

# Financial Statements

2014/15





# University of Surrey

## Financial statements for the year ended 31 July 2015

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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 (OFR) seeks to set the financial results in the context of the University's strategy and operations.

The 2014/15 financial statements reflect the final year of Professor Sir Christopher Snowden's leadership of the University as President and Vice-Chancellor. He has been the inspiration behind many of the initiatives described in this OFR and the achievements of the past year are a fitting tribute to him.

## 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, health, arts, humanities, law and business.

In addition to its core academic activities, the University owns and manages the Surrey Research Park. Celebrating its 30th anniversary in 2015, the Surrey Research Park is widely regarded as the best science park of its kind in the UK.

## Strategy and operating environment

The University has a strong ambition to be a leading University in the UK and recognised internationally for its strengths in both research and teaching.

Its strategy is founded upon:

- enhancing research output quality
- growing funded research activity
- continuing to deliver high quality teaching and learning
- delivering high employability rates
- increasing student numbers and quality
- continuing the focus on excellent student satisfaction.

Through this strategy the University has already achieved considerable success. However, the external pressures are significant and there is no indication that these will reduce in the short to medium term.

A growing deregulation of UK undergraduate student recruitment has been coupled with a freeze in the

tuition fee, which has remained at £9,000 since it was introduced in 2012/13. The government's Spending Review and Autumn Statement 2015 is expected to lead to further cuts in funding for universities as efficiency targets are cascaded from the Department for Business, Innovation and Skills (BIS) to HEFCE. The government's higher education green paper will lead to further changes, including the introduction of the Teaching Excellence Framework (TEF) and associated implications for the lifting of the fee cap.

Recruitment of overseas students remains exposed to government policy on immigration and visa reform in addition to changes in the global economy. The forthcoming EU referendum has potential implications not only for the University's ability to recruit EU students, but also to secure funding for research and to drive innovation.

At the same time costs are rising, with the increasing cost of pension provision and forthcoming changes in national insurance contributions putting pressure on employment costs.

Meanwhile student expectations have never been higher and the market has never been more competitive. There is a changing demographic with a decline in the number of 18 year olds in the UK in the period up to 2020. This means that growth will need to be achieved through an increase in market share.

Against this background, this OFR describes the further progress which the University has made during 2014/15 towards its strategic goals.

In the past year the University has revised its balanced scorecard to provide increased focus on the key drivers of the University's strategic success. Centred on the five areas shown below, the balanced scorecard uses established sector definitions, wherever possible, in order to facilitate external benchmarking:

- academic KPIs (teaching and research)
- staff engagement and views
- financial performance and sustainability
- strategic developments
- opinions of others

Relevant metrics are included in this OFR.

## Public benefit statement

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. It is therefore exempt from registration with the Charity Commission and its compliance with charity law is monitored by HEFCE as principal regulator.

The University's charitable purposes are defined in its Royal Charter as the advancement of education, learning

## Operating and financial review (continued)

and teaching. The primary beneficiaries are current and potential students of the University, and the general public who benefit from the University's research and engagement activities.

In determining the University's strategic, operational and financial objectives, the members of Council, as trustees, have due regard to the Charity Commission's guidance on public benefit.

### League table performance

The delivery of public benefit is evidenced by a significant and consistent strengthening of the University's position across all the main UK university league tables.

In 2007 the University set itself a target of achieving top ten rankings in the UK in ten years. Its first top ten ranking was achieved just six years later when it was ranked 8th in The Guardian league table. In 2015 it achieved top ten rankings in all three major UK league tables, as shown in the table below.

Chart 1 League table rankings

	2014/15	2013/14	2012/13	2011/12	2010/11
The Guardian	4	6	8	12	19
The Times				26	29
The Sunday Times	8	11	12	21	21
The Complete University Guide	8	12	13	22	28

The University was also delighted to receive in 2015 two much sought after accolades, being named by The Sunday Times and The Times as 'University of the Year' and 'University of the Year for Student Experience'. In receiving the 'University of the Year' award Surrey was praised for being 'one of the most innovative universities in the UK'. It was also commended for its low dropout rate; its work in the area of widening participation; and its commitment to student satisfaction, as demonstrated by its successes in the National Student Survey.

### Public recognition and public engagement

Public benefit is further demonstrated by the receipt of prestigious awards, media interest and public engagement activities.

In June 2015 it was announced that two University of Surrey academics (Professor Andy Adcroft and Dr Simon Usherwood) had been awarded National Teaching Fellowships. Managed by the Higher Education Academy, the National Teaching Fellowship Scheme celebrates outstanding achievement in learning and teaching in higher education.

As Deputy Head of Surrey Business School, Professor Andy Adcroft is responsible for development of the Business School's programmes, focusing on creating innovative ways to engage students and embed business practice in the curriculum. Dr Simon Usherwood, Associate Dean (Learning and Teaching) has been instrumental in employing new ways of learning, with a programme that offers students a wide range of opportunities, including simulation games which are consistently singled out by students as a valuable and enjoyable experience.

With leading experts in a broad range of fields, Surrey academics frequently feature in high-profile media and contribute to global news headlines.

During 2014/15 the University generated over 20,000 pieces of global coverage across online, print and broadcast. The majority of media coverage is gained through proactive release of research findings. Stories with strong human interest in areas such as health, diet, travel, mobile telecommunications and cybersecurity ensure a spread of coverage in national news, lifestyle and broadcast titles, as well as providing trade titles with key scientific and academic context. Two examples are given below:

In May 2015 there was significant media coverage (including coverage by BBC Online and Sky News) of newly published research, led by the University of Surrey, demonstrating a new, non-invasive test that can detect cocaine use through a simple fingerprint. For the first time, this new fingerprint method can determine whether cocaine has been ingested, rather than just touched.

In June 2015 Dr Simon Archer from the University's renowned Sleep Research Centre featured in an article in The Independent about the effects of shift work on health, specifically the risks associated with eating at night-time.

### Community engagement

Local residents are encouraged to visit the University and engage with it through its public art, sport, music and lecture programme.

June 2015 saw the publication of 'An A-Z Guide to Your University'. Targeted at members of the local Guildford community, 37,500 copies were sent to homes with central Guildford postcodes and a further 5,000 copies were distributed to public buildings around the town and to University venues open to the public such as Surrey Sports Park and the Ivy Arts Centre.

Surrey Sports Park, which celebrated its 5th anniversary in April 2015, continues to be a major asset to the local community as well as to the University. In its first five years, it received over 5 million visitors; 8,500 young children took part in holiday sports camps; and 3,000 young swimmers learned to swim in the 50m pool.

## Operating and financial review (continued)

As a major partner and sponsor, Surrey Sports Park hosted its 6th consecutive Surrey Youth Games in June 2015. The following month it hosted the inaugural family sports and fitness festival, GoFest. With activities on offer for all ages and fitness levels, this festival gave participants the opportunity to try out a new sport or activity in a sociable, encouraging and supportive environment with appearances from well-known sports personalities and coaching from professional teams including Fulham FC Foundation, Harlequins RFU, Surrey Storm, Surrey Smashers and Surrey County Cricket Club.

Earlier in the year Surrey Sports Park was the venue for a free programme of events to mark World Cancer Day. Organised by the University, the day's events were open to students, staff, alumni and the general public. Alongside local and national cancer charities, the University offered visitors the opportunity to learn more about the benefits of a healthy lifestyle and early cancer detection, as well as how Surrey's research is benefitting the community on both a local and global scale.

### Other examples of public benefit

As additional evidence of public benefit, further examples are given elsewhere in this OFR 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.

Further examples of how the University's research activities are delivering public benefit can be found in the 2015 Annual Review at [www.surrey.ac.uk](http://www.surrey.ac.uk).

### 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 Higher Education Statistics Agency (HESA) widening participation benchmarks.

The most recently published data (2013/14) shows the University continuing to exceed its benchmarks for two of the three measures of participation of lower-represented groups, as shown in the table below.

Chart 2 Widening participation

Participation of Under-Represented Groups (Young Full Time 1st Degree)	2013/14		2012/13	
	Surrey	Benchmark	Surrey	Benchmark
	%	%	%	%
Lower Socio-Economic Groups (NE-SEC Classes 4-7)	31.3	27.3	28.0	26.2
State Schools	92.7	84.7	91.1	83.5
Low Participation Neighbourhoods	6.4	6.7	7.3	6.8

Having exceeded the low participation neighbourhoods benchmark in 2012/13, the University's performance fell below the benchmark in 2013/14. The University is addressing the shortfall through its revised Outreach Strategy.

During 2014/15 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 2014/15 the University awarded bursaries totalling £4.5m to 1,688 students compared with a total of £4.2m distributed to 1,683 students in 2013/14. This increased cost reflected the higher value of bursaries awarded to students who commenced their studies after the introduction of the £9,000 fee. Bursaries were issued partly in cash, partly via tuition fee waivers and partly through accommodation discounts.

Having evaluated the effectiveness of its 2013/14 bursary scheme, the University will be introducing a more targeted bursary scheme from 2015/16. This is in line with guidance from the Office for Fair Access (OFFA) which recommends that universities focus expenditure on outreach and retention instead. In submitting its 2016/17 Access Agreement to OFFA (in April 2015), the University committed to increasing expenditure on outreach activities from £350,000 in 2014/15 to £1.8m in 2019/20. It also undertook to increase investment in widening participation from £350,000 in 2014/15 to £2.2m in 2019/20 in order to improve student success and progression.

In addition to providing bursaries as described above, the University also provides hardship loans and grants to students who face financial difficulties. These are provided 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. It also employs a number of disability advisors who can offer information to both current and prospective students and liaise with

## Operating and financial review (continued)

University departments, Student Finance England and relevant external agencies.

### Review of operations

During 2014/15 the University carried out an operational review in order to determine the structure, size and shape of the University required to:

- achieve the University's research ambitions
- achieve the University's learning and teaching objectives
- deliver operational efficiency
- ensure financial sustainability.

Following consultation and appropriate amendments to the original proposals, it was confirmed that the Faculty of Arts and Human Sciences (FAHS) would merge with the Faculty of Business, Economics and Law (FBEL); the Department of Psychology would move from FAHS to the Faculty of Health and Medical Sciences (FHMS); and the Registrar's Division would be re-structured into four new directorates. The original objective of reducing staffing levels by approximately 100 posts was achieved with no compulsory redundancies.

The changes are effective from 1 August 2015 and the costs of restructuring are fully reflected in the 2014/15 financial statements.

### Learning and Teaching

#### Student numbers

The University's stronger league table position contributed to further significant growth in undergraduate applications and enrolments for 2014/15 entry. Applications for 2014/15 entry grew by 28% following a 36% rise the previous year, while an 8% rise in enrolments saw the University achieving its highest ever undergraduate intake in October 2014. This growth was achieved with no drop in quality. The average UCAS entry tariff for 2014/15 of 424 was close to the previous year's figure of 426.

Chart 3 Undergraduate applications and enrolments (excluding clearing students)

	2014/15 Entry	2013/14 Entry	2012/13 Entry	2011/12 Entry	2010/11 Entry
Applications	29,817	23,360	17,125	22,788	20,427
Enrolments	2,959	2,742	2,082	2,938	2,898
Applications to Enrolments	10.1:1	8.5:1	8.2:1	7.8:1	7.1:1
Average UCAS Entry Tariff	424	426*	436	431	405

\* The entry tariff for 2013/14 onwards 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.

As shown in the table below, the University is steadily rebuilding its undergraduate student population following a deliberately smaller intake in 2012 in line with its strategy to drive up quality. Postgraduate student numbers remained under pressure during 2014/15. Whilst performance improved across most markets, there was a significant decline in the 2014/15 intake of postgraduate Chinese students following an increase in entry requirements for the business school.

Chart 4 Student numbers (headcount)

	2014/15	2013/14	2012/13	2011/12	2010/11
Undergraduate	10,464	9,977	9,841	10,878	10,411
Postgraduate Taught	2,521	2,566	2,820	3,157	3,099
Postgraduate Research	1,109	1,163	1,214	1,174	1,268
<b>Total</b>	<b>14,094</b>	<b>13,706</b>	<b>13,875</b>	<b>15,209</b>	<b>14,778</b>
Overseas Students included above	3,099	2,840	3,205	3,649	3,353

#### Student satisfaction

Undergraduate satisfaction, as measured by the National Student Survey (NSS), remains extremely high. The University moved up 3 places in the 2015 NSS to 5th place, the highest it has ever achieved. 92% of Surrey students expressed satisfaction with the quality of their course, 1% higher than the previous year. The average satisfaction rate for UK higher education institutions in 2015 was 86%.

Chart 5 National student survey (NSS)

	2014/15	2013/14	2012/13	2011/12	2010/11
Overall Satisfaction	92%	91%	92%	90%	87%
Position	=5/139	=8/135	=9/136	=15/135	=32/129

#### Learning and teaching developments

The University continues to expand its academic offering. October 2014 saw the first undergraduate intake to the new School of Veterinary Medicine (Vet School), one of only eight such schools in the UK. It also marked the launch of the new Sport and Exercise undergraduate degree programme.

The new research led Veterinary Medicine and Science (BVMSci) undergraduate degree programme is being delivered in partnership with a number of veterinary practices and world-leading veterinary research institutes.



## Operating and financial review (continued)

This gives students the opportunity for real-world, hands-on practical, clinical and research training from the start of their degree, as well as an awareness of the wide range of career opportunities available to veterinary scientists. In line with the University's strategy to drive up quality, the first intake of 48 students achieved an average UCAS entry tariff of 490 points.

Working closely with the Students' Union, the University continues to develop and enhance its digital learning environment (SurreyLearn). Marking and feedback are increasingly delivered online, with peer marking an innovative feature which allows students to provide feedback on each other's work. During 2014/15 the University undertook a pilot project to capture lectures on SurreyLearn. This saw the introduction of 'micro-lectures' which complement face-to-face teaching in the 'flipped classroom' model. Electronic voting continues to be a highly popular tool to invite student participation in lectures and the University is now using an electronic voting system that enables students to use their own mobile devices to interact with live quizzes and polls during their teaching sessions.

### 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.

Over the last three years the Careers and Employability Service has focused extensively on extending its reach out to students and academic staff. A careers adviser is assigned to each academic faculty to work directly with academic staff on ensuring that their students have access to the necessary career development support, as well as helping to weave employability into the broader aspects of the student learning experience.

In July 2015 HESA released the results of its 2014 'Destination of Leavers from Higher Education' (DLHE) survey. This ranked the University in second place for graduate employability among chartered universities in England, with 96.9% of students in work or further study six months after graduation.

### Research

The University's research strategy is based on strong links between research and teaching, and the concentration of research into centres and thematic areas 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.

The University is starting to see the positive impact of its recent investments in academic staff and greater strategic focus.

The financial statements show total research income for 2014/15 of £42.3m, a £12.7m increase on the previous year's figure.

Chart 6 Research income

	2014/15	2013/14
	£m	£m
Operational Research Income	32.0	29.6
5GIC Programme Contributions in Kind	7.3	0.0
Research & Development Expenditure Tax Credits	3.0	0.0
<b>Total</b>	<b>42.3</b>	<b>29.6</b>

Operational research income grew by 8% in 2014/15 to £32.0m (2013/14: £29.6m). This was in line with plan and represented the highest figure ever achieved by the University.

The 5G Innovation Centre (5GIC) programme is attracting significant in-kind contributions from industrial partners for the development of research services and capacity. These contributions (valued at £7.3m in 2014/15) have no impact on the financial surplus for the year as income and expenditure are reported at the same values. However, they clearly demonstrate the importance of the programme to the University's strategy for growth. Further significant contributions are expected over the next four years.

The research and development expenditure tax credits of £3.0m reflected a one-off opportunity for universities to claim from HMRC a cash credit on qualifying research and development expenditure incurred between 1 April 2013 and 31 July 2015 (when the scheme closed to universities). The net amount received, after tax, was £2.3m.

In addition to the increase in research income, trends in respect of contribution and recovery, new awards, bidding rates and bid success rates are also all showing significant signs of improvement.

New awards announced during 2014/15 totalled £43.7m. This was the highest annual figure to date by a significant margin – up 35% on 2013/14 and well above the three year average. Within this figure Research Council awards were up almost 300% from £8.4m to £23.8m and the average value of a Research Council award was just over 100% higher at £0.34m (2013/14: £0.16m).

The total value of bids submitted during 2014/15 was £165.8m. This was 19% higher than the previous financial year and, like awards, above the three year average. The average bid value was £0.26m compared with £0.21m in 2013/14, with the average value of EU bids rising from £0.34m to £0.44m.

## Operating and financial review (continued)

Chart 7 Research bids, awards & extensions

	2014/15	2013/14	2012/13	2011/12	2010/11
	£m	£m	£m	£m	£m
Research Awards and Extensions	43.7	32.4	32.8	26.5	23.3
Research Bids	165.8	139.6	159.0	117.4	117.6

Analysis of awards shows improved success rates in all key areas apart from the EU. Particularly welcome was the improvement in the Research Council success rate (up from 23% in 2013/14 to 29% in 2014/15).

The improved success rates were, at least in part, the result of the implementation of clear strategic bidding strategies, better internal review and mock interview preparation. Nevertheless, improving success rates through enhancing the quality of bids remains an imperative and the various processes associated with bid development continue to be refined. An initial evaluation of results from the first six months of the EU's Horizon 2020 programme confirmed that, across Europe, success rates were lower than for the previous Framework 7 programme. The oversubscription rate was eight times the available budget and there was a significant drop in participation of international partner countries but an increase in industrial participation.

In recent years the University has invested heavily in new academic staff, with a total of over 200 academics recruited externally since January 2012. The University is seeing steady growth in the value of grants attributable to these staff.

In December 2014 the University learned the outcomes of the 2014 Research Excellence Framework (REF) exercise. The results were broadly in line with expectations. 78% of the University's activity was rated in the top two categories i.e. 4\* (world-leading) or 3\* (internationally excellent) and The Times Higher rankings showed an improvement in the University's research power from 42nd in 2008 to 37th in 2014. Whilst the University performed better in terms of overall quality profile than in the previous exercise (the Research Assessment Exercise 2008), other universities improved by more and the University fell in The Times Higher overall rankings, based on grade point average, from 35th in 2008 to 45th in 2014. Whilst there was a significant reduction in 2\* and 1\* activity, the University scored less well in terms of the balance between 4\* and 3\* activity.

The operational review described earlier in this OFR has created the platform to aim for 100% submission of eligible research-active staff to REF 2020 and to achieve the targeted increase in research income. During 2014/15 the University approved a new seven year research strategy and it is now developing the individual workstreams needed to implement the strategy.

### Business partnerships

The University is committed to working in partnership with industry, commerce and the professions.

In addition to major collaborative projects, such as the 5GIC programme, the University makes significant contributions to the local, regional and national economies in many other ways.

#### 5G Innovation Centre (5GIC)

2014/15 saw further expansion of the 5GIC programme for mobile technologies. Since the University signed a contract with 11 founding partners in October 2013, the original £35m programme has grown to a £70m programme, with over 20 partners from business and industry providing matched funding well in excess of the £23.2m that was required to match HEFCE's £11.6m contribution from the UK Research Partnership Investment Fund.

Activities moved into the new 5GIC building on its completion in April 2015 and the building was officially opened by the University's Chancellor, HRH The Duke of Kent, in September 2015. Alongside the opening of the building was the launch of the new 5G testbed facility. This provides researchers with a fully-functioning advanced 4G network, which, over time, will be upgraded to include fully-fledged 5G technologies and large scale Internet of Things (IoT) research capabilities.

Whilst researchers have already achieved record-breaking speeds, 5G is not only about delivering faster mobile internet. The real impact of 5G will come from the innovative applications and services the new network will enable, such as remote healthcare, wireless robots, driverless cars and connected homes and cities, removing boundaries between the real and cyber worlds.

#### National Physical Laboratory (NPL)

In March 2015 the University of Surrey, together with the University of Strathclyde, formally signed a partnership agreement with BIS and NPL that will set a new strategic direction for NPL (a global centre of excellence in measurement). The partnership recognises the University's enterprising spirit and strong track record of working with business. It builds on the already strong links between the University and NPL and offers the University new opportunities for research and innovation.

An important early success of the partnership was the inauguration in October 2015 of a new postgraduate institute of metrology. NPL is already involved in the supervision of over 150 postgraduate students (including almost 40 Surrey students) and the postgraduate institute will facilitate further the training of high-calibre PhD students, providing a pipeline of skilled researchers.

## Operating and financial review (continued)

Other plans for the next five years include the establishment of new joint research centres and regional hubs, with the Global Satellites and Sensing Centre of Excellence (GloSS) already formed as a partnership between the University of Surrey and NPL.

### *Knowledge Transfer Partnerships (KTPs)*

The University continues to work with businesses through KTPs. An Innovate UK programme, KTPs are designed to assist companies in improving their competitiveness and productivity through better use of the knowledge, technology and skills available within UK universities. Under academic supervision, the project is managed and delivered by one or more high-calibre graduates or 'Associates' based at the company, with salary and other costs jointly funded by Innovate UK and the company.

2014/15 was a very successful year, with six new KTPs awarded bringing the total number of live projects to 11.

One of the recently started KTPs is with The Whiteley Clinic, based on the University owned Surrey Research Park. Drawing on knowledge and expertise from the Vet School, the Centre of Biomedical Engineering and Surrey Business School, the three year KTP has potential to advance venous surgery on a worldwide scale leading to improved patient care.

### **Internationalisation**

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
- development and delivery of a curriculum responsive to the needs of a global society.

The University Global Partnership Network (University of Surrey, University of Sao Paulo, Brazil and North Carolina State University, USA) continues to go from strength to strength. Since the launch of the University Global Partnership Network (UGPN) in September 2011, there has been a steady increase in the number of articles co-authored by Surrey academics and academics at the UGPN partner universities published in high-impact journals. There has also been a five-fold increase in undergraduate and postgraduate student and staff mobility between the partners. 2014/15 saw the development of a series of regional strategic plans. Covering all five continents, these capture relevant KPIs for the target areas of recruitment, research, partnership development and mobility.

In mid-2014 the University implemented an action plan to improve the University's position in the main international league tables. Initiatives to improve the University's brand recognition and reputation have included participation in a number of high-profile national and international events; taking part in a business channel documentary about UK higher education links in Asia; and engaging with international alumni in key markets in the Far East and the USA. These actions are beginning to bear fruit with the University improving its ranking in the 2016 QS league table by 67 places to 247th and in the 2016 THE league table from outside the top 400 to within the 251 – 300 band.

## **Engagement**

Examples of the University's engagement with its local community and with industrial and commercial partners have been given above. Other stakeholders include the University's students and staff, other educational institutions, funding bodies, the NHS and other government bodies.

### **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.

The 2015 staff satisfaction survey received a 76% response rate and nearly 2,900 free text comments. This marked a return to the 2013 response rate, reflecting the effectiveness of new strategies put in place to improve the response rate following a 7% fall (to 69%) in 2014.

Surrey compared favourably with its benchmark group (UK universities) with 9 out of 25 questions scoring 5% or more above the benchmark and a further 14 within 5%

## Operating and financial review (continued)

of the benchmark. The overall staff engagement score (as measured by six 'core' engagement questions) fell from 68% in 2014 to 63%. Whilst this was disappointing, it was perhaps not surprising given the volume of change that staff had experienced in the year prior to the survey.

The survey results identified many positive aspects to working at the University, notably local collegiality and teamwork, and colleagues' roles making good use of their skills and abilities. As in previous years University level and local action plans have been drawn up, with the University level plan focusing on measures to demonstrate clearly to staff that they are valued and have an important part to play in the University's future. This includes further development of communications between the Executive Board and other staff, and appropriate celebration of success.

### Environmental sustainability

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

During 2014/15 the University successfully submitted an application to the Salix Revolving Green Fund for an additional £0.5m interest free loan. This will be applied to a number of projects giving a lifetime reduction in carbon dioxide emissions of 7,788 tonnes and utility cost reductions of nearly £0.2m per annum.

With the Carbon Trust estimating that 10-15% savings can be achieved through behaviour change alone, the University continues to invest in strong, well-supported behaviour change campaigns.

Cost savings have already been achieved through initiatives such as the Student Switch Off Campaign and the new 'binless office system'. Further significant savings are expected from the 'WARP-IT' furniture reuse scheme launched in Summer 2015.

The University also recognises that sustainability programmes deliver a number of less tangible benefits. Wellbeing campaigns, such as the University's participation in the 'cycle to work' scheme, have been shown to have positive impacts on staff sickness and absence levels, whilst reputational benefits achieved through charity schemes are important for student and local community engagement. An example of the latter is the annual British Heart Foundation 'move out' campaign, with the Summer 2015 campaign raising over £0.1m.

## Financial review

### Income and expenditure

#### *Consolidated results*

The University achieved a consolidated surplus for 2014/15 of £3.7m. Although £0.4m lower than the previous financial year, this exceeded budget.

Consolidated income rose by £21.6m (10%) to £240.7m.

#### *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 OFR, the University has invested heavily in recent years in the student experience, in academic staffing and in its Vet School. Whilst these strategic investments and the raising of entry tariffs will deliver longer term benefit they have, in line with plan, reduced surpluses in the short term. The surplus was also impacted in 2014/15 by higher than usual restructuring costs due to the operational review. After allowing for staff restructuring costs of £4.6m (2013/14: £0.4m) and the net research and development expenditure tax credits of £2.3m (2013/14: £nil) referred to above, the University returned a deficit on its core activities in 2014/15 of £0.9m (2013/14: £0.7m deficit).

Included within this £0.9m deficit on core activities was a deficit of £2.2m attributable to the Vet School. This was in line with the business plan and reflected the expected pressure on the bottom line in the early years while the School builds up to full student numbers' strength in 2019/20.

Total income from core activities grew by £20.8m (9.9%) to £230.2m.

The fall in the Recurrent Teaching Grant from £12.0m to £9.3m reflects the further shift of funding from the state to students under the new undergraduate funding regime. For 2014/15, Total Funding Council Grants of £31.5m represented just 13.7% of core income. This compared with 22.9% in 2011/12, the last year before the introduction of the new funding regime.

Total income from Tuition Fees and Education Grants rose by £10.3m (10.6%) to £107.3m. This increase was driven by the 3rd year of the £9,000 home/EU undergraduate fee and additional undergraduate student numbers, partially offset by lower recruitment of overseas taught postgraduates.

Research income grew by £12.7m to £42.3m as described earlier in this OFR.

Expenditure on core activities, excluding restructuring costs, increased by £16.3m (7.8%) to £226.3m. Within this figure, staff costs (excluding restructuring costs) rose by £5.1m (4.2%) to £125.8m.

#### *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 increased by £0.8m to £10.5m, reflecting additional income from tenants fit-out works. The surplus was £4.6m (2013/14: £4.8m).

## Operating and financial review (continued)

### Balance sheet

Consolidated net assets rose in 2014/15 by £35.1m (17.3%) to £237.6m. This reflected a £14.7m revaluation of the Research Park together with a £20.9m increase in deferred capital grants, relating mainly to the Vet School and 5GIC buildings.

Chart 8 Movement in consolidated net assets 2014/15

	£m
Consolidated Net Assets at 31 July 2014	202.5
Surplus for the Year	3.7
Actuarial Losses on Pension Schemes (LGPS)	(3.7)
Investment Property Revaluation	14.7
Increase in Deferred Capital Grants	20.9
Other Movements	(0.5)
<b>Consolidated Net Assets at 31 July 2015</b>	<b>237.6</b>

The actuarial losses relating to the local government pension scheme (LGPS) of £3.7m were part of an overall net increase in the balance sheet pension liability of £2.6m.

Although lower than the previous year's increase of £7.9m, the pension deficit remains on an upward trend. This is despite significant recovery plan payments (£1.7m in 2014/15) and rising contributions in respect of employees' current service (currently 19.9% of pay). In light of the increasing costs of the Surrey County Council LGPS, the University has launched a formal consultation on its proposal to close the scheme to new members with effect from 1 January 2016.

The overall balance sheet pension liability at 31 July 2015 was £37.9m. This comprised £37.2m in respect of the Surrey County Council scheme which covers c. 25% of the workforce and £0.7m in respect of a closed scheme for former employees. The recent trend in the pension liability is shown below:

Chart 9 Net pension liability at 31 July

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Net Pension Liability	37.9	35.3	27.4	32.9	21.2

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 increased by £14.7m to £105.9m. This reflected a strong property market as well as continued investment. Since the previous peak of £101.4m in 2007 the University has invested £5.2m in a second new building for its former subsidiary company Surrey Satellite Technology Limited (SSTL) and transferred the original

SSTL building from tangible fixed assets to investment properties on the sale of the company in 2008/09. The recent trend in investment property values is shown below:

Chart 10 Completed investment properties at 31 July

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Completed Investment Properties	105.9	91.2	79.2	76.4	80.8

### Cash flow

The Consolidated Cash Flow Statement on page 19 shows a rise in cash in the year of £0.5m. When combined with a reduction in short term investments of £18.5m, this gave a total net fall in available cash of £18.0m to £56.4m. This fall was driven largely by capital expenditure on the Vet School and 5GIC buildings, partly offset by associated loan drawdowns and HEFCE capital grant receipts. The movement in available cash is shown below:

Chart 11 Movement in consolidated available cash 2014/15

	£m
Consolidated Available Cash at 31 July 2014	74.4
Net Cash Inflow from Core Operating Activities	19.0
Foundation Fund Surplus	4.6
Capital Expenditure – University	(53.3)
Capital Expenditure – Research Park	(3.3)
Capital Grants Received	10.7
Loan Drawdowns	15.0
Financing (Net Interest and Capital Repayments)	(11.9)
Other Movements	1.2
<b>Consolidated Available Cash at 31 July 2015</b>	<b>56.4</b>

Offset against the available cash of £56.4m were borrowings of £187.1m, giving net debt at 31 July 2015 of £130.7m. This reflected a £26.3m rise in net debt in the year with net debt representing 55.0% of total funds at 31 July 2015 compared with 51.5% at the start of the financial year.

### Capital investment

Providing a high-quality student experience is at the very heart of the University's strategy and the University has continued to invest in its facilities to ensure that it provides the very best experience possible.

Total capital expenditure in 2014/15 was £56.6m, almost double the previous year's figure of £28.5m. This reflected the significant expenditure in year on the Vet School and 5GIC buildings.

Construction of the new £45m Vet School began in early 2014 and the main building and large animal clinical skills

## Operating and financial review (continued)

building were completed for the start of the 2015/16 academic year. The School was officially opened by Her Majesty the Queen in October 2015. The final building (the pathology facility) is due for completion in November 2015.

### 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.

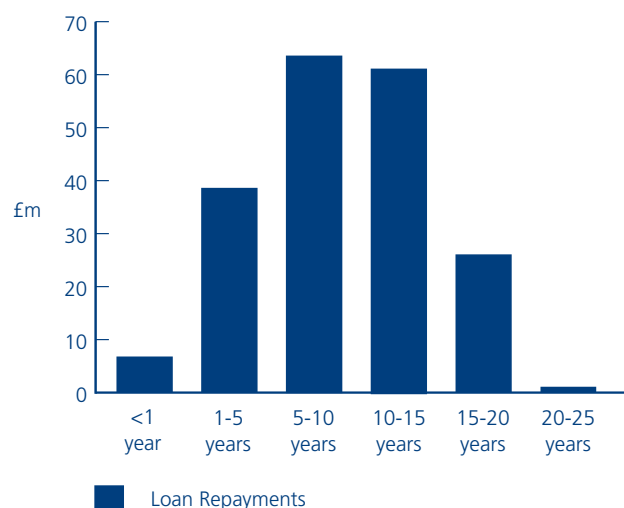
As at 31 July 2015 the University had outstanding borrowings and finance lease obligations of £187.1m (2014: £178.8m). This figure included £10.2m (2014: £10.7m) in respect of finance lease obligations relating to student residences.

The University recognises that it has a relatively high gearing ratio. However, debt continues to be secured largely against strong and profitable income 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 2015 was 3.7%. This was 0.4% lower than 12 months previously, reflecting the drawdown of a further £15m of the £60m Lloyds facility at a variable rate.

The University manages the risk of interest rate rises through standalone hedging instruments and 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 loan repayment profile as at 31 July 2015 (including the £10m undrawn element of the £60m Lloyds' facility) is shown below:

Chart 12 Loan repayment profile at 31 July 2015



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 limits on the amount placed with any one provider.

The weighted average return on short term deposits fell slightly from 0.90% in 2013/14 to 0.79% in 2014/15. This reflected the continuing pressure on short term interest rates as a result of the government's funding for lending scheme and the new BASEL III liquidity requirements on banks.

### 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 management process is overseen by the Audit and Assurance Committee and the high-level risk register forms the basis of the internal audit programme.

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

- delivery of sustainable financial surpluses
- research quality
- student numbers / quality of students
- student experience and outcomes

The University also recognises as a separate risk the risk of significant government funding cuts following the publication in November 2015 of the government's Spending Review and Autumn Statement 2015.

#### Delivery of sustainable financial surpluses

The Council recognises that the current strength and enhanced standing of the University is based on sustained investment leading to growth and improvements in the quality of the University's teaching and research. The University's strategy remains a growth strategy and further opportunities which contribute to the University's long term sustainability will be pursued in the future.

Strategic investments have, as planned, put pressure on the short term surplus. The University is putting in place clearly identified plans to deliver income and margin growth in the three main areas of teaching, research and enterprise in order to deliver a higher, more sustainable level of surplus within the next five years.

At the same time it is putting in place appropriate measures to manage the staff cost base and to deliver value for money and savings in non-pay expenditure areas.

## Operating and financial review (continued)

### *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 is addressing this through the implementation of its new seven year research strategy and through more effective communication of its research strengths via the website.

### *Student numbers / quality of students*

With the ongoing strategic aim to raise student quality, there is a risk that the student population falls short of sustainable levels.

The University has clearly defined strategies for both home / EU and overseas recruitment and it is taking a measured approach to the raising of entry standards over time. The risk of a shortfall in student numbers would be further mitigated by maintaining a strong league table position which would attract more students as has been seen in recent years.

### *Student experience and outcomes*

The new undergraduate funding regime has raised student expectations in terms of both the academic and non-academic student experience.

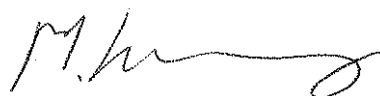
Having achieved a top ten position in the National Student Survey for the past three years, the University is firmly focused on maintaining its strong performance. The University has invested significantly in infrastructure to support learning. Aligned to this investment is a set of robust procedures that operate throughout the programme and student life-cycles, together with a range of supporting and enabling mechanisms to ensure the University delivers high-quality programmes and produces high-quality graduates.

## Summary and future outlook

2014/15 has been another successful year. In October 2014 the University achieved its highest undergraduate intake to date; research income, new awards and bids were all at record levels; and the University's continuing focus on student experience was rewarded by a rise of 3 places to 5th in the National Student Survey – the highest position it has ever achieved.

2014/15 also saw the first undergraduate intake to the new Vet School; the opening of the 5G Innovation Centre; and the signing of a new partnership agreement with the National Physical Laboratory.

The University is confident that 2015/16 will see continued progress towards the achievement of our strategy and (in particular) the enhancement of our national and international reputation.



**Professor Michael J Kearney**  
Acting 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 Higher Education Code of Governance published by the Committee of University Chairs (CUC) in December 2014 and the previous Governance Code of Practice provided by 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').

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 Vice-Chancellor as Chief Executive.

The powers of the Council are set out in the Statutes and Ordinances of the University. Under the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England (HEFCE), 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 and the potential of all students is realised.

The Council has adopted the following Statement of Primary Responsibilities:-

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
- to appoint the 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
- appointing the external auditor of the University

The effectiveness of the Council is reviewed regularly. During the past year the lay officers (Chair and Vice-Chair of Council and the Treasurer) have conducted one-to-one meetings with Council members to obtain feedback regarding the functions, considerations and administration of the Council and its meetings. The Council has been advised of the key themes arising from the meetings and appropriate action is being taken to address those areas identified for improvement.

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 at least five 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 a year with the external and internal auditors in attendance. It oversees the risk management 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 HEFCE 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.

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 to certain committees, including the Finance Committee and the Audit and Assurance Committee. It also makes recommendations to the Council regarding the appointment of the Vice-Chancellor.



## Corporate governance (continued)

The Remuneration Committee, under the chairmanship of the Vice-Chair of Council, monitors the performance of the Vice-Chancellor and meets annually to determine the salary and conditions of service of the Vice-Chancellor and such other senior staff as specified in the University's ordinances. 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 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.

### 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
- 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. The status of the University's high-level risks together with 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 2015 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 Memorandum of Assurance and Accountability agreed between HEFCE 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
- 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 HEFCE are used only for the purposes for which they have been given and in accordance with the Memorandum of Assurance and Accountability with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- 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
- 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 31 July 2015 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of the Council and auditor

As explained more fully in the Statement of Responsibilities of the Council set out on page 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:

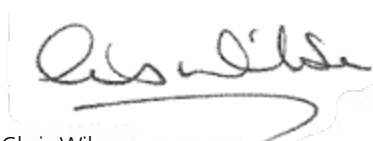
- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2015 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2014-15 financial statements*.

## 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 Memorandum of Assurance and Accountability and any other terms and conditions attached to them.
- the corporate governance and internal control requirements of HEFCE's *Accounts direction to higher education institutions for 2014-15 financial statements* have been met.



Chris Wilson  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

27 November 2015

The maintenance and integrity of the University of Surrey website is the responsibility of the governing body; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

## Consolidated income and expenditure account for the year ended 31 July 2015

	Note	2014/15 £000	2013/14 £000
<b>Income</b>			
Funding council grants	2	31,520	34,786
Tuition fees and education grants	3	107,338	97,012
Research grants and contracts	4	42,304	29,588
Other income	5	48,032	47,278
Endowment and investment income	6	11,483	10,424
<b>Total income</b>		<b><u>240,677</u></b>	<b><u>219,088</u></b>
<b>Expenditure</b>			
Staff costs - operational	7	126,297	121,217
Staff costs - restructuring	7	4,607	439
Other operating expenses	10	81,851	69,436
Depreciation	10	18,167	17,529
Interest and other finance costs	9	5,829	6,673
<b>Total expenditure</b>	10	<b><u>236,751</u></b>	<b><u>215,294</u></b>
<b>Surplus before taxation</b>		<b>3,926</b>	3,794
<b>Taxation</b>	11a	<b><u>(735)</u></b>	<b><u>(86)</u></b>
<b>Surplus after taxation</b>	12	<b>3,191</b>	3,708
Transfer from accumulated income in endowment funds	25	522	347
<b>Surplus for the year retained within general reserves</b>		<b><u>3,713</u></b>	<b><u>4,055</u></b>

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 2015

	Note	2014/15 £000	2013/14 £000
Surplus for the year after taxation		<b>3,191</b>	3,708
New endowments	25	<b>133</b>	207
Revaluation of permanent endowment assets	25	<b>14,412</b>	11,329
Increase in value of expendable endowment assets	25	<b>63</b>	15
Unrealised surplus on revaluation of fixed asset investments	27	<b>236</b>	84
Realised revaluation surplus on sale of investments	27	<b>(112)</b>	(42)
Actuarial losses in respect of pension schemes	38	<b>(3,730)</b>	(8,495)
Deferred tax on actuarial gains	27	<b>58</b>	85
Total recognised gains relating to the year		<b><u>14,251</u></b>	<b><u>6,891</u></b>
<b>Reconciliation</b>			
Opening reserves and endowments		<b>150,634</b>	143,743
Total recognised gains for the year		<b><u>14,251</u></b>	<b><u>6,891</u></b>
Closing reserves and endowments		<b><u>164,885</u></b>	<b><u>150,634</u></b>

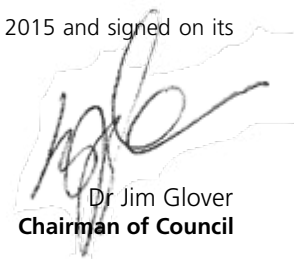
## Balance sheets as at 31 July 2015

	Note	Consolidated		University	
		2015 £000	2014 £000	2015 £000	2014 £000
<b>Fixed assets</b>					
Tangible assets	13	<b>334,294</b>	294,715	<b>334,480</b>	294,907
Investments	14	<b>47,119</b>	43,244	<b>49,517</b>	44,648
		<b>381,413</b>	337,959	<b>383,997</b>	339,555
<b>Endowment asset investments</b>	15	<b>69,469</b>	55,383	<b>69,469</b>	55,383
<b>Current assets</b>					
Stocks and stores in hand		<b>4,724</b>	3,893	<b>461</b>	453
Assets held for resale	16	-	394	-	394
Debtors	17	<b>23,138</b>	19,344	<b>32,098</b>	28,231
Investments	19	<b>15,559</b>	34,059	<b>15,559</b>	34,059
Cash at bank and in hand		<b>40,906</b>	40,400	<b>39,648</b>	39,190
		<b>84,327</b>	98,090	<b>87,766</b>	102,327
<b>Creditors : amounts falling due within one year</b>	20	<b>(77,877)</b>	(79,929)	<b>(77,647)</b>	(79,751)
<b>Net current assets</b>		<b>6,450</b>	18,161	<b>10,119</b>	22,576
<b>Total assets less current liabilities</b>		<b>457,332</b>	411,503	<b>463,585</b>	417,514
<b>Creditors : amounts falling due after more than one year</b>	21	<b>(180,405)</b>	(172,193)	<b>(180,339)</b>	(172,109)
<b>Less: Provisions for liabilities and charges</b>	23	<b>(1,404)</b>	(1,475)	<b>(1,404)</b>	(1,475)
<b>Total net assets excluding pension liability</b>		<b>275,523</b>	237,835	<b>281,842</b>	243,930
<b>Pension liability</b>		<b>(37,873)</b>	(35,311)	<b>(37,263)</b>	(34,910)
<b>Total net assets including pension liability</b>		<b>237,650</b>	202,524	<b>244,579</b>	209,020
<b>Deferred capital grants</b>	24	<b>72,765</b>	51,890	<b>72,765</b>	51,890
<b>Endowments</b>					
Expendable	25	<b>2,109</b>	2,440	<b>2,109</b>	2,440
Permanent	25	<b>67,360</b>	52,943	<b>67,360</b>	52,943
		<b>69,469</b>	55,383	<b>69,469</b>	55,383
<b>Reserves</b>	27				
Income and expenditure account excluding pension reserve		<b>132,627</b>	130,024	<b>138,946</b>	136,119
Pension reserve		<b>(37,873)</b>	(35,311)	<b>(37,263)</b>	(34,910)
Income and expenditure account including pension reserve		<b>94,754</b>	94,713	<b>101,683</b>	101,209
Revaluation reserve		<b>662</b>	538	<b>662</b>	538
		<b>95,416</b>	95,251	<b>102,345</b>	101,747
<b>Total funds</b>		<b>237,650</b>	202,524	<b>244,579</b>	209,020

The financial statements and notes on pages 16 to 46 were approved by the Council on 19 November 2015 and signed on its behalf by:



Professor Michael J Kearney  
Acting Vice-Chancellor



Dr Jim Glover  
Chairman of Council

## Consolidated cash flow statement for the year ended 31 July 2015

	Note	2014/15 £000	2013/14 £000
Net cash inflow from operating activities	28	19,006	20,406
Returns on investments and servicing of finance	29	(392)	(100)
Taxation		(26)	(48)
Capital expenditure and financial investment	30	(44,900)	(17,688)
Management of liquid resources	31	18,500	(9,000)
Financing	32	8,318	28,789
Increase in cash in the year	33	<u>506</u>	<u>22,359</u>

	2014/15 £000	2013/14 £000
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash in the year	506	22,359
Cash inflow from increase in loans	(15,000)	(35,476)
Repayment of long term loans	6,027	6,004
New finance leases	(12)	(43)
Capital element of finance lease payments	655	683
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(18,500)	9,000
Other non-cash changes	-	(59)
<b>Change in net funds</b>	<b>(26,324)</b>	2,468
<b>Net debt at 1 August</b>	<b>(104,397)</b>	(106,865)
<b>Net debt at 31 July</b>	33 <b><u>(130,721)</u></b>	<b><u>(104,397)</u></b>

## 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 exercise dominant influence over 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)

### I 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 to the income and expenditure account as they become payable in accordance with the scheme rules.

#### Agency arrangements

Funds received and disbursed as paying agent on behalf of a funding body are excluded from the income and expenditure account where the University 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 unrestricted permanent 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 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.
3. 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.

##### 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 University 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 and; 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	
	2014/15	2013/14
	£000	£000
<b>Recurrent grant</b>		
Teaching	9,334	12,003
Research	14,900	15,223
	<b>24,234</b>	<b>27,226</b>
<b>Specific grants</b>		
Higher Education Innovation Fund	3,073	2,844
Other	729	1,120
<b>Deferred capital grants released in year (note 24)</b>		
Building	2,406	2,209
Equipment	1,078	1,387
Total grants from funding councils	<b>31,520</b>	<b>34,786</b>

### 3 Tuition fees and education grants

	Consolidated	
	2014/15	2013/14
	£000	£000
UK & EU undergraduates	45,070	34,112
UK & EU postgraduates	8,413	7,515
Non-EU undergraduates	19,620	17,276
Non-EU postgraduates	14,853	17,752
Non-credit bearing courses	2,443	2,819
Nurse training contract	12,329	13,454
Research training support grants	4,610	4,084
	<b>107,338</b>	<b>97,012</b>

### 4 Research grants and contracts

	Consolidated	
	2014/15	2013/14
	£000	£000
Research councils	11,311	10,905
UK based charities	2,138	996
UK central government tax credits for research and development expenditure	3,027	-
Other UK government, health and hospital authorities	3,181	2,093
UK industry and commerce	6,989	1,885
EU government bodies	10,670	10,453
EU industry and commerce	3,732	1,585
Other grants and contracts	1,256	1,671
	<b>42,304</b>	<b>29,588</b>

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

	<b>Consolidated</b>	
	<b>2014/15</b>	2013/14
	<b>£000</b>	£000
Residences, catering and conferences	<b>28,893</b>	28,848
Other services rendered	<b>4,562</b>	3,815
Income from use of University facilities	<b>4,768</b>	5,478
Other income	<b>9,809</b>	9,137
	<b><u>48,032</u></b>	<u>47,278</u>

**6 Endowment and investment income**

	<b>Consolidated</b>	
	<b>2014/15</b>	2013/14
	<b>£000</b>	£000
Income from expendable endowments (note 25)	<b>28</b>	31
Income from permanent endowments (note 25)	<b>10,307</b>	9,448
Income from fixed asset investments	<b>519</b>	335
Income from cash deposits	<b>567</b>	609
Net return on pension scheme	<b>44</b>	-
Other interest receivable	<b>18</b>	1
	<b><u>11,483</u></b>	<u>10,424</u>

**7 Staff**

	<b>Consolidated</b>	
	<b>2014/15</b>	2013/14
	<b>£000</b>	£000
Staff costs - operational:		
Wages and salaries	<b>102,313</b>	98,620
Social security costs	<b>8,136</b>	7,889
Other pension costs (note 38):		
- Employer contributions	<b>15,031</b>	14,050
- FRS17 adjustments	<b>817</b>	658
	<b><u>126,297</u></b>	<u>121,217</u>
Staff costs - restructuring	<b>4,607</b>	439
	<b><u>130,904</u></b>	<u>121,656</u>

	<b>Consolidated</b>	
	<b>2014/15</b>	2013/14
	<b>Number</b>	Number
Full time equivalent staff numbers:		
Research and teaching	<b>1,036</b>	1,045
Professional	<b>984</b>	965
Technical and experimental	<b>109</b>	102
Operational	<b>333</b>	336
Other	<b>11</b>	11
	<b><u>2,473</u></b>	<u>2,459</u>

## Notes to the financial statements (continued)

### 8 Emoluments of higher paid staff

	<b>2014/15</b>	2013/14
	<b>£000</b>	£000
Emoluments of President and Vice-Chancellor: (1 August 2014 to 31 July 2015)		
Salary	<b>310</b>	308
Performance related bonus	-	31
Benefits in kind	<b>4</b>	4
Allowance in lieu of pension contributions	<b>49</b>	49
	<b>363</b>	392
Pension contributions	-	-
	<b>363</b>	392

The President and Vice-Chancellor waived his right to a bonus in 2014/15.

On 4 May 2015 Professor Michael Kearney was appointed Acting Vice-Chancellor due to an unplanned leave of absence for Professor Sir Christopher Snowden (President and Vice-Chancellor). Professor Kearney received an allowance for this position of £17,523 for the period 4 May 2015 to 31 July 2015.

#### Remuneration of other higher paid staff, excluding employer's pension contributions and early retirement costs but including allowance in lieu of pension:

	<b>Consolidated</b>	
	<b>2014/15</b>	2013/14
<b>Remuneration band</b>	<b>Number of employees</b>	
£100,001- £110,000	<b>17</b>	18
£110,001- £120,000	<b>10</b>	7
£120,001- £130,000	<b>9</b>	7
£130,001- £140,000	<b>5</b>	7
£140,001- £150,000	<b>2</b>	1
£150,001- £160,000	<b>2</b>	1
£160,001- £170,000	<b>3</b>	3
£170,001- £180,000	-	2
£180,001- £190,000	-	1
£200,001- £210,000	<b>1</b>	-
	<b>49</b>	47

In accordance with HEFCE's Accounts Direction for 2014/15 financial statements, these bands exclude staff who joined or left part way through the year who would have received emoluments in these bands in a full year.

Compensation for loss of office of £nil was paid in respect of higher paid staff in 2014/15 (2013/14: £nil).





## Notes to the financial statements (continued)

### 11a Taxation

	Consolidated	
	2014/15	2013/14
	£000	£000
Corporation tax on RDEC claim	682	-
Tax on profits of subsidiary undertakings	25	50
Foreign tax	28	36
	<b>735</b>	<b>86</b>

### 11b Factors affecting current tax charge

	Consolidated	
	2014/15	2013/14
	£000	£000
Surplus before taxation	<b>3,926</b>	3,794
Surplus multiplied by standard rate of corporation tax in the UK of 20.67% (2013/14: 22.33%)	<b>812</b>	847
Factors affecting charge:		
University (including Foundation Fund) surplus exempt from tax	<b>(848)</b>	(790)
Balances eliminated on consolidation exempt from tax	<b>54</b>	(1)
Adjustment for small company rate @ 20% (2013/14: 20%)	<b>1</b>	(5)
Adjustment in respect of prior periods for subsidiary undertakings	<b>42</b>	-
Tax charged on RDEC claim	<b>682</b>	-
Tax charged on profits earned overseas	<b>28</b>	36
Other	<b>(36)</b>	(1)
Total current tax charge (note 11a)	<b>735</b>	<b>86</b>

### 12 Surplus for the year after taxation

	Consolidated	
	2014/15	2013/14
	£000	£000
The surplus for the year after taxation is made up as follows:		
University deficit (excluding Foundation Fund)	<b>(1,218)</b>	(1,333)
Foundation Fund surplus	<b>4,610</b>	4,835
Unconsolidated surplus	<b>3,392</b>	3,502
Net surpluses retained by subsidiaries	<b>62</b>	201
Balances eliminated on consolidation	<b>(263)</b>	5
	<b>3,191</b>	<b>3,708</b>

**Notes to the financial statements** (continued)**13 Tangible fixed assets**

<b>Consolidated</b>	<b>Land and buildings</b>		<b>Assets under construction</b>	<b>Plant and equipment</b>	<b>Total</b>
	<b>Freehold</b>	<b>Leasehold</b>			
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>					
At 1 August 2014	352,393	14,811	19,124	89,862	476,190
Additions at cost	1,584	-	46,409	10,284	58,277
Transfers	17,244	-	(21,093)	3,849	-
Disposals at cost	-	-	(411)	-	(411)
At 31 July 2015	<u>371,221</u>	<u>14,811</u>	<u>44,029</u>	<u>103,995</u>	<u>534,056</u>
<b>Depreciation</b>					
At 1 August 2014	100,020	3,678	-	77,777	181,475
Charge for the year	12,595	295	-	5,266	18,156
Impairment loss	131	-	-	-	131
At 31 July 2015	<u>112,746</u>	<u>3,973</u>	<u>-</u>	<u>83,043</u>	<u>199,762</u>
<b>Net book value</b>					
At 31 July 2015	<u>258,475</u>	<u>10,838</u>	<u>44,029</u>	<u>20,952</u>	<u>334,294</u>
At 31 July 2014	<u>252,373</u>	<u>11,133</u>	<u>19,124</u>	<u>12,085</u>	<u>294,715</u>
<b>University</b>					
	<b>Freehold</b>	<b>Leasehold</b>	<b>Assets under construction</b>	<b>Plant and equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>					
At 1 August 2014	352,702	14,811	19,124	89,862	476,499
Additions at cost	1,584	-	46,409	10,284	58,277
Transfers	17,244	-	(21,093)	3,849	-
Disposals at cost	-	-	(411)	-	(411)
At 31 July 2015	<u>371,530</u>	<u>14,811</u>	<u>44,029</u>	<u>103,995</u>	<u>534,365</u>
<b>Depreciation</b>					
At 1 August 2014	100,125	3,690	-	77,777	181,592
Charge for the year	12,601	295	-	5,266	18,162
Impairment loss	131	-	-	-	131
At 31 July 2015	<u>112,857</u>	<u>3,985</u>	<u>-</u>	<u>83,043</u>	<u>199,885</u>
<b>Net book value</b>					
At 31 July 2015	<u>258,673</u>	<u>10,826</u>	<u>44,029</u>	<u>20,952</u>	<u>334,480</u>
At 31 July 2014	<u>252,577</u>	<u>11,121</u>	<u>19,124</u>	<u>12,085</u>	<u>294,907</u>

All leasehold land and buildings are long leases.

The aggregate amount of finance costs included in the cost of tangible fixed assets is £4,219,000 (2014: £2,728,000).

## Notes to the financial statements (continued)

### 13 Tangible fixed assets (continued)

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

	Consolidated		University	
	2015 £000	2014 £000	2015 £000	2014 £000
<b>Net book value</b>				
Land & buildings	10,826	11,120	10,826	11,120
Equipment	43	172	43	172
	<b>10,869</b>	<b>11,292</b>	<b>10,869</b>	<b>11,292</b>
<b>Depreciation charge for year</b>				
Land & buildings	295	297	295	297
Equipment	149	248	149	248
	<b>444</b>	<b>545</b>	<b>444</b>	<b>545</b>

### 14 Fixed asset investments

	Consolidated		University	
	2015 £000	2014 £000	2015 £000	2014 £000
Subsidiary undertakings	-	-	2,892	1,898
Investments in spinouts	482	482	1	1
Investment: Research Park	43,439	39,711	43,439	39,711
Listed investments	2,945	2,710	2,945	2,710
Cash held as part of investment portfolio	99	146	99	146
Other investments	154	195	141	182
	<b>47,119</b>	<b>43,244</b>	<b>49,517</b>	<b>44,648</b>

#### 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 registered in England and Wales.

### 15 Endowment assets

	Consolidated & University	
	2015 £000	2014 £000
Balance at 1 August	55,383	44,179
Net disposals	(11)	(12)
Increase in market value of investments	14,475	11,344
Decrease in cash balances held for endowment funds	(378)	(128)
Balance at 31 July	<b>69,469</b>	<b>55,383</b>

## Notes to the financial statements (continued)

### 15 Endowment assets (continued)

	Consolidated & University	
	2015	2014
	£000	£000
Represented by:		
Foundation Fund land and buildings	66,908	52,528
Listed investments	1,175	1,091
Cash held as part of investment portfolio	45	63
Cash held at bank for endowment funds	1,341	1,701
Total endowments	<u>69,469</u>	<u>55,383</u>

### 16 Assets held for resale

	Consolidated & University	
	2015	2014
	£000	£000
Leasehold land and buildings	-	394

### 17 Debtors

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Trade debtors	5,480	6,348	5,432	6,205
Amounts owed by subsidiary undertakings	-	-	9,235	9,186
Other debtors	239	228	214	196
Deferred tax (note 18)	79	99	-	-
Prepayments and accrued income	17,340	12,669	17,217	12,644
	<u>23,138</u>	<u>19,344</u>	<u>32,098</u>	<u>28,231</u>

Other debtors in the Consolidated and University balance sheets include £100,000 which is due after more than one year (2014: £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.

### 18 Deferred tax asset

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
<b>The deferred tax asset comprises:</b>				
Accelerated capital allowances	22	28	-	-
Losses	54	71	-	-
Short term timing differences	3	-	-	-
Pension (disclosed as part of pension provision)	153	101	-	-
	<u>232</u>	<u>200</u>	<u>-</u>	<u>-</u>
<b>Deferred tax asset excluding pension:</b>				
Balance at 1 August	99	149	-	-
Charge to the income and expenditure account	(20)	(50)	-	-
Balance at 31 July	<u>79</u>	<u>99</u>	<u>-</u>	<u>-</u>
<b>Deferred tax pension asset:</b>				
Balance at 1 August	101	14	-	-
(Charge)/credit to the income and expenditure account	(6)	2	-	-
Credit to the statement of total recognised gains and losses	58	85	-	-
Balance at 31 July	<u>153</u>	<u>101</u>	<u>-</u>	<u>-</u>

## Notes to the financial statements (continued)

### 19 Current asset investments

	Consolidated & University	
	2015	2014
	£000	£000
Short term deposits (maturing within 1 year)	15,500	34,000
Other investments	59	59
	<b>15,559</b>	<b>34,059</b>

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 £532,000 (2014: £1,325,000).

### 20 Creditors : amounts falling due within one year

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans (note 22a)	5,995	5,634	5,995	5,634
Obligations under finance leases (note 22b)	549	661	549	661
Other loans (note 22c)	244	393	244	393
Payments received on account	7,215	14,059	7,215	14,060
Trade creditors	4,405	4,654	4,232	4,580
Amounts owed to group undertakings	-	-	8	725
Other creditors including taxation and social security	12,717	11,290	13,264	11,136
Accruals and deferred income	46,752	43,238	46,140	42,562
	<b>77,877</b>	<b>79,929</b>	<b>77,647</b>	<b>79,751</b>

### 21 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans (note 22a)	169,801	160,796	169,801	160,796
Obligations under finance leases (note 22b)	9,661	10,192	9,661	10,192
Other loans (note 22c)	877	1,121	877	1,121
Other creditors	66	84	-	-
	<b>180,405</b>	<b>172,193</b>	<b>180,339</b>	<b>172,109</b>

### 22 Borrowings

#### a. Bank loans

	Consolidated & University	
	2015	2014
	£000	£000
Bank loans are repayable as follows:		
Within one year or on demand	5,995	5,634
Between one and two years	6,380	5,995
Between two and five years	29,614	24,371
Over five years	133,807	130,430
	<b>175,796</b>	<b>166,430</b>
Due within one year or on demand	(5,995)	(5,634)
Due after more than one year	169,801	160,796
	<b>175,796</b>	<b>166,430</b>
Unsecured loans repayable by 2035		

**Notes to the financial statements (continued)****22 Borrowings (continued)**

Bank loans at 31 July 2015 were as follows:

<b>Lender</b>	<b>Amount £000</b>	<b>Interest rate %</b>	<b>Term</b>	<b>Borrower</b>
Scottish Widows	<b>22,699</b>	variable	2031	University
Scottish Widows	<b>27,250</b>	variable	2022-2026	University
Lloyds	<b>50,000</b>	fixed / variable	2033	University
National Westminster	<b>16,428</b>	variable	2030	University
National Westminster	<b>2,238</b>	variable	2022	University
National Westminster	<b>12,563</b>	variable	2032	University
Santander	<b>44,618</b>	variable	2035	University
	<b><u>175,796</u></b>			

All bank loans are unsecured but include a negative pledge clause whereby the University undertakes not to grant security over its assets to third parties.

Interest on £30,000,000 of the Lloyds loan is payable at a fixed rate from 31 July 2014. Interest on the balance of this loan and all other loans is payable at a margin above base / LIBOR.

As explained in Note 37, the University has entered into interest rate swaps in order to fix the interest rate paid on certain of its borrowings.

The weighted average interest rate at 31 July 2015, inclusive of bank margins and swap costs, was 3.74% (2014: 4.10%).

**b. Finance leases**

Net finance lease obligations are repayable as follows:

<b>Consolidated &amp; University</b>	<b>2015</b>			<b>2014</b>		
	<b>Land &amp; buildings £000</b>	<b>Plant &amp; equipment £000</b>	<b>Total £000</b>	<b>Land &amp; buildings £000</b>	<b>Plant &amp; equipment £000</b>	<b>Total £000</b>
Within one year	<b>530</b>	<b>19</b>	<b>549</b>	500	161	661
Between two and five years	<b>2,462</b>	<b>25</b>	<b>2,487</b>	2,321	27	2,348
Over five years	<b>7,174</b>	<b>-</b>	<b>7,174</b>	7,844	-	7,844
	<b><u>10,166</u></b>	<b><u>44</u></b>	<b><u>10,210</u></b>	<b><u>10,665</u></b>	<b><u>188</u></b>	<b><u>10,853</u></b>

**c. Other loans**

Other loans are repayable as follows:

	<b>Consolidated &amp; University</b>	
	<b>2015 £000</b>	<b>2014 £000</b>
Within one year	<b>244</b>	393
Between two and five years	<b>300</b>	544
Over five years	<b>577</b>	577
Total other loans	<b><u>1,121</u></b>	<b><u>1,514</u></b>

## Notes to the financial statements (continued)

### 23 Provisions for liabilities and charges

	<b>Consolidated &amp; University 2015 £000</b>
At 1 August 2014	1,475
Utilised in year	(101)
Transfer to income and expenditure account	30
At 31 July 2015	<u>1,404</u>

The provision relates to premature retirement compensation.

### 24 Deferred capital grants

<b>Consolidated &amp; University</b>	<b>Funding council £000</b>	<b>Other grants £000</b>	<b>Total £000</b>
<b>At 1 August 2014</b>			
Building	45,003	3,970	48,973
Equipment	<u>2,653</u>	<u>264</u>	<u>2,917</u>
Total	<u>47,656</u>	<u>4,234</u>	<u>51,890</u>
<b>Grants received/receivable</b>			
Building	15,819	-	15,819
Equipment	<u>1,999</u>	<u>6,794</u>	<u>8,793</u>
Total	<u>17,818</u>	<u>6,794</u>	<u>24,612</u>
<b>Released to income and expenditure account</b>			
Building	2,406	118	2,524
Equipment	<u>1,078</u>	<u>135</u>	<u>1,213</u>
Total	<u>3,484</u>	<u>253</u>	<u>3,737</u>
<b>At 31 July 2015</b>			
Building	58,416	3,852	62,268
Equipment	<u>3,574</u>	<u>6,923</u>	<u>10,497</u>
Total	<u>61,990</u>	<u>10,775</u>	<u>72,765</u>

## Notes to the financial statements (continued)

### 25 Endowments

#### Consolidated & University

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2015 Total £000	2014 Total £000
Balances at 1 August 2014						
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>
New endowments	-	-	-	133	133	207
Investment income	10,297	10	10,307	28	10,335	9,479
Expenditure	(10,297)	(5)	(10,302)	(555)	(10,857)	(9,826)
	<u>-</u>	<u>5</u>	<u>5</u>	<u>(394)</u>	<u>(389)</u>	<u>(140)</u>
Increase in market value of investments	14,380	32	14,412	63	14,475	11,344
At 31 July 2015	<u>66,908</u>	<u>452</u>	<u>67,360</u>	<u>2,109</u>	<u>69,469</u>	<u>55,383</u>
Represented by:						
Capital	66,908	395	67,303	2,036	69,339	54,969
Accumulated income	-	57	57	73	130	414
	<u>66,908</u>	<u>452</u>	<u>67,360</u>	<u>2,109</u>	<u>69,469</u>	<u>55,383</u>

### 26 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 2014 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2015 £000
<b>Restricted expendable endowment funds:</b>					
Scholarship (1 fund)	566	13	(26)	44	597
Studentship (2 funds)	441	3	(63)	-	381
Other (1 fund)	24	6	(24)	-	6
	<u>1,031</u>	<u>22</u>	<u>(113)</u>	<u>44</u>	<u>984</u>

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



## Notes to the financial statements (continued)

### 27 Reserves

	Consolidated 2015 £000	University 2015 £000
<b>Income and expenditure account</b>		
At 1 August 2014	130,024	136,119
Surplus for the year	3,713	3,914
Less pension surplus	(1,110)	(1,087)
At 31 July 2015	<u>132,627</u>	<u>138,946</u>
<b>Pension reserve</b>		
At 1 August 2014	(35,311)	(34,910)
Actuarial losses in respect of pension schemes (note 38)	(3,730)	(3,440)
Deferred tax on actuarial gains (note 18)	58	-
Surplus retained within reserves	1,110	1,087
At 31 July 2015	<u>(37,873)</u>	<u>(37,263)</u>
<b>Revaluation reserve</b>		
At 1 August 2014	538	538
Revaluation of investments in year	236	236
Realised revaluation surplus on sale of investments	(112)	(112)
At 31 July 2015	<u>662</u>	<u>662</u>

### 28 Reconciliation of surplus before taxation to net cash inflow from operating activities

	Consolidated	
	2014/15 £000	2013/14 £000
Surplus before tax and exceptional items	3,926	3,794
Depreciation and amortisation	18,167	17,529
Deferred grants released (note 24)	(3,737)	(3,783)
Investment income	(1,148)	(945)
Interest payable (note 9)	5,829	6,673
Increase in stocks	(831)	(185)
Increase in debtors	(5,281)	(178)
Increase in creditors and accruals	6,866	2,673
Net loss on disposal of property and equipment	377	145
Foundation Fund appropriation	(4,610)	(4,835)
Net expenditure relating to restricted endowments	522	347
Revaluation of investments	68	55
Pension cost (excluding interest) less contributions payable	(1,142)	(884)
Net cash inflow from operating activities	<u>19,006</u>	<u>20,406</u>

### 29 Returns on investments and servicing of finance

	Consolidated	
	2014/15 £000	2013/14 £000
Foundation Fund appropriation received	4,538	5,431
Interest and dividends received	750	718
Other investment income	237	-
Interest element of finance lease rental payments	(672)	(725)
Other interest paid	(5,245)	(5,524)
	<u>(392)</u>	<u>(100)</u>

**Notes to the financial statements (continued)****30 Capital expenditure and financial investment**

	Consolidated	
	2014/15 £000	2013/14 £000
Purchase of tangible fixed assets	(53,298)	(27,264)
Endowments invested	(133)	(207)
Purchase of long term investments	-	(24)
Proceeds from sale of fixed assets and investments	803	76
Increase in investment in Research Park	(3,125)	(1,946)
Deferred capital grants received	10,720	11,470
Endowments received (note 25)	133	207
	<b>(44,900)</b>	<b>(17,688)</b>

**31 Management of liquid resources**

	Consolidated	
	2014/15 £000	2013/14 £000
Cash withdrawn from/(invested in) short term deposits	<b>18,500</b>	<b>(9,000)</b>

**32 Financing**

	Consolidated	
	2014/15 £000	2013/14 £000
New long term loans	15,000	35,476
Repayment of long term loans	(6,027)	(6,004)
Capital element of finance lease rental payments	(655)	(683)
Net cash flow from financing	<b>8,318</b>	<b>28,789</b>

**33 Analysis of changes in net debt**

Consolidated	At 1 August 2014 £000	Cash flows £000	Non-cash changes £000	At 31 July 2015 £000
Loans due within one year (note 20)	(6,027)	6,027	(6,239)	(6,239)
Loans due after one year (note 21)	(161,917)	(15,000)	6,239	(170,678)
Finance leases (note 22b)	(10,853)	655	(12)	(10,210)
Financing	(178,797)	(8,318)	(12)	(187,127)
Cash at bank and in hand	40,400	506	-	40,906
Short term deposits (note 19)	34,000	(18,500)	-	15,500
	<b>(104,397)</b>	<b>(26,312)</b>	<b>(12)</b>	<b>(130,721)</b>

**34 Capital commitments**

	Consolidated & University	
	2015 £000	2014 £000
Commitments contracted at 31 July	9,456	39,506
Authorised but not contracted at 31 July	22,369	22,102
	<b>31,825</b>	<b>61,608</b>

## Notes to the financial statements (continued)

### 35 Lease obligations

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

Consolidated & University	2015		2014	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	445	44	534	157
Between two and five years	-	222	-	148
Over five years	-	-	-	-
	<b>445</b>	<b>266</b>	<b>534</b>	<b>305</b>

### 36 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.

A contingent liability exists in relation to the USS pension valuation recovery plan, since the University is an employer of members within the scheme. The contingent liability relates to the amount generated by past service of current members and the associated proportion of the deficit. Given that the scheme is a multi-employer scheme and the University is unable to identify its share of the underlying assets and liabilities, the contingent liability is not recognised as a provision on the balance sheet. The associated receivable from the scheme in respect of the reimbursement of the University's expenditure is similarly not recognised.

There are no other known contingent assets or liabilities.

### 37 Financial commitments

#### a. Undrawn loan facilities

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 the loan was payable at a variable rate up until 31 July 2014. From 1 August 2014, interest on £30,000,000 (amortising) is payable at a fixed rate and on the balance at a variable rate.

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

#### b. Interest rate swaps

The University has entered into interest rate swaps in order to fix the interest rate paid on certain of its borrowings. The fair value of the liability for the swaps at 31 July 2015 was £24,360,000 (2014: £18,630,000).

## Notes to the financial statements (continued)

### 38 Pension schemes

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

#### Consolidated

	2014/15			2013/14		
	Employer contributions £000	FRS17 £000	Total £000	Employer contributions £000	FRS17 £000	Total £000
USS contributions	12,413	-	12,413	11,637	-	11,637
Local Government Pension Scheme	2,323	817	3,140	2,153	658	2,811
Other pension schemes	295	-	295	260	-	260
Total pension cost	<b>15,031</b>	<b>817</b>	<b>15,848</b>	<b>14,050</b>	<b>658</b>	<b>14,708</b>

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

	Consolidated	
	2014/15 £000	2013/14 £000
USS	321	31
Local Government Pension Scheme curtailments	49	54
	<b>370</b>	<b>85</b>

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

The following amounts were measured at the valuation date:	£000
Value of scheme assets	41,600,000
Value of the scheme's technical provisions	(46,900,000)
Deficit	<u>(5,300,000)</u>

FRS17 liability numbers have been produced using the following assumptions:

	2015	2014
Discount rate	3.3%	4.5%
Pensionable salary growth	3.5% in the first year, and 4.0% thereafter	4.4%
Price inflation (CPI)	2.2%	2.6%

## Notes to the financial statements (continued)

### 38 Pension schemes (continued)

#### a. Universities Superannuation Scheme (USS) (continued)

Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	S1NA ["light"] YoB tables - no age rating
Female members' mortality	S1NA ["light"] YoB tables - rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted for the 2014 FRS17 figures. For the March 2015 figures the long term rate has been increased to 1.5% and the CMI 2014 projections adopted, and the tables have been weighted by 98% for males and 99% for females. The current life expectancies on retirement at age 65 are:

	<b>2015</b>	2014
Males (females) currently aged 65	<b>24.2 (26.3) years</b>	23.7 (25.6) years
Males (females) currently aged 45	<b>26.2 (28.6) years</b>	25.5 (27.6) years

As part of this valuation, the trustee determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2031.

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 167,000 active members and the University had 1,887 active members participating in the scheme.

The total pension cost for the institution for 2014/15 was £12,413,000 (2013/14: £11,637,000). This includes £1,570,000 (2014: £1,590,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16.0% of pensionable salaries. Based on the 2014 valuation employer contributions will increase to 18% from 1 April 2016.

#### 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 2015.

## Notes to the financial statements (continued)

### 38 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 as at 31 March 2013 and updated to 31 July 2015 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2015 were:

	<b>Consolidated</b>	
	<b>2015</b>	2014
Pension increase rate (CPI)	<b>2.6%</b>	2.7%
Salary increase rate	<b>4.0%</b>	4.0%
Discount rate	<b>3.6%</b>	4.0%

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:

	<b>2015</b>		2014	
	<b>Males</b>	<b>Females</b>	Males	Females
Current pensioners	<b>22.5 years</b>	<b>24.6 years</b>	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2013 is 45 years)	<b>24.5 years</b>	<b>26.9 years</b>	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:

	<b>Consolidated</b>	
	<b>2015</b>	2014
	<b>£000 (%)</b>	£000 (%)
Equities	<b>60,786 (3.6%)</b>	56,678 (6.6%)
Bonds	<b>12,968 (3.6%)</b>	11,626 (3.6%)
Property	<b>5,673 (3.6%)</b>	3,634 (4.7%)
Cash	<b>1,621 (3.6%)</b>	727 (3.6%)
	<b><u>81,048 (3.6%)</u></b>	<u>72,665 (6.0%)</u>

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

#### Analysis of amounts shown in the balance sheet

	<b>Consolidated</b>	
	<b>2015</b>	2014
	<b>£000</b>	£000
Fair value of employer assets	<b>81,048</b>	72,665
Present value of funded liabilities	<b>(118,380)</b>	(107,433)
Net underfunding in funded plans	<b><u>(37,332)</u></b>	<u>(34,768)</u>
Deferred tax asset (note 18)	<b>153</b>	101
	<b><u>(37,179)</u></b>	<u>(34,667)</u>
Present value of unfunded liabilities	<b>(1,293)</b>	(1,360)
Net liability	<b><u>(38,472)</u></b>	<u>(36,027)</u>

## Notes to the financial statements (continued)

### 38 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	
	2014/15 £000	2013/14 £000
Current service cost	3,140	2,811
Interest cost	4,358	4,432
Expected return on employer assets	(4,386)	(3,997)
Losses on curtailments and settlements	49	54
	<u>3,161</u>	<u>3,300</u>
Actual return on plan assets	<u>(6,860)</u>	<u>(5,138)</u>

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

	Consolidated	
	2014/15 £000	2013/14 £000
Actuarial losses	<u>(3,655)</u>	<u>(8,625)</u>

##### Changes in the present value of the defined benefit obligation

	Consolidated	
	2015 £000	2014 £000
Opening defined benefit obligation	108,793	96,307
Current service cost	3,140	2,811
Interest cost	4,358	4,432
Contributions by members	801	802
Other actuarial losses	6,128	7,807
Losses on curtailments	49	54
Estimated unfunded benefits paid	(87)	(91)
Estimated benefits paid	(3,509)	(3,329)
Closing defined benefit obligation	<u>119,673</u>	<u>108,793</u>

##### Changes in the fair value of employer assets

	Consolidated	
	2015 £000	2014 £000
Opening fair value of employer assets	72,665	68,439
Expected return on assets	4,386	3,997
Contributions by members	801	802
Contributions by the employer	4,232	3,574
Contributions in respect of unfunded benefits	87	91
Actuarial gains/(losses)	2,473	(818)
Estimated unfunded benefits paid	(87)	(91)
Estimated benefits paid	(3,509)	(3,329)
Closing fair value of employer assets	<u>81,048</u>	<u>72,665</u>

## Notes to the financial statements (continued)

### 38 Pension schemes (continued)

#### b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)

##### Consolidated amounts for the current and previous accounting periods

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Fair value of employer assets	81,048	72,665	68,439	57,027	55,624
Present value of defined benefit obligation	(119,673)	(108,793)	(96,307)	(90,522)	(77,316)
Deficit	<u>(38,625)</u>	<u>(36,128)</u>	<u>(27,868)</u>	<u>(33,495)</u>	<u>(21,692)</u>
Experience gains/(losses) on assets:	<u>2,473</u>	<u>(818)</u>	<u>7,967</u>	<u>(2,618)</u>	<u>(2,460)</u>
Experience gains/(losses) on liabilities:	<u>1,032</u>	<u>305</u>	<u>87</u>	<u>(1,284)</u>	<u>8,128</u>
Actuarial (losses)/gains	<u>(3,655)</u>	<u>(8,625)</u>	<u>6,159</u>	<u>(11,553)</u>	<u>8,797</u>
Cumulative actuarial (losses)/gains	<u>(13,256)</u>	<u>(9,601)</u>	<u>(976)</u>	<u>(7,135)</u>	<u>4,418</u>

#### 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 2015. The pension scheme assets are held in a separate trustee-administered fund.

A full actuarial valuation was carried out as at 31 March 2013 and updated to 31 July 2015 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2015 were:

	2015	2014
Pension increase rate (CPI)	1.9%	2.3%
Salary increase rate	3.7%	4.1%
Discount rate	2.9%	3.5%

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

	2015		2014	
	Males	Females	Males	Females
Retiring today	21.8 years	24.0 years	21.7 years	23.9 years
Retiring in 20 years	24.1 years	26.3 years	24.0 years	26.2 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:

	2015 £000 (%)	2014 £000 (%)
Cashflow matching	268 (5.8%)	123 (3.4%)
Equities	821 (5.8%)	885 (6.7%)
Cash	239 (5.8%)	279 (3.2%)
Target return portfolio	360 (5.8%)	576 (6.1%)
Other assets	166 (5.8%)	143 (6.0%)
	<u>1,854 (5.8%)</u>	<u>2,006 (5.8%)</u>



## Notes to the financial statements (continued)

### 38 Pension schemes (continued)

#### c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund) (continued)

The following amounts at 31 July 2015 were measured in accordance with the requirements of FRS 17:

##### Analysis of amounts shown in the balance sheet

	2015 £000	2014 £000
Fair value of employer assets	1,854	2,006
Present value of funded liabilities	<u>(2,548)</u>	<u>(2,650)</u>
Net underfunding in funded plans	(694)	(644)
Present value of unfunded liabilities	<u>(111)</u>	<u>(115)</u>
Net liability	<u><b>(805)</b></u>	<u><b>(759)</b></u>

##### Analysis of amounts recognised in the income and expenditure account

	2014/15 £000	2013/14 £000
Expected return on employer assets	(109)	(98)
Interest cost	93	64
Net credit	<u>(16)</u>	<u>(34)</u>
Actual return on plan assets	<u><b>(82)</b></u>	<u><b>(30)</b></u>

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

	2014/15 £000	2013/14 £000
Actual return less expected return on employer assets	(27)	(68)
Experience (losses)/gains	(4)	12
Changes in assumptions underlying the present value of the scheme liabilities	<u>(44)</u>	<u>186</u>
Actuarial (loss)/gain recognised in the STRGL	<u><b>(75)</b></u>	<u><b>130</b></u>

##### Changes in the present value of the defined benefit obligation

	2015 £000	2014 £000
Opening defined benefit obligation	2,765	2,919
Interest cost	93	64
Other actuarial losses	48	32
Unfunded benefits paid	(13)	(13)
Estimated benefits paid	<u>(234)</u>	<u>(237)</u>
Closing defined benefit obligation	<u><b>2,659</b></u>	<u><b>2,765</b></u>

##### Changes in the fair value of employer assets

	2015 £000	2014 £000
Opening fair value of employer assets	2,006	1,914
Expected return on assets	109	98
Contributions by the employer	-	71
Contributions in respect of unfunded benefits	13	11
Actuarial (losses)/gains	(27)	162
Unfunded benefits paid	(13)	(13)
Estimated benefits paid	<u>(234)</u>	<u>(237)</u>
Closing fair value of employer assets	<u><b>1,854</b></u>	<u><b>2,006</b></u>

## Notes to the financial statements (continued)

### 38 Pension schemes (continued)

#### c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund) (continued)

##### Amounts for the current and previous accounting periods

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Fair value of employer assets	1,854	2,006	1,914	1,877	1,941
Present value of defined benefit obligation	(2,659)	(2,765)	(2,919)	(2,859)	(2,893)
Deficit	<u>(805)</u>	<u>(759)</u>	<u>(1,005)</u>	<u>(982)</u>	<u>(952)</u>
Experience (losses)/gains on assets:	<u>(27)</u>	<u>162</u>	<u>144</u>	<u>18</u>	<u>54</u>
Experience (losses)/gains on liabilities:	<u>(4)</u>	<u>(218)</u>	<u>1</u>	<u>(10)</u>	<u>(475)</u>
Actuarial (losses)/gains	<u>(75)</u>	<u>130</u>	<u>(68)</u>	<u>(51)</u>	<u>(256)</u>
Cumulative actuarial losses	<u>(610)</u>	<u>(535)</u>	<u>(665)</u>	<u>(597)</u>	<u>(546)</u>

### 39 Amounts disbursed as agent

	Consolidated & University	
	2014/15 £000	2013/14 £000
Balance at 1 August	7	3
Funding council grants	-	142
	<u>7</u>	<u>145</u>
Disbursed to students	(7)	(134)
Administration costs	-	(4)
Balance unspent at 31 July	<u>-</u>	<u>7</u>

The above Funding council grants 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.

### 40 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 those activities. During the year ended 31 July 2015 transactions with the Students' Union totalling £855,000 net were charged to the income and expenditure account (2013/14: £851,000 net). As at 31 July 2015 the Students Union owed a net balance of £nil (2014: £nil).

## Five year summary

### Summary consolidated income and expenditure account

	2014/15 £000	2013/14 £000	2012/13 £000	2011/12 £000	2010/11 £000
Total income	<b>240,677</b>	219,088	213,667	211,350	211,591
Total expenditure	<b>(236,751)</b>	(215,294)	(212,019)	(204,740)	(200,819)
<b>Surplus before taxation</b>	<b>3,926</b>	3,794	1,648	6,610	10,772
Taxation	<b>(735)</b>	(86)	(44)	(119)	21
<b>Surplus after taxation</b>	<b>3,191</b>	3,708	1,604	6,491	10,793
Transfers from endowments	<b>522</b>	347	276	324	120
<b>Surplus before exceptional items</b>	<b>3,713</b>	4,055	1,880	6,815	10,913
Exceptional items	-	-	1,290	-	-
<b>Retained surplus for the year</b>	<b>3,713</b>	4,055	3,170	6,815	10,913

### Summary consolidated balance sheet

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Fixed assets	<b>381,413</b>	337,959	329,971	318,707	315,093
Endowment asset investments	<b>69,469</b>	55,383	44,179	42,204	48,448
Current assets	<b>84,327</b>	98,090	63,026	85,362	85,855
Creditors : amounts falling due within one year	<b>(77,877)</b>	(79,929)	(66,757)	(73,529)	(68,379)
<b>Total assets less current liabilities</b>	<b>457,332</b>	411,503	370,419	372,744	381,017
Creditors : amounts falling due after more than one year	<b>(180,405)</b>	(172,193)	(143,378)	(149,488)	(156,614)
Provisions for liabilities and charges	<b>(1,404)</b>	(1,475)	(1,437)	(1,552)	(1,449)
Pension liability	<b>(37,873)</b>	(35,311)	(27,422)	(32,925)	(21,195)
<b>Total net assets</b>	<b>237,650</b>	202,524	198,182	188,779	201,759
Deferred capital grants	<b>72,765</b>	51,890	54,439	56,543	58,458
Endowments	<b>69,469</b>	55,383	44,179	42,204	48,448
Reserves	<b>95,416</b>	95,251	99,564	90,032	94,853
<b>Total funds</b>	<b>237,650</b>	202,524	198,182	188,779	201,759

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

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

	<b>2014/15</b>	2013/14	2012/13	2011/12	2010/11
Surplus (calculated before transfer from endowments) as % of income	<b>1.3%</b>	1.7%	1.4%	3.1%	5.1%
Return on net assets (excluding pension liability)	<b>1.2%</b>	1.6%	1.3%	2.9%	4.8%
Staff costs as % of income	<b>54.4%</b>	55.5%	54.4%	52.6%	49.9%
Discretionary reserves (excluding pension reserve) as % of income	<b>56.0%</b>	60.5%	60.4%	59.3%	56.2%
Gross borrowings as % of income	<b>77.3%</b>	80.9%	69.4%	73.1%	75.9%
Net debt as a % of total funds	<b>55.0%</b>	51.5%	53.9%	48.3%	48.8%
Current ratio	<b>1.08</b>	1.23	0.94	1.16	1.26
Net liquidity / (expenditure - depreciation) in days	<b>94</b>	137	80	126	127
Operating cashflow as % of income	<b>7.9%</b>	9.3%	2.6%	11.8%	14.9%

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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

Dr T Chambers

### Ex officio members

#### *President & Vice-Chancellor*

Professor Sir C M Snowden (to September 2015)

#### *Acting Vice-Chancellor*

Professor M Kearney (from May 2015)

#### *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 (to December 2014)

#### *President, Students' Union*

Mr M Hussien (to July 2015)

Mr M Smith (from July 2015)

### Elected by the Senate

Professor V Emery

Professor S Price (to December 2014)

Professor L Roberts (from March 2015)

Professor J Seville (to December 2014)

Dr S Usherwood (from March 2015)

### Lay members

Dr H Bowcock

Dr A Bragg (from August 2015)

Dr J Forrest (to January 2015)

Mr A Herman

Dr S Howes (from August 2015)

Ms C Ighodaro

Mr P Maskell (from August 2015)

Mr D McNulty

Mr M Queen

Mr I Robertson

Ms J Sawkins (from April 2015)

Mr J Sexton (from January 2015 to July 2015)

Mr A Stuart

Dato Dr Kim Tan

Mr K Taylor

Professor Lord R Winston (to July 2015)





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