of building	12	-	1,290
Surplus after taxation and exceptional items	13	<u>3,708</u>	<u>2,894</u>
Transfer from accumulated income in endowment funds	26	347	276
Surplus for the year retained within general reserves		<u>4,055</u>	<u>3,170</u>

All income and expenditure relates to continuing operations.

There is no material difference between the surplus as reported above and its historic cost equivalent.

Statement of consolidated total recognised gains and losses for the year ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Surplus for the year after taxation and exceptional items		3,708	2,894
New endowments	26	207	159
Revaluation of permanent endowment assets	26	11,329	2,008
Increase in value of expendable endowment assets	26	15	84
Unrealised surplus on revaluation of fixed asset investments	28	84	308
Realised revaluation surplus on sale of investments	28	(42)	(51)
Actuarial (losses)/gains in respect of pension schemes	39	(8,495)	6,091
Deferred tax on actuarial gains	28	85	14
Total recognised gains relating to the year		<u>6,891</u>	<u>11,507</u>

Reconciliation

Opening reserves and endowments	143,743	132,236
Total recognised gains for the year	<u>6,891</u>	<u>11,507</u>
Closing reserves and endowments	<u>150,634</u>	<u>143,743</u>

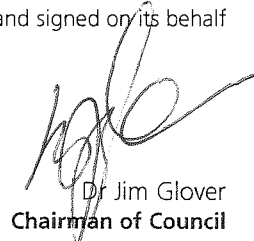
Balance sheets as at 31 July 2014

	Note	Consolidated		University	
		2014 £000	2013 £000	2014 £000	2013 £000
Fixed assets					
Tangible assets	14	294,715	284,925	294,907	285,123
Investments	15	43,244	45,046	44,648	45,963
		<u>337,959</u>	<u>329,971</u>	<u>339,555</u>	<u>331,086</u>
Endowment asset investments	16	<u>55,383</u>	<u>44,179</u>	<u>55,383</u>	<u>44,179</u>
Current assets					
Stocks and stores in hand		3,893	496	453	456
Assets held for resale	17	394	394	394	394
Debtors	18	19,344	19,036	28,231	19,034
Investments	20	34,059	25,059	34,059	25,059
Cash at bank and in hand		40,400	18,041	39,190	17,444
		<u>98,090</u>	<u>63,026</u>	<u>102,327</u>	<u>62,387</u>
Creditors : amounts falling due within one year	21	<u>(79,929)</u>	<u>(66,757)</u>	<u>(79,751)</u>	<u>(66,553)</u>
Net current assets/(liabilities)		<u>18,161</u>	<u>(3,731)</u>	<u>22,576</u>	<u>(4,166)</u>
Total assets less current liabilities		411,503	370,419	417,514	371,099
Creditors : amounts falling due after more than one year	22	<u>(172,193)</u>	<u>(143,378)</u>	<u>(172,109)</u>	<u>(143,290)</u>
Less: Provisions for liabilities and charges	24	<u>(1,475)</u>	<u>(1,437)</u>	<u>(1,475)</u>	<u>(1,437)</u>
Total net assets excluding pension liability		<u>237,835</u>	<u>225,604</u>	<u>243,930</u>	<u>226,372</u>
Pension liability		<u>(35,311)</u>	<u>(27,422)</u>	<u>(34,910)</u>	<u>(27,368)</u>
Total net assets including pension liability		<u>202,524</u>	<u>198,182</u>	<u>209,020</u>	<u>199,004</u>
Deferred capital grants	25	<u>51,890</u>	<u>54,439</u>	<u>51,890</u>	<u>54,439</u>
Endowments					
Expendable	26	2,440	2,562	2,440	2,562
Permanent	26	52,943	41,617	52,943	41,617
		<u>55,383</u>	<u>44,179</u>	<u>55,383</u>	<u>44,179</u>
Reserves	28				
Income and expenditure account excluding pension reserve		130,024	126,490	136,119	127,258
Pension reserve		<u>(35,311)</u>	<u>(27,422)</u>	<u>(34,910)</u>	<u>(27,368)</u>
Income and expenditure account including pension reserve		94,713	99,068	101,209	99,890
Revaluation reserve		538	496	538	496
		<u>95,251</u>	<u>99,564</u>	<u>101,747</u>	<u>100,386</u>
Total funds		<u>202,524</u>	<u>198,182</u>	<u>209,020</u>	<u>199,004</u>

The financial statements and notes on pages 16 to 47 were approved by the Council on 20 November 2014 and signed on its behalf by:



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



Dr Jim Glover
Chairman of Council

Consolidated cash flow statement for the year ended 31 July 2014

	Note	2013/14 £000	2012/13 £000
Net cash inflow from operating activities	29	20,406	5,479
Returns on investments and servicing of finance	30	(100)	(588)
Taxation		(48)	(70)
Capital expenditure and financial investment	31	(17,731)	(20,179)
Management of liquid resources	32	(9,000)	3,000
Financing	33	28,832	(6,918)
Increase/(decrease) in cash in the year	34	<u>22,359</u>	<u>(19,276)</u>

	2013/14 £000	2012/13 £000
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	22,359	(19,276)
Cash inflow from increase in loans	(35,476)	(250)
Repayment of long term loans	6,004	6,693
New finance leases	(43)	(328)
Capital element of finance lease payments	683	475
Cash outflow/(inflow) from increase/(decrease) in liquid resources	9,000	(3,000)
Other non-cash changes	(59)	-
Change in net funds	2,468	(15,686)
Net debt at 1 August	(106,865)	(91,179)
Net debt at 31 July	34	<u>(104,397)</u>

Notes to the financial statements

1 Accounting policies

Basis of preparation

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.

The University has significant cash and short term investment balances sufficient to meet its day to day working capital requirements. Despite the level of external borrowings the University's forecast projections show that it will continue to have sufficient funds to meet its obligations for the foreseeable future. Accordingly the going concern basis has been adopted in the preparation of the consolidated financial statements.

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. 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 bursary and scholarship payments 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 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 University operates the National Health Service Pension Scheme which is available to staff who immediately prior to appointment at the University were members of that scheme. This is a statutory, unfunded, multi-employer, defined benefit scheme in which the University is unable to identify its share of the underlying liabilities and assets and it is therefore accounted for on a contribution basis.

The group operates defined contribution pension schemes for temporary staff and certain employees of a subsidiary undertaking. 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

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.

Finance leases, 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 FRS15 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 on the Research Park, 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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 in practice they are available within 24 hours without penalty. No investment, however liquid, is 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 of the 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 478-489 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 undertakings are subject to corporation tax in the same way as any commercial organisation, although they may be able to take advantage of Section 471 CTA 2010 to mitigate the corporation tax liability through gift aid.

Deferred taxation

Deferred tax is provided in full on subsidiary undertaking 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 to 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 surpluses in the year in which it is incurred.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are 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 either when the charitable donation has been received or before receipt, if 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) 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	
	2013/14 £000	2012/13 £000
Recurrent grant		
Teaching	12,003	17,104
Research	15,223	15,603
	<u>27,226</u>	<u>32,707</u>
Specific grants		
Higher Education Innovation Fund	2,844	2,675
Other	1,120	865
Deferred capital grants released in year (note 25)		
Building	2,209	2,267
Equipment	1,387	1,643
Total grants from funding councils	<u>34,786</u>	<u>40,157</u>

3 Tuition fees and education grants

	Consolidated	
	2013/14 £000	2012/13 £000
UK & EU undergraduates	34,112	24,725
UK & EU postgraduates	7,515	8,942
Non-EU students	35,028	37,927
Non-credit bearing courses	2,819	2,878
Nurse training contract	13,454	13,345
Research training support grants	4,084	4,732
	<u>97,012</u>	<u>92,549</u>

4 Research grants and contracts

	Consolidated	
	2013/14 £000	2012/13 £000
Research councils	10,905	10,652
UK based charities	996	1,309
UK government, health and hospital authorities	2,093	2,047
UK industry and commerce	1,885	1,784
EU bodies	12,038	11,891
Other grants and contracts	1,671	1,128
	<u>29,588</u>	<u>28,811</u>

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

	Consolidated	
	2013/14	2012/13
	£000	£000
Residences, catering and conferences	28,848	25,196
Other services rendered	3,815	3,385
Income from use of University facilities	5,478	5,680
Other income	9,137	7,563
	<u>47,278</u>	<u>41,824</u>

6 Endowment and investment income

	Consolidated	
	2013/14	2012/13
	£000	£000
Income from expendable endowments (note 26)	31	44
Income from permanent endowments (note 26)	9,448	9,322
Income from short and long term investments	945	960
	<u>10,424</u>	<u>10,326</u>

7 Staff

	Consolidated	
	2013/14	2012/13
	£000	£000
Staff costs - operational:		
Wages and salaries	98,620	94,341
Social security costs	7,889	7,627
Other pension costs (note 39):		
- Employer contributions	14,050	13,198
- FRS17 adjustments	658	677
	<u>121,217</u>	<u>115,843</u>
Staff costs - restructuring	439	483
	<u>121,656</u>	<u>116,326</u>

	Consolidated	
	2013/14	2012/13
	Number	Number
Full time equivalent staff numbers:		
Research and teaching	1,045	1,002
Professional	965	957
Technical and experimental	102	105
Operational	336	345
Other	11	12
	<u>2,459</u>	<u>2,421</u>

Notes to the financial statements (continued)**8 Emoluments of higher paid staff**

	2013/14	2012/13
	£000	£000
Emoluments of President and Vice-Chancellor: Salary and benefits before pension allowance	343	329
Allowance in lieu of pension contributions	49	47
	392	376
Pension contributions	-	-
	392	376

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	2013/14	2012/13
	Consolidated	
	Number of employees	
£100,001- £110,000	18	15
£110,001- £120,000	7	8
£120,001- £130,000	7	9
£130,001- £140,000	7	2
£140,001- £150,000	1	2
£150,001- £160,000	1	-
£160,001- £170,000	3	4
£170,001- £180,000	2	-
£180,001- £190,000	1	-
£200,001- £210,000	-	1
	47	41

These bands include the annual emoluments of staff who joined the University during 2013/14 although actual payments were pro rata to the number of months employed.

Compensation for loss of office of £nil was paid in respect of higher paid staff in 2013/14 (2012/13: £46,000).

9 Interest and other finance costs

	Consolidated	
	2013/14	2012/13
	£000	£000
On bank loans and other loans:		
Loans wholly repayable within five years	418	396
Loans not wholly repayable within five years	5,114	5,105
	5,532	5,501
On finance leases	725	722
Net charge on pension scheme	401	943
Other interest payable	15	31
	6,673	7,197

Notes to the financial statements (continued)**11b Factors affecting current tax charge**

	Consolidated	
	2013/14	2012/13
	£000	£000
Surplus before taxation	3,794	2,938
Surplus multiplied by standard rate of corporation tax in the UK of 22.33% (2012/13: 23.67%)	847	695
Factors affecting charge:		
University (including Foundation Fund) surplus exempt from tax	(790)	(663)
Balances eliminated on consolidation exempt from tax	(1)	13
Adjustment for small company rate @ 20% (2012/13: 20%)	(5)	(7)
Adjustment in respect of prior periods for subsidiary undertakings	-	4
Tax charged on profits earned overseas	36	2
Other	(1)	-
Total current tax charge (note 11a)	86	44

12 Exceptional items

	Consolidated	
	2013/14	2012/13
	£000	£000
Proceeds from insurance claim	-	1,485
Net book value of building	-	(18)
Other disposal costs	-	(177)
Surplus on disposal of building	-	1,290

Exceptional items for the year ended 31 July 2013 related to the demolition of an accommodation block due to irreparable subsidence.

13 Surplus for the year after taxation and exceptional items

	Consolidated	
	2013/14	2012/13
	£000	£000
The surplus for the year after taxation and exceptional items is made up as follows:		
University deficit (excluding Foundation Fund)	(1,333)	(2,423)
Foundation Fund surplus (before land sale to subsidiary)	4,835	5,222
Unconsolidated surplus (before land sale to subsidiary)	3,502	2,799
Net surpluses retained by subsidiaries	201	150
Balances eliminated on consolidation (excluding land sale)	5	(55)
	3,708	2,894

Notes to the financial statements (continued)

14 Tangible fixed assets

Consolidated	Land and buildings		Assets under construction £000	Plant and equipment £000	Total £000
	Freehold £000	Leasehold £000			
Cost					
At 1 August 2013	331,567	14,811	17,014	85,658	449,050
Additions at cost	1,440	-	23,211	2,795	27,446
Transfers	19,692	-	(21,101)	1,409	-
Disposals at cost	(306)	-	-	-	(306)
At 31 July 2014	<u>352,393</u>	<u>14,811</u>	<u>19,124</u>	<u>89,862</u>	<u>476,190</u>
Depreciation					
At 1 August 2013	88,085	3,388	-	72,652	164,125
Charge for the year	12,096	290	-	5,125	17,511
Eliminated on disposal	(161)	-	-	-	(161)
At 31 July 2014	<u>100,020</u>	<u>3,678</u>	<u>-</u>	<u>77,777</u>	<u>181,475</u>
Net book value					
At 31 July 2014	<u>252,373</u>	<u>11,133</u>	<u>19,124</u>	<u>12,085</u>	<u>294,715</u>
At 31 July 2013	<u>243,482</u>	<u>11,423</u>	<u>17,014</u>	<u>13,006</u>	<u>284,925</u>
University					
	Freehold £000	Leasehold £000	Assets under construction £000	Plant and equipment £000	Total £000
Cost					
At 1 August 2013	331,876	14,811	17,014	85,658	449,359
Additions at cost	1,440	-	23,211	2,795	27,446
Transfers	19,692	-	(21,101)	1,409	-
Disposals at cost	(306)	-	-	-	(306)
At 31 July 2014	<u>352,702</u>	<u>14,811</u>	<u>19,124</u>	<u>89,862</u>	<u>476,499</u>
Depreciation					
At 1 August 2013	88,190	3,394	-	72,652	164,236
Charge for the year	12,096	296	-	5,125	17,517
Eliminated on disposal	(161)	-	-	-	(161)
At 31 July 2014	<u>100,125</u>	<u>3,690</u>	<u>-</u>	<u>77,777</u>	<u>181,592</u>
Net book value					
At 31 July 2014	<u>252,577</u>	<u>11,121</u>	<u>19,124</u>	<u>12,085</u>	<u>294,907</u>
At 31 July 2013	<u>243,686</u>	<u>11,417</u>	<u>17,014</u>	<u>13,006</u>	<u>285,123</u>

All leasehold land and buildings are long leases.

The aggregate amount of finance costs included in the cost of tangible fixed assets is £2,728,000 (2013: £2,011,000).

Notes to the financial statements (continued)

14 Tangible fixed assets (continued)

Tangible fixed assets include the following with respect to assets held under a finance lease:

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Net book value				
Land & buildings	11,120	11,417	11,120	11,417
Equipment	172	389	172	389
	11,292	11,806	11,292	11,806
Depreciation charge for year				
Land & buildings	297	297	297	297
Equipment	248	176	248	176
	545	473	545	473

15 Fixed asset investments

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Subsidiary undertakings	-	-	1,898	1,398
Investments in spinouts	482	482	1	1
Investment: Research Park	39,711	41,514	39,711	41,514
Listed investments	2,710	2,654	2,710	2,654
Cash held as part of investment portfolio	146	170	146	170
Other investments	195	226	182	226
	43,244	45,046	44,648	45,963

Significant shareholdings in subsidiaries

Name	Nature of business	Class of share	% held
Surrey Sports Park Limited	Sports park management	Ordinary	100
UniSGrist Limited	Grants to entrepreneurs	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100
Blackwell Developments (Guildford) Limited	Property development	Ordinary	100

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

On 17 April 2014 a new subsidiary undertaking, Blackwell Developments (Guildford) Limited, was incorporated with share capital of £1. On 30 June 2014 further share capital was issued, for £500,000.

16 Endowment assets

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Balance at 1 August	44,179	42,204	44,179	42,204
Net disposals	(12)	(691)	(12)	(691)
Increase in market value of investments	11,344	2,092	11,344	2,092
(Decrease)/increase in cash balances held for endowment fund	(128)	574	(128)	574
Balance at 31 July	55,383	44,179	55,383	44,179

Notes to the financial statements (continued)**16 Endowment assets (continued)**

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Represented by:				
Foundation Fund land and buildings	52,528	41,207	52,528	41,207
Listed investments	1,091	1,080	1,091	1,080
Cash held as part of investment portfolio	63	74	63	74
Cash held at bank for endowment funds	1,701	1,818	1,701	1,818
Total endowments	<u>55,383</u>	<u>44,179</u>	<u>55,383</u>	<u>44,179</u>

17 Assets held for resale

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Leasehold land and buildings	<u>394</u>	<u>394</u>	<u>394</u>	<u>394</u>

18 Debtors

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Trade debtors	6,348	5,982	6,205	5,782
Amounts owed by subsidiary undertakings	-	-	9,186	402
Other debtors	228	277	196	272
Deferred tax (note 19)	99	149	-	-
Prepayments and accrued income	12,669	12,628	12,644	12,578
	<u>19,344</u>	<u>19,036</u>	<u>28,231</u>	<u>19,034</u>

Other debtors in the Consolidated and University balance sheets include £100,000 which is due after more than one year (2013: £100,000).

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.

19 Deferred tax asset

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
The deferred tax asset comprises:				
Accelerated capital allowances	28	33	-	-
Losses	71	116	-	-
Pension (disclosed as part of pension provision)	101	14	-	-
	<u>200</u>	<u>163</u>	<u>-</u>	<u>-</u>
Deferred tax asset excluding pension:				
Balance at 1 August	149	192	-	-
Charge to the income and expenditure account	(50)	(43)	-	-
Balance at 31 July	<u>99</u>	<u>149</u>	<u>-</u>	<u>-</u>
Deferred tax pension asset:				
Balance at 1 August	14	20	-	-
Credit to the income and expenditure account	2	5	-	-
Charge to the statement of total recognised gains and losses	85	(11)	-	-
Balance at 31 July	<u>101</u>	<u>14</u>	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

20 Current asset investments

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Short term deposits (maturing within 1 year)	34,000	25,000	34,000	25,000
Other investments	59	59	59	59
	34,059	25,059	34,059	25,059

Short term deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct 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 £1,325,000 (2013: £1,770,000).

21 Creditors : amounts falling due within one year

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Bank loans (note 23a)	5,634	5,281	5,634	5,281
Obligations under finance leases (note 23b)	661	671	661	671
Other loans (note 23c)	393	723	393	723
Payments received on account	14,059	5,052	14,060	5,052
Trade creditors	4,654	4,100	4,580	4,022
Amounts owed to group undertakings	-	-	725	783
Other creditors including taxation and social security	11,290	8,444	11,136	8,304
Accruals and deferred income	43,238	42,486	42,562	41,717
	79,929	66,757	79,751	66,553

22 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Bank loans (note 23a)	160,796	131,429	160,796	131,429
Obligations under finance leases (note 23b)	10,192	10,822	10,192	10,822
Other loans (note 23c)	1,121	1,039	1,121	1,039
Other creditors	84	88	-	-
	172,193	143,378	172,109	143,290

23 Borrowings

a. Bank loans

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Bank loans are repayable as follows:				
In one year or on demand	5,634	5,281	5,634	5,281
Between one and two years	5,995	5,634	5,995	5,634
Between two and five years	24,371	19,158	24,371	19,158
In five years or more	130,430	106,637	130,430	106,637
	166,430	136,710	166,430	136,710
Due within one year or on demand	(5,634)	(5,281)	(5,634)	(5,281)
Due after more than one year	160,796	131,429	160,796	131,429
	166,430	136,710	166,430	136,710
Unsecured loans repayable by 2035	166,430	136,710	166,430	136,710

Notes to the financial statements (continued)**23 Borrowings (continued)**

Consolidated bank loans at 31 July 2014 were as follows:

Lender	Amount £000	Interest rate %	Term	Borrower
Scottish Widows	24,762	0.20 above base/LIBOR	2031	University
Scottish Widows	27,937	0.20 above base/LIBOR	2022-2026	University
Lloyds	35,000	1.75 above LIBOR	2033	University
National Westminster	17,103	0.20 above base/LIBOR	2030	University
National Westminster	2,500	0.20 above base/LIBOR	2022	University
National Westminster	13,312	0.20 above base/LIBOR	2032	University
Santander	45,816	0.17 above LIBOR	2035	University
	<u>166,430</u>			

b. Finance leases

The net finance lease obligations are repayable as follows:

Consolidated	Plant & equipment £000	2014 Land & buildings £000	Total £000	Plant & equipment £000	2013 Land & buildings £000	Total £000
In one year or less	161	500	661	199	472	671
Between two and five years	27	2,321	2,348	156	2,189	2,345
Over five years	-	7,844	7,844	-	8,477	8,477
	<u>188</u>	<u>10,665</u>	<u>10,853</u>	<u>355</u>	<u>11,138</u>	<u>11,493</u>

University	Plant & equipment £000	2014 Land & buildings £000	Total £000	Plant & equipment £000	2013 Land & buildings £000	Total £000
In one year or less	161	500	661	199	472	671
Between two and five years	27	2,321	2,348	156	2,189	2,345
Over five years	-	7,844	7,844	-	8,477	8,477
	<u>188</u>	<u>10,665</u>	<u>10,853</u>	<u>355</u>	<u>11,138</u>	<u>11,493</u>

c. Other loans

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
HEFCE repayable capital:				
In one year or less	-	300	-	300
Between two and five years	-	-	-	-
Over five years	-	-	-	-
	<u>-</u>	<u>300</u>	<u>-</u>	<u>300</u>
Other loans repayable:				
In one year or less	393	423	393	423
Between two and five years	544	462	544	462
Over five years	577	577	577	577
	<u>1,514</u>	<u>1,462</u>	<u>1,514</u>	<u>1,462</u>
Total other loans	<u>1,514</u>	<u>1,762</u>	<u>1,514</u>	<u>1,762</u>

Notes to the financial statements (continued)

24 Provisions for liabilities and charges

	Consolidated 2014 £000	University 2014 £000
At 1 August 2013	1,437	1,437
Utilised in year	(104)	(104)
Transfer to income and expenditure account	142	142
At 31 July 2014	<u>1,475</u>	<u>1,475</u>

The provision relates to premature retirement compensation.

25 Deferred capital grants

Consolidated	Funding council £000	Other grants £000	Total £000
At 1 August 2013			
Building	46,384	3,967	50,351
Equipment	3,838	250	4,088
Total	<u>50,222</u>	<u>4,217</u>	<u>54,439</u>
Grants received/receivable			
Building	828	132	960
Equipment	202	72	274
Total	<u>1,030</u>	<u>204</u>	<u>1,234</u>
Released to income and expenditure account			
Building	2,209	129	2,338
Equipment	1,387	58	1,445
Total	<u>3,596</u>	<u>187</u>	<u>3,783</u>
At 31 July 2014			
Building	45,003	3,970	48,973
Equipment	2,653	264	2,917
Total	<u>47,656</u>	<u>4,234</u>	<u>51,890</u>
University			
	Funding council £000	Other grants £000	Total £000
At 1 August 2013			
Building	46,384	3,967	50,351
Equipment	3,838	250	4,088
Total	<u>50,222</u>	<u>4,217</u>	<u>54,439</u>
Grants received/receivable			
Building	828	132	960
Equipment	202	72	274
Total	<u>1,030</u>	<u>204</u>	<u>1,234</u>
Released to income and expenditure account			
Building	2,209	129	2,338
Equipment	1,387	58	1,445
Total	<u>3,596</u>	<u>187</u>	<u>3,783</u>
At 31 July 2014			
Building	45,003	3,970	48,973
Equipment	2,653	264	2,917
Total	<u>47,656</u>	<u>4,234</u>	<u>51,890</u>

Notes to the financial statements (continued)

26 Endowments

Consolidated

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2014 Total £000	2013 Total £000
Balances at 1 August 2013						
Capital	41,207	273	41,480	2,380	43,860	41,895
Accumulated income	-	137	137	182	319	309
	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>
New endowments	-	-	-	207	207	159
Investment income	9,440	8	9,448	31	9,479	9,366
Expenditure	(9,440)	(11)	(9,451)	(375)	(9,826)	(9,642)
	<u>-</u>	<u>(3)</u>	<u>(3)</u>	<u>(137)</u>	<u>(140)</u>	<u>(117)</u>
Increase in market value of investments	11,321	8	11,329	15	11,344	2,092
At 31 July 2014	<u>52,528</u>	<u>415</u>	<u>52,943</u>	<u>2,440</u>	<u>55,383</u>	<u>44,179</u>
Represented by:						
Capital	52,528	274	52,802	2,167	54,969	43,860
Accumulated income	-	141	141	273	414	319
	<u>52,528</u>	<u>415</u>	<u>52,943</u>	<u>2,440</u>	<u>55,383</u>	<u>44,179</u>

University

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2014 Total £000	2013 Total £000
Balances at 1 August 2013						
Capital	41,207	273	41,480	2,380	43,860	41,895
Accumulated income	-	137	137	182	319	309
	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>
New endowments	-	-	-	207	207	159
Investment income	9,440	8	9,448	31	9,479	9,366
Expenditure	(9,440)	(11)	(9,451)	(375)	(9,826)	(9,642)
	<u>-</u>	<u>(3)</u>	<u>(3)</u>	<u>(137)</u>	<u>(140)</u>	<u>(117)</u>
Increase in market value of investments	11,321	8	11,329	15	11,344	2,092
At 31 July 2014	<u>52,528</u>	<u>415</u>	<u>52,943</u>	<u>2,440</u>	<u>55,383</u>	<u>44,179</u>
Represented by:						
Capital	52,528	274	52,802	2,167	54,969	43,860
Accumulated income	-	141	141	273	414	319
	<u>52,528</u>	<u>415</u>	<u>52,943</u>	<u>2,440</u>	<u>55,383</u>	<u>44,179</u>

Notes to the financial statements (continued)

27 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 under £100,000

	At 1 August 2013 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2014 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	569	11	(25)	11	566
Research (2 funds)	595	5	(159)	-	441
Other (1 fund)	47	1	(24)	-	24
	<u>1,211</u>	<u>17</u>	<u>(208)</u>	<u>11</u>	<u>1,031</u>

There were no connected institutions with income over £100,000.

28 Reserves

	Consolidated 2014 £000	University 2014 £000
Income and expenditure account		
At 1 August 2013	126,490	127,258
Surplus for the year	4,055	9,386
Less pension surplus	(521)	(525)
At 31 July 2014	<u>130,024</u>	<u>136,119</u>
Pension reserve		
At 1 August 2013	(27,422)	(27,368)
Actuarial losses in respect of pension schemes (note 39)	(8,495)	(8,067)
Deferred tax on actuarial gains (note 19)	85	-
Surplus retained within reserves	521	525
At 31 July 2014	<u>(35,311)</u>	<u>(34,910)</u>
Revaluation reserve		
At 1 August 2013	496	496
Revaluation of investments in year	84	84
Realised revaluation surplus on sale of investments	(42)	(42)
At 31 July 2014	<u>538</u>	<u>538</u>

Notes to the financial statements (continued)**29 Reconciliation of surplus before taxation to net cash inflow from operating activities**

	Consolidated	
	2013/14	2012/13
	£000	£000
Surplus before tax and exceptional items	3,794	1,648
Depreciation and amortisation	17,529	15,950
Deferred grants released (note 25)	(3,783)	(4,054)
Investment income	(945)	(1,011)
Interest payable (note 9)	6,673	7,197
(Increase)/decrease in stocks	(185)	2
(Increase)/decrease in debtors	(178)	16
Increase/(decrease) in creditors and accruals	2,673	(9,134)
Loss on disposal of property and equipment	145	174
Foundation Fund appropriation	(4,835)	(5,222)
Net expenditure relating to restricted endowments	347	276
Revaluation of investments	55	111
Pension cost (excluding interest) less contributions payable	(884)	(474)
Net cash inflow from operating activities	<u>20,406</u>	<u>5,479</u>

30 Returns on investments and servicing of finance

	Consolidated	
	2013/14	2012/13
	£000	£000
Foundation Fund appropriation received	5,431	4,721
Interest and dividends received	718	911
Interest element of finance lease rental payments	(725)	(722)
Other interest paid	(5,524)	(5,498)
	<u>(100)</u>	<u>(588)</u>

31 Capital expenditure and financial investment

	Consolidated	
	2013/14	2012/13
	£000	£000
Purchase of tangible fixed assets	(27,307)	(20,938)
Endowments invested	(207)	(159)
Purchase of long term investments	(24)	(703)
Proceeds from sale of fixed assets and investments	76	1,371
Increase in investment in Research Park	(1,946)	(1,744)
Deferred capital grants received	11,470	1,835
Endowments received (note 26)	207	159
	<u>(17,731)</u>	<u>(20,179)</u>

Notes to the financial statements (continued)**32 Management of liquid resources**

	Consolidated	
	2013/14	2012/13
	£000	£000
Cash (invested in)/withdrawn from short term deposits	<u>(9,000)</u>	<u>3,000</u>

33 Financing

	Consolidated	
	2013/14	2012/13
	£000	£000
New long term loans	35,476	250
Repayment of long term loans	(6,004)	(6,693)
Capital element of finance lease rental payments	(683)	(475)
New finance lease	43	-
Net cash flow from financing	<u>28,832</u>	<u>(6,918)</u>

34 Analysis of changes in net debt

Consolidated	At 1 August		Non-cash	At 31 July
	2013	Cash flows	changes	2014
	£000	£000	£000	£000
Cash at bank and in hand	18,041	22,359	-	40,400
Debts due within one year (note 21)	(6,004)	6,004	(6,027)	(6,027)
Debts due after one year (note 22)	(132,468)	(35,476)	6,027	(161,917)
Finance leases (note 23b)	(11,493)	683	(43)	(10,853)
Short term deposits (note 20)	25,059	9,000	(59)	34,000
	<u>(106,865)</u>	<u>2,570</u>	<u>(102)</u>	<u>(104,397)</u>

35 Capital commitments

	Consolidated		University	
	2014	2013	2014	2013
	£000	£000	£000	£000
Commitments contracted at 31 July	39,506	6,405	39,506	6,405
Authorised but not contracted at 31 July	22,102	54,856	22,102	54,856
	<u>61,608</u>	<u>61,261</u>	<u>61,608</u>	<u>61,261</u>

Notes to the financial statements (continued)**36 Lease obligations**

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

Consolidated	2014		2013	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	534	157	650	183
Between two and five years	-	148	-	517
Over five years	-	-	-	-
	<u>534</u>	<u>305</u>	<u>650</u>	<u>700</u>

University	2014		2013	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	534	157	650	183
Between two and five years	-	148	-	516
Over five years	-	-	-	-
	<u>534</u>	<u>305</u>	<u>650</u>	<u>699</u>

37 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 tax warranties remain in place until 31 December 2015.

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

There are no other known contingent assets or liabilities.

38 Financial commitments

On 4 June 2013 the University entered into an agreement with Lloyds TSB Bank plc to borrow £60,000,000. £35,000,000 of this balance was drawn down on 31 October 2013, £15,000,000 was drawn down on 31 October 2014 and the balance of £10,000,000 is due to be drawn down no later than 31 December 2017.

Interest on £30,000,000 (amortising) is payable at a fixed rate of 4.65% from 1 August 2014. Interest on the balance was payable at a variable rate of 1.50% above LIBOR until June 2014 and at 1.75% above LIBOR thereafter.

The loan is repayable in 60 equal quarterly instalments from 31 July 2018.

Notes to the financial statements (continued)

39 Pension schemes

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

	2013/14			Consolidated		
	Employer	FRS17	Total	Employer	FRS17	Total
	contributions	£000	£000	contributions	£000	£000
USS contributions	11,637	-	11,637	11,018	-	11,018
Local Government Pension Scheme	2,153	658	2,811	1,839	677	2,516
Contributions paid to other pension scheme	260	-	260	341	-	341
Total pension cost	14,050	658	14,708	13,198	677	13,875

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

	Consolidated	
	2013/14	2012/13
	£000	£000
USS	31	57
Local Government Pension Scheme curtailments	54	123
	85	180

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 2014 are included in this note.

The latest triennial actuarial valuation of the scheme was as at 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

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	(2,910,200)

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

Notes to the financial statements (continued)

39 Pension schemes (continued)

a. Universities Superannuation Scheme (USS) (continued)

As part of this valuation, the trustee determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure. However, an estimate has been provided with assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% to 85%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the scheme's liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

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, whereas 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, 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 2014 USS had over 162,000 active members and the University had 1,887 active members participating in the scheme.

The total pension cost for the institution for 2013/14 was £11,637,000 (2012/13: £11,018,000). This includes £1,590,000 (2013: £1,464,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16.0% of pensionable salaries.

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 trustee 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 increased to 19.9% from 16.4% from 1 April 2014. This revised percentage reflects the future service contribution. The past service deficit will be met by the payment of monetary amounts. The amount payable in respect of the past service deficit in the three years to 31 March 2017 is £1,732,000 per annum.

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 2014.

Notes to the financial statements (continued)

39 Pension schemes (continued)

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

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

A full actuarial valuation was carried out at 31 March 2013 and updated to 31 July 2014 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2014 were:

	Consolidated	
	2014	2013
Pension increase rate (CPI)	2.7%	2.8%
Salary increase rate (see * below)	4.0%	5.1%
Discount rate	4.0%	4.6%

* Salary increases are assumed to be 1% per annum until 31 March 2015, reverting to 1.5% per annum thereafter.

Life expectancy is based on Vita Curves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25%. Based on these assumptions, the average future life expectancies at age 65 for males and females are summarised below:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2013 is 45 years)	24.5 years	26.9 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	
	2014	2013
	£000 (%)	£000 (%)
Equities	56,678 (6.6%)	52,014 (6.4%)
Bonds	11,626 (3.6%)	10,950 (3.8%)
Property	3,634 (4.7%)	3,422 (4.6%)
Cash	727 (3.6%)	2,053 (3.4%)
	<u>72,655 (6.0%)</u>	<u>68,439 (5.8%)</u>

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

Analysis of the amounts shown in the balance sheet

	Consolidated	
	2014	2013
	£000	£000
Fair value of employer assets	72,665	68,439
Present value of funded liabilities	(107,433)	(94,979)
Net underfunding in funded plans	(34,768)	(26,540)
Deferred tax asset (note 19)	101	14
	(34,667)	(26,526)
Present value of unfunded liabilities	(1,360)	(1,328)
Net liability	(36,027)	(27,854)

Notes to the financial statements (continued)

39 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	
	2013/14 £000	2012/13 £000
Current service cost	2,811	2,506
Interest cost	4,432	3,717
Expected return on employer assets	(3,997)	(2,810)
Losses on curtailments and settlements	54	123
Past service cost	-	10
	<u>3,300</u>	<u>3,546</u>
Actual return on plan assets	<u>(5,138)</u>	<u>(10,776)</u>

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

	Consolidated	
	2013/14 £000	2012/13 £000
Actuarial (losses)/gains	<u>(8,625)</u>	<u>6,159</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2014 £000	2013 £000
Opening defined benefit obligation	96,307	90,522
Current service cost	2,811	2,506
Interest cost	4,432	3,717
Contributions by members	802	771
Other actuarial losses	7,807	1,808
Past service cost	-	10
Losses on curtailments	54	123
Estimated unfunded benefits paid	(91)	(93)
Estimated benefits paid	(3,329)	(3,057)
Closing defined benefit obligation	<u>108,793</u>	<u>96,307</u>

Changes in the fair value of employer assets

	Consolidated	
	2014 £000	2013 £000
Opening fair value of employer assets	68,439	57,027
Expected return on assets	3,997	2,810
Contributions by members	802	771
Contributions by the employer	3,574	2,921
Contributions in respect of unfunded benefits	91	93
Actuarial (losses)/gains	(818)	7,967
Estimated unfunded benefits paid	(91)	(93)
Estimated benefits paid	(3,329)	(3,057)
Closing fair value of employer assets	<u>72,665</u>	<u>68,439</u>

Notes to the financial statements (continued)

39 Pension schemes (continued)

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

Consolidated amounts for the current and previous accounting periods

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Fair value of employer assets	72,665	68,439	57,027	55,624	54,071
Present value of defined benefit obligation	(108,793)	(96,307)	(90,522)	(77,316)	(83,810)
Deficit	(36,128)	(27,868)	(33,495)	(21,692)	(29,739)
Experience (losses)/gains on assets:	(818)	7,967	(2,618)	(2,460)	5,894
Experience gains/(losses) on liabilities:	305	87	(1,284)	8,128	91
Actuarial (losses)/gains	(8,625)	6,159	(11,553)	8,797	5,982
Cumulative actuarial (losses)/gains	(9,601)	(976)	(7,135)	4,418	(4,379)

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

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 LPFA 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 2014. The pension scheme assets are held in a separate trustee-administered fund.

A full actuarial valuation was carried out at 31 March 2013 and updated to 31 July 2014 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2014 were:

	2014	2013
Pension increase rate (CPI)	2.3%	1.7%
Salary increase rate	4.1%	3.4%
Discount rate	3.5%	2.3%

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

	2014		2013	
	Males	Females	Males	Females
Retiring today	21.7 years	23.9 years	20.7 years	22.9 years
Retiring in 20 years	24.0 years	26.2 years	22.7 years	24.9 years

It is assumed that members will exchange half of their commutable pension for cash at retirement.

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

	2014 £000 (%)	2013 £000 (%)
Cashflow matching	123 (3.4%)	153 (3.4%)
Equities	885 (6.7%)	900 (6.4%)
Cash	279 (3.2%)	19 (0.5%)
Target return portfolio	576 (6.1%)	555 (4.9%)
Other assets	143 (6.0%)	- (0.0%)
Alternative assets	- (0.0%)	287 (5.4%)
	2,006 (5.8%)	1,914 (5.4%)

Notes to the financial statements (continued)**39 Pension schemes** (continued)**c. London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund)** (continued)

The following amounts at 31 July 2014 were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	2014	2013
	£000	£000
Fair value of employer assets	2,006	1,914
Present value of funded liabilities	(2,650)	(2,810)
Net underfunding in funded plans	(644)	(896)
Present value of unfunded liabilities	(115)	(109)
Net liability	(759)	(1,005)

Analysis of amounts recognised in the income and expenditure account

	2013/14	2012/13
	£000	£000
Expected return on employer assets	(98)	(70)
Interest cost	64	107
Net (credit)/charge	(34)	37
Actual return on plan assets	(30)	(215)

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

	2013/14	2012/13
	£000	£000
Actual return less expected return on employer assets	(68)	144
Experience gains	12	1
Changes in assumptions underlying the present value of the scheme liabilities	186	(213)
Actuarial gain/(loss) recognised in the STRGL	130	(68)

Changes in the present value of the defined benefit obligation

	2014	2013
	£000	£000
Opening defined benefit obligation	2,919	2,859
Interest cost	64	107
Other actuarial losses	32	212
Unfunded benefits paid	(13)	(13)
Estimated benefits paid	(237)	(246)
Closing defined benefit obligation	2,765	2,919

Changes in the fair value of employer assets

	2014	2013
	£000	£000
Opening fair value of employer assets	1,914	1,877
Expected return on assets	98	70
Contributions by the employer	71	71
Contributions in respect of unfunded benefits	11	11
Actuarial gains	162	144
Unfunded benefits paid	(13)	(13)
Estimated benefits paid	(237)	(246)
Closing fair value of employer assets	2,006	1,914

Notes to the financial statements (continued)

39 Pension schemes (continued)

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

Amounts for the current and previous accounting periods

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Fair value of employer assets	2,006	1,914	1,877	1,941	1,949
Present value of defined benefit obligation	(2,765)	(2,919)	(2,859)	(2,893)	(2,659)
Deficit	(759)	(1,005)	(982)	(952)	(710)
Experience gains on assets:	162	144	18	54	287
Experience (losses)/gains on liabilities:	(218)	1	(10)	(475)	64
Actuarial gains/(losses)	130	(68)	(51)	(256)	429
Cumulative actuarial losses	(535)	(665)	(597)	(546)	(290)

40 Access funds

	Consolidated and University	
	2013/14	2012/13
	£000	£000
Balance at 1 August	3	3
Funding council Access funds	142	130
	145	133
Disbursed to students	(134)	(127)
Administration costs	(4)	(3)
Balance unspent at 31 July	7	3

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.

41 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 arm's 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 exercise dominant influence over its activities. During the year ended 31 July 2014 transactions with the Students' Union totalling £851,000 net were charged to the income & expenditure account (2012/13: £779,000 net). As at 31 July 2014 the Students Union owed a net balance of £nil (2013: £39,000).

Five year summary

Summary consolidated income and expenditure account

	2013/14	2012/13	2011/12	2010/11	2009/10
	£000	£000	£000	£000	£000
Total income	219,088	213,667	211,350	211,591	193,827
Total expenditure	(215,294)	(212,019)	(204,740)	(200,819)	(190,083)
Surplus before taxation	3,794	1,648	6,610	10,772	3,744
Taxation and transfers from endowments	261	232	205	141	311
Surplus before exceptional items	4,055	1,880	6,815	10,913	4,055
Exceptional items	-	1,290	-	-	-
Retained surplus for the year	4,055	3,170	6,815	10,913	4,055

Summary consolidated balance sheet

	2014	2013	2012	2011	2010
	£000	£000	£000	£000	£000
Fixed assets	337,959	329,971	318,707	315,093	308,939
Endowment asset investments	55,383	44,179	42,204	48,448	50,539
Current assets	98,090	63,026	85,362	85,855	65,511
Creditors : amounts falling due within one year	(79,929)	(66,757)	(73,529)	(68,379)	(67,544)
Total assets less current liabilities	411,503	370,419	372,744	381,017	357,445
Creditors : amounts falling due after more than one year	(172,193)	(143,378)	(149,488)	(156,614)	(146,951)
Provisions for liabilities and charges	(1,475)	(1,437)	(1,552)	(1,449)	(1,576)
Pension liability	(35,311)	(27,422)	(32,925)	(21,195)	(28,873)
Total net assets	202,524	198,182	188,779	201,759	180,045
Deferred capital grants	51,890	54,439	56,543	58,458	53,921
Endowments	55,383	44,179	42,204	48,448	50,539
Reserves	95,251	99,564	90,032	94,853	75,585
Total funds	202,524	198,182	188,779	201,759	180,045

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

	2013/14	2012/13	2011/12	2010/11	2009/10
Surplus (calculated before transfer from/(to) endowments) as % of income	1.7%	1.4%	3.1%	5.1%	2.0%
Return on net assets (excluding pension liability)	1.6%	1.3%	2.9%	4.8%	1.9%
Staff costs as % of income	55.5%	54.4%	52.6%	49.9%	52.7%
Discretionary reserves (excluding pension reserve) as % of income	60.5%	60.4%	59.3%	56.2%	55.2%
Gross borrowing as % of income	80.9%	69.4%	73.1%	75.9%	78.1%
Net debt as a % of total funds	51.5%	53.9%	48.3%	48.8%	59.9%
Current ratio	1.23	0.94	1.16	1.26	0.97
Net liquidity / (expenditure - depreciation) in days	137	80	126	127	94
Operating cashflow as % of income	9.3%	2.6%	11.8%	14.9%	10.7%

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Council members (trustees)

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

Dr J Glover

Vice-Chair

Ms A Watts

Treasurer

Mr T Chambers

Ex officio members

President & Vice-Chancellor
Professor Sir C M Snowden

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

Vice-President & Deputy Vice-Chancellor, Research & Innovation
Professor M Kearney

Chair, Staff Assembly
Ms S Ryle

President, Students' Union
Mr M Hussien (from August 2014)
Ms E Bollon (to July 2014)

Elected by the Senate

Professor D Allen (to December 2013)
Professor V Emery (from January 2014)
Professor S Price
Professor J Seville

Lay members

Dr H Bowcock (from August 2014)
Mr D Eustace (to December 2013)
Dr J Forrest
Mr A Herman
Ms C Ighodaro
Mr D McNulty
Mr M Queen (from April 2014)
Mr I Robertson
Mr D Rogers (to July 2014)
Mr A Stuart (from August 2014)
Dato Dr Kim Tan (from April 2014)
Mr K Taylor
Professor Lord R Winston