

Financial Statements

2015/16



University of Surrey

Financial statements for the year ended 31 July 2016

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Vice-Chancellor's introduction



I am pleased to introduce the 2015/16 Financial Statements which reflect another successful year for the University leading us into our 50th anniversary celebrations in 2016/17.

2015/16 saw further solid growth. Undergraduate enrolments exceeded 3,000 for the first time and the total student headcount of 15,280 was the highest ever achieved by the University. Driven by this growth in student numbers, income rose by 8% to £260m.

Student satisfaction remains high with 90% of students in the 2016 National Student Survey (NSS) expressing satisfaction with the quality of their course.

We have again performed well in the UK League Tables, holding onto fourth position in The Guardian League Table and maintaining our overall top ten position in the Times Higher Education (THE) Table of Tables.

Our major capital investments in recent years – the Vet School and the 5G Innovation Centre – are generating significant new activity. Completion of our new Engineering for Health Laboratory in spring 2017 will bring together students from different disciplines to pioneer technologies that will address the future needs of healthcare and industry.

As we grow our student population we face a number of infrastructure challenges. In May 2016 we closed a £120m private placement deal and are now moving forward with a £75m investment in new student accommodation. This will provide over 1,100 additional student rooms to come on stream in 2018 and 2019. The private placement provides a further £45m headroom for investment in support of our strategic goals.

Since joining the University in April 2016 I have met with many staff and students and engaged widely with external stakeholders. These opportunities have given me valuable insights into the University and the environment in which it operates. I have reshaped the senior leadership team, aligning responsibilities with the University's key strategic goals, and successfully recruited several new members to the team. I now look forward to working with colleagues to develop and implement a new ten-year strategy,

building on the University's current strengths to support the next phase of growth to realise the vision of Surrey as a leading international university. Whilst the challenges and uncertainties facing the higher education sector cannot be underestimated, I am confident that together we can take the University to new heights.

The Strategic Report on the following pages presents in more detail the progress made in 2015/16 towards our strategic goals and provides context for the financial results. I would like to express my thanks to Professor Michael Kearney who led the University as Acting Vice-Chancellor for much of 2015/16 and to all members of the University Council, staff and students for making this such a successful year.

A handwritten signature in black ink, appearing to read 'G Q Max Lu'. The signature is stylized and fluid.

Professor G Q Max Lu
President and Vice-Chancellor

Strategic report

Introduction

The financial statements comprise the consolidated results of the University and its subsidiary companies, notably Surrey Sports Park Limited.

This strategic report seeks to set the financial results in the context of the University's strategy and operations and describes the further progress which the University has made during 2015/16 towards its strategic goals.

University overview

The University was established on 9 September 1966 with the grant of its Royal Charter, though its roots go back to 1891 with the founding of the Battersea Polytechnic Institute. It became a college of advanced technology in 1956 and moved from London to its present location in Guildford in the late 1960s.

Although originally founded as a science and engineering focussed institution, the University's educational, research and other activities now cover a broad range of disciplines. With effect from August 2015 the University has been organised into three academic faculties, each lead by an Executive Dean:

- Faculty of Engineering & Physical Sciences (FEPS)
- Faculty of Health & Medical Sciences (FHMS)
- Faculty of Arts & Social Sciences (FASS)

In addition to its core academic activities, the University owns and manages Surrey Research Park. Since its establishment in the mid-1980s, Surrey Research Park has developed as a major centre of excellence in technology, science, health and engineering. Although not a requirement, some tenants are spinouts from the University and others benefit from close links with the University's academic activities.

Strategy and operating environment

The University's ambition is to be a leading national and international university.

Its current 2007 – 2017 strategy is focussed on:

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

The University routinely monitors its performance through a balanced scorecard. This comprises eight core academic KPIs (four each for teaching and research), supported by four thematic quadrants:

- staff engagement
- financial performance and sustainability
- customer opinions
- strategic developments

Wherever possible, the balanced scorecard uses established sector definitions in order to facilitate external benchmarking. Relevant metrics are included in this report.

Following the appointment of Professor Max Lu as its new President and Vice-Chancellor, the University will, over the coming months, be developing a new ten-year strategy. Building on the University's current strengths, this will support the next phase of growth to realise the vision of Surrey as a leading international university.

Development of the new strategy is taking place in the context of some significant sector challenges. These include:

- high student expectations in an increasingly competitive environment
- research funder resource constraints
- pressures on staffing costs from pension and national insurance increases.

The UK government's immigration policies continue to be a major issue for the higher education sector with visa restrictions affecting the University's ability to recruit both staff and students.

In addition to the above, the University and the higher education sector as a whole face additional challenges as a result of the publication of a new higher education white paper and the Brexit vote.

The 2016 higher education white paper 'Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice' aims to raise the status of teaching from being the poor cousin of research by introducing the Teaching Excellence Framework (TEF). A successful TEF submission will allow an institution to increase fees above the £9,000 threshold. Whilst the metrics introduced by the TEF to measure excellence are only proxies for excellent teaching, the TEF is set to be a significant driver of student choice and league table positions. The white paper also opens up competition and choice by making it easier for alternative providers to enter the market and it calls on higher education institutions to act as an 'engine of social mobility'.

Whilst the full implications of the Brexit vote will not be known for some time, the vote has created uncertainties in relation to research funding and the recruitment of staff and students. Although in terms of the overall national budget the UK is a net contributor to the EU, in

Strategic report (continued)

research it is a net recipient. In relation to research, it is not just uncertainty over funding that is the issue. Arguably more significant is the potential impact on collaboration and access to talent and resources.

Universities UK (UUK) continues to work closely with the government on the implications for the sector of the referendum result and has now secured positive decisions for three of its four short-term objectives:

- Horizon 2020 funding
- matched European Structural and Investment Funds (ESIF) funding
- guarantees for undergraduate students starting in both 2016/17 and 2017/18 regarding fees and loan support for the duration of their studies

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 The Higher Education Funding Council of England (HEFCE) as principal regulator.

The University's charitable purposes are defined in its Royal Charter as the advancement of education, learning and teaching. The University brings a wide range of benefits to individual students and to society as a whole through the quality of the education it offers and the quality of the graduates and postgraduates it produces, as well as through the dissemination and practical application of its research.

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 the University's strong performance across all the main UK university league tables. The University remained in fourth position in The Guardian League Table in 2016 due to strong NSS performance in 2015 and maintained its overall top ten position in the Times Higher Education (THE) Table of Tables.

Chart 1: League table rankings

	Publication Date				
	2012	2013	2014	2015	2016
The Guardian	12	8	6	4	4
The Times	26				
The Sunday Times	21	12	11	8	14
The Complete University Guide	22	13	12	8	11
THE Table of Tables	19	11	9	7	10

Research

The University is committed to open access and to making its research publications freely available online so that they can be enjoyed by a global audience.

The University combines expertise from across the University, and works in partnership with external stakeholders, to undertake research focussed on key global challenges.

An example of this is the two year Internet of Things (IoT) NHS Innovation test bed research project which was announced in January 2016. Working with the NHS, charities and other academic partners, the University will lead the academic evaluation of the project which is being funded by NHS England and Innovate UK and will take data from circa 700 people. The IoT test bed will provide continuous monitoring of dementia patients in their own homes through the use of network-enabled devices such as monitors, robotics and wearables. It will also provide mechanisms for extraction of data which will, in turn, support better and faster decision making for caregivers, clinical teams and support groups.

With staff from all three academic faculties involved, this research project illustrates the multi-disciplinary work that is being undertaken as part of the University's 'Innovation for Health' initiative – a cross-faculty programme focussed on training the clinical workforce of tomorrow and developing the healthcare technology of the future.

Public engagement

Public benefit is further demonstrated by media interest and the University's public engagement activities.

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

During 2015/16 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, travel

Strategic report (continued)

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.

Health related stories generating significant media coverage in 2015/16 included findings from a research study which showed that eating on the go could lead to weight gain. The University's expertise in diet and nutrition also led to appearances by its researchers in two episodes of BBC 2's 'Trust Me I'm a Doctor' in January 2016 when they conducted experiments to demonstrate how restricting the duration of daily calorie intake, and the timing of eating in relation to exercise, could aid weight loss.

Other Surrey academics featuring prominently in the media were Professor Noel Fitzpatrick with his own Channel 4 series 'The Supervet' and Professor Jim Al-Khalili, presenter of BBC Radio 4's 'The Life Scientific' and various science documentaries. Professor Jim Al-Khalili was appointed the University's first Professor of Public Engagement in 2005 and in 2016 he was awarded the inaugural Stephen Hawking Medal for Scientific Communication in recognition of his work in promoting public awareness of science.

Community engagement

The University provides local residents with a range of opportunities to participate in its sporting, educational, cultural and social activities, with Surrey Sports Park a major asset to the local community as well as to the University.

The University is continually seeking new ways to increase engagement with the local community and in 2015 launched 'Your University', a newspaper for Guildford residents. This features a broad range of stories from across the University which are relevant to local people and which show how the University is connected to the wider community. With 40,000 copies printed and distributed twice a year, it also provides a medium for informing local residents of forthcoming events, including concerts, lectures and sporting events.

As well as encouraging local residents to visit the University campus, staff also take the University out into the local community. For example, in spring 2016 the University took part in the global Pint of Science festival, with academics delivering engaging talks in two local pubs on their research into topics ranging from sleep to string theory.

Other examples of public benefit

Further examples are given elsewhere in this report on how the University is benefiting 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 2016 Annual Review at www.surrey.ac.uk/annual-review and on the University's dedicated research webpages at www.surrey.ac.uk/research.

Widening participation and student support

The University continues to make a significant investment in the widening participation agenda to ensure that able students from any background are able to access the institution and do not face any barriers to progression.

The University monitors its performance against the main Higher Education Statistics Agency (HESA) widening participation benchmarks. The most recently published data (2014/15) shows the University equalling or exceeding the relevant benchmark for all three measures of participation of lower-represented groups, as shown in chart 2.

Chart 2: Widening participation

Participation of Under-Represented Groups (Young Full Time 1 st Degree)	2014/15		2013/14	
	Surrey	Location Benchmark*	Surrey	Location Benchmark*
	%	%	%	%
Lower Socio-Economic Groups (NE-SEC Classes 4-7)	28.6	28.0	31.3	27.3
State Schools	91.9	84.8	92.7	84.7
Low Participation Neighbourhoods	7.3	7.3	6.4	6.7

* The location benchmark takes account of the student's home region

During 2015/16 the University continued to provide financial support to students from lower income households through its undergraduate bursary scheme. Having evaluated the effectiveness of its 2013/14 bursary scheme, the University introduced a more targeted scheme for 2015/16 focussed on those students most in need.

The number of students benefiting from support increased from 1,688 in 2014/15 to 1,923 in 2015/16. Total spend fell from £4.5m in 2014/15 to £4.1m in 2015/16 in line with guidance from the Office for Fair Access (OFFA) which recommended that universities focus expenditure on outreach and retention instead.

The University is committed to increasing its expenditure on outreach activities from £0.4m in 2014/15 to £2.4m in 2020/21 and on measures to improve student success and progression from £0.4m in 2014/15 to £2.8m in 2020/21.

Strategic report (continued)

The University has a dedicated student money team which offers general advice to students to help them manage their finances whilst at university, as well as specific advice and support to those students who experience financial difficulties. This includes the provision of hardship loans and grants.

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 University departments, Student Finance England and relevant external agencies.

Review of operations

In May 2016 the University announced a new senior management structure to align the responsibilities of Executive Board members with the University's key strategic goals.

This saw the establishment of two key new roles:

- The Provost, who oversees a team of six Executive Board members (three Executive Deans and two Vice-Provosts - one for Research & Innovation and one for Education & Students). The Provost is responsible for leading the continuing delivery of excellent teaching and a superb student experience whilst implementing the research strategy.
- The Chief Operating Officer, who has responsibility for ensuring that the University provides integrated, cost-effective and high quality professional services to support its education, research and engagement objectives.

Also reporting to the President and Vice-Chancellor are two Senior Vice-Presidents and two Vice-Presidents.

The Senior Vice-President (Global Engagement & Strategy) and the Senior Vice-President (Advancement & Partnerships) lead the agenda to broaden and strengthen the University's engagement with key stakeholders at global, national and local levels. Under the new structure the Vice-President (Marketing & Communications) has assumed responsibility for student recruitment and admissions, and the Vice-President (Human Resources) has assumed responsibility for the equality & diversity team.

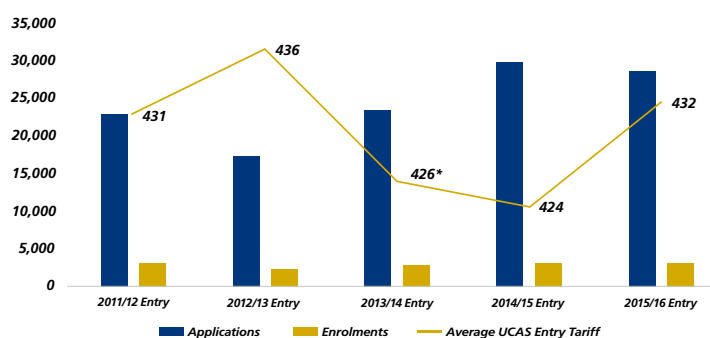
Learning and teaching

The University is committed to providing its students with outstanding educational programmes, quality training in professional skills, and opportunities to grow in confidence and develop leadership attributes.

Student numbers

The University's much improved league table position over recent years has led to a significant increase in student demand for places and a rise in quality as measured by entry tariff. Applications for undergraduate entry have recovered strongly since the dip in 2012/13 when the impact of the University's decision to increase its entry tariff coincided with an overall reduction in student demand caused by the introduction of the £9,000 fee. Applications for 2015/16 undergraduate entry fell slightly, from the 2014/15 record figure of 28,485, as entry requirements increased. However, enrolments were the highest to date at 3,008 and there was an increase in the average UCAS entry tariff from 424 to 432.

Chart 3: Undergraduate applications and enrolments (excluding clearing students)



* 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 2011/12 exclude students with a combination of qualifications that includes a single A-level.

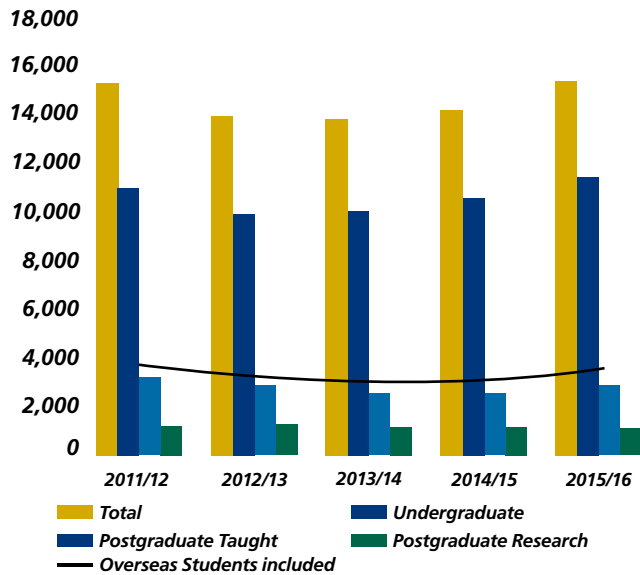
Whilst the undergraduate (UG) student population has been rising steadily since 2012/13, 2015/16 marked the first rise in the postgraduate taught (PGT) population since 2011/12. This reflected both a significant increase in applications and improved conversion rates from application to enrolment. Contributory factors included an expansion in the University's pre-sessional English language courses and a raised profile in China for Surrey Business School following the School's substantial rise in the UK national league tables.

2015/16's higher intake of Chinese students to Surrey Business School reversed the previous year's decline which was attributed to higher entry requirements. The impact of this decline was masked by improvements in recruitment across most other markets. Given the volume of applications for 2015/16 PGT entry, the University could have taken even more overseas PGTs had it not been for physical capacity constraints.

Strategic report (continued)

The total student headcount in 2015/16 of 15,280 was the highest ever achieved by the University.

Chart 4: Student numbers (headcount at 1 December)



Student satisfaction

The results of the 2016 National Student Survey (NSS) showed 90% of Surrey students expressing satisfaction with the quality of their course, placing the University in joint 17th place out of 140 higher education institutions.

This was the 5th consecutive year of a 90% or higher score. The University continues to prioritise the student experience as a core part of its future strategy.

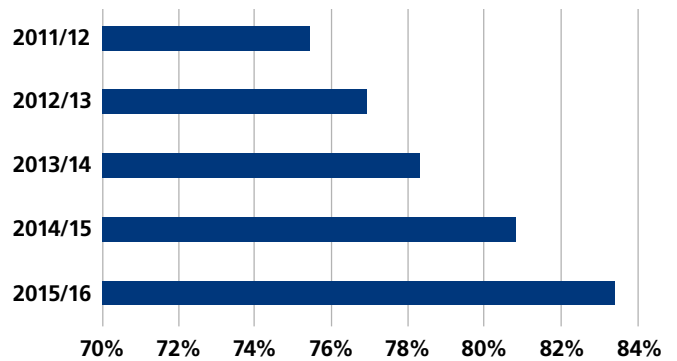
Chart 5: National student survey (NSS)

	2011/12	2012/13	2013/14	2014/15	2015/16
Overall Satisfaction	90%	92%	91%	92%	90%
Position	=15/135	=9/136	=8/135	=5/139	=17/140

Good degrees

The percentage of students achieving good degrees (defined as first or upper 2nd class) has risen steadily in recent years, from 75.4% in 2011/12 to 83.4% in 2015/16.

Chart 6: Percentage of students achieving good degrees



Learning and teaching developments

October 2015 saw the opening of the New School of Veterinary Medicine (Vet School) buildings by her Majesty the Queen and the School's first full undergraduate intake.

Over 1,000 applications were received for 120 places with an average tariff score of 489 compared with the average tariff score for the University as a whole of 432. Measures of student satisfaction are strong with modules delivered in the first two years of the programme having the highest module evaluation questionnaire (MEQ) scores in the University. Student progression from year one (2014/15) to year two (2015/16) was 100%.

Quality assurance

In October 2015 the Quality Assurance Agency conducted its five-yearly review of the University. The University received a positive outcome in all four areas that were reviewed:

- maintenance of academic standards
- quality of student learning opportunities
- enhancement of student learning opportunities
- quality of the information about learning opportunities

The review identified a number of areas of good practice and made three recommendations for improvement. The University published an action plan to address the review team's recommendations and all actions were completed by the start of the 2016/17 academic year.

As a result of the successful review, the University has achieved the threshold level required in the 2016 White Paper to allow an inflationary increase in the £9,000 fee from 2017/18. It is also well-positioned for the TEF.

Employability

The University is able to leverage its strong track record and capabilities across the student experience to prepare its students for employment and, more specifically, graduate-level jobs.

Strategic report (continued)

The professional training year (PTY), which is available to all undergraduate students, is a significant selling point for the University and much appreciated by students who recognise its value in enhancing their prospects of obtaining graduate-level employment. There is a general upward trend in the number of students participating in professional training placements, with 1,075 students undertaking a placement year in 2015/16 and circa 1,200 having secured a placement for 2016/17.

Since his appointment in 2014/15 the new Director of Employability and Careers has merged the careers and PTY administrator teams into a single Directorate of Employability providing support across the whole of the student journey. An extensive review of services and a scoping study on a new IT platform will see a new student support system implemented in the latter half of 2016/17. This will significantly improve administrative efficiencies and enhance the student experience by providing a single portal for advertising placement and graduate job opportunities in place of the current five databases.

The results of HESA's 2015 'Destination of Leavers from Higher Education' (DLHE) survey were released in July 2016. The percentage of leavers in work and/or further study six months after graduation remains strong at 95.6% with the number in graduate-level jobs increasing to 82.4%.

Research

The University's research ambition is to be a top 20 university in the UK and a top 150 university in the world for international research. There are six work-streams currently underway to help achieve these ambitions.

The first and most strategic work-stream aims to identify thematic areas where funding opportunities are considered to be high and where the University can differentiate itself by being able to offer recognised areas of strength so maximising the chances of capturing that funding. The other five work-streams seek to align University processes in a way that will maximise research success.

The financial statements show total research income for 2015/16 of £38.9m. The £3.4m decrease from the previous financial year was mainly due to the closure (to universities) of the government's research and development expenditure tax credit scheme. This scheme gave rise to a one-off credit in 2014/15 of £3.0m in respect of qualifying research and development expenditure incurred in the period 1 April 2013 to 31 July 2015. A residual credit of £0.2m for these years is reflected in the 2015/16 financial statements.

Chart 7: Research income

	2015/16	2014/15
	£m	£m
Operational Research Income	31.1	32.0
5GIC Programme Contributions in Kind	7.6	7.3
Research & Development Expenditure Tax Credits	0.2	3.0
Total	38.9	42.3

The fall in operational research income reflects delays in contractual negotiations and the award of extensions together with recruitment/visa difficulties leading to later project starts and the re-profiling of activity into future years.

The 5G Innovation Centre (5GIC) programme is a major research partnership offering huge opportunity for the University to build its international research potential. It continues to attract significant in-kind contributions from industrial partners for the development of research services and capacity. These contributions (valued at £7.6m in 2015/16) have no impact on the financial surplus for the year as income and expenditure are reported at the same values.

The value of new awards (i.e. the order book for future activity) announced during 2015/16 was £38.2m. This was £2.6m higher than the three year average but £4.8m (11%) lower than the previous financial year. The overall performance points to growing saturation amongst key researchers and the recognised need to have a broader contributing base.

The total value of bids in 2015/16 was £130.1m. This was £25.9m lower than the three year average and £34.9m down on the previous financial year. Whilst a lower bidding rate is not automatically a problem, it does become a concern if success rates do not improve. Improving success rates remains a major component of the research strategy and is being tackled by the following means:

- ensuring bidding is linked to the most appropriate opportunities
- encouraging collaborations and consortia
- ensuring proposals are appropriately matched to funder requirements

The success rate for UK Research Council bids improved by 4% in 2015/16 to 27%. The overall success rate for all EU grants rose by 1% to 17% which is in line with EU averages. The success rates for EU funding in the Faculty of Engineering and Physical Sciences (FEPS) remains a challenge and points to a significant over-subscription to the relevant funding calls. Across the other categories (UK charity, UK government and UK industry awards) success rates remained the same or showed improvement, with higher average award values in the first two categories.

Strategic report (continued)

Chart 8: Research bids, awards & extensions

	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m
Research Awards and Extensions	26.5	31.3	32.5	43.0	38.2
Research Bids	117.4	162.4	140.8	164.9	130.1

Strategic partnerships

Collaboration is one of the University of Surrey's major strengths and values. The University has become a key driver of economic growth with strong collaborative links with other academic institutions, public sector research establishments and major industry partners. 2015/16 saw both the strengthening of existing partnerships and the establishment of new ones.

5G Innovation Centre (5GIC)

The 5GIC building was formally 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 world's leading independent research test bed to enable businesses and academics to trial 5G technologies. Covering an area of 4km², it is this test bed that makes the 5GIC project completely unique and why industry partners have invested so significantly in the programme.

Successful completion and demonstration of the test bed at the launch of 5GIC enabled the University to begin to focus on the second phase of development. This involves much greater integration with other University research groups and a concentration on specific use cases for 5G such as digital healthcare, smart transport, intelligent cities and digital gaming.

From the seven industry partners involved in the original 2012 bid to HEFCE's UK Research Partnership Investment Fund (UKRPIF), membership has grown to 25 industrial partners and over 30 SMEs, with increasing participation from non-telecom companies. The UK is one of the world's leading digital economies with digital technology businesses contributing over £105bn in Gross Value Added (GVA). The ten largest digital clusters in the UK are either in the Enterprise M3 area or in close proximity to it and 5GIC is playing a leading role in the strategy for driving growth within these clusters.

Veterinary Health Innovation Engine (vHive)

In April 2016 the University and Zoetis (the world's leading animal health company) jointly announced the launch of vHive (Veterinary Health Innovation Engine) - a novel multi-disciplinary centre designed to promote the development and adoption of digital innovation in animal health. Digital technologies including wearables, apps, sensors and satellites promise to transform real-time information capture for animal owners and their veterinary advisors, enabling improved understanding of animal health and early

identification of problems in a similar manner to eHealth for people. The centre brings together expertise within the University's Centre of Digital Economy, 5GIC and Vet School, and the global expertise of Zoetis.

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 Senior Vice-President (Global Engagement & Strategy), Surrey is delivering its international strategy by:

- establishing and nurturing strategic international partnerships
- actively seeking to diversify the international student and staff body
- promoting and supporting international research collaboration
- increasing opportunities for staff and student mobility
- developing and delivering a curriculum responsive to the needs of a global society
- actively engaging in transnational education via the Surrey International Institute, a partnership with Dongbei University of Finance and Economics in China.

The University's international league table performance over the past year has remained broadly stable meaning that the improvement on the position two years ago has been sustained.

As shown elsewhere in this report, strong recruitment of overseas students has been maintained. An increase in the number of students studying and/or working abroad has also been achieved.

The University Global Partnership Network (UGPN) was further strengthened in November 2015 when the University of Wollongong, Australia became its fourth member joining Surrey alongside the University of São Paulo, Brazil and North Carolina State University, USA. The UGPN continues to perform well against its KPIs. Of particular note is the 6:1 return on investment in projects supporting research collaboration.

The University is proud of its partnerships with the Fulbright Commission and the Association of Commonwealth Universities. In 2015/16 Surrey welcomed its first Fulbright Scholar, based in the Department of Chemistry, and 25 Chevening Fellows.

The University bid successfully for funding under the International Credit Mobility strand of the Erasmus+ scheme. This will support reciprocal visits between Surrey and partners in China and Egypt.

Strategic report (continued)

Student engagement

The University recognises the importance of student engagement and of involving the Students' Union sabbatical officers, as representatives of the student body, in the general management of the University and in key decisions regarding the University's future development.

University senior management regularly attend the Course Rep Assembly which is a forum of the student representatives drawn from courses across the University. In addition, the President and Vice-Chancellor meets regularly with undergraduate and postgraduate student groups throughout the academic year.

The Students' Union sabbatical officers are encouraged to participate in formal and informal discussions throughout the University, often through membership of formal committees. The President of the Students' Union is a member of the University's Council and the President and Vice-President (Voice) are both members of the Senate.

The University of Surrey Students' Union (USSU) Partnership Group provides a forum for members of the University senior management to meet formally three times a year with the Students' Union President, Vice-Presidents and Chief Executive to discuss key strategic issues for the University and the Students' Union.

Staff engagement

The University continues to carry out an annual staff survey in order to gain a comprehensive view of issues which impact on engagement levels, staff satisfaction and business performance. Key indicators from the survey are included on the University's balanced scorecard.

The 2016 staff satisfaction survey received a 75% response rate (2015: 76%), one of the highest in the sector. Overall Surrey compared favourably with its benchmark group (UK universities) with 12 out of the 31 directly comparable questions scoring 5% or more above the benchmark and a further 18 within 5% of the benchmark. The overall staff engagement score (as measured by six core engagement questions) was 70%. This was the highest level achieved in the six years the University has been running the survey.

As in previous years institutional level and local action plans have been drawn up in response to the staff survey scores and free-text comments.

Environmental sustainability

The University of Surrey is committed to embedding sustainability across all its operations and it is a major consideration in all new builds and refurbishment projects.

During 2015/16 the University invested £0.25m of interest free finance from the Salix Revolving Green Fund in modern energy efficient LEDs across the estate. A further £0.1m was spent on installing a hands-off automatic cover for Surrey Sports Park's swimming pool which will pay for itself through energy savings within four years and reduce emissions by 160 tonnes of carbon dioxide per annum.

With the Carbon Trust estimating that savings of 10-15% can be achieved through behaviour change alone, the University continues to invest in strong, well-supported, behaviour change campaigns. Cost savings are achieved through initiatives such as the Student Switch Off Campaign (the second largest such scheme run nationally) and the Blackout Event during the University's Green Week.

The University recognises that sustainability programmes also 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. These include the annual British Heart Foundation 'move out' campaign which regularly raises over £0.1m per annum.

Financial review

FRS 102 transition

2015/16 is the University's first year of reporting under the new UK accounting standard 'FRS 102' and a new Statement of Recommended Practice for higher education (SORP 2015). The 2014/15 comparative figures have been restated on an FRS 102 basis and a full reconciliation from the previously reported figures is shown on pages 51 to 58 of the financial statements.

The University made the decision, on transition to FRS 102, to undertake a one-off revaluation of its estate. This has strengthened the balance sheet, more than offsetting the adverse impact of other FRS 102 changes. The impact of the changes on the 31 July 2015 balance sheet is shown in chart 9.

Strategic report (continued)

Chart 9: Restatement of 31 July 2015 balance sheet under FRS 102

	£m
Consolidated Net Assets at 31 July 2015 – previous UK GAAP	238
Land & Buildings Revaluation	347
Government Capital Grants reclassified as Liabilities	(63)
Items brought onto Balance Sheet	
Fair Value of Interest Rate Swaps	(24)
Obligation to Fund Universities Superannuation Scheme (USS) Deficit	(30)
Consolidated Net Assets at 31 July 2015 – FRS 102	468

The transition to FRS 102 impacts on the reported surplus in two ways – firstly it introduces more volatility and secondly it reduces the underlying operating surplus.

In order to reduce volatility, the University has adopted the accrual model for accounting for revenue and capital government grants, and hedge accounting for qualifying interest rate swaps. The University remains exposed to volatility in respect of the following, which were not previously accounted for through the income and expenditure account and over which the University has little, if any, control:

- movements on the provision to make payments to the USS deficit recovery plan
- movements in the fair value of interest rate swaps which do not qualify for hedge accounting
- changes in the market value of Surrey Research Park.

The decision to undertake a one-off revaluation of the estate reduces the underlying operating surplus by increasing the depreciation charge. The effect of this increase in the depreciation charge is partly mitigated by longer asset lives, though these longer asset lives, in turn, reduce income due to the slower release of associated government capital grants.

The above changes to depreciation and capital grant release reduced the surplus in the restated 2014/15 income and expenditure account by £2.6m. The restated 2014/15 surplus fell by a further £1.5m as a result of the FRS 102 change in the basis for calculating interest on the local government pension scheme (LGPS) net liability.

Income and expenditure

The Statement of Comprehensive Income and Expenditure on page 19 of the financial statements shows a consolidated surplus for 2015/16 of £0.9m. This compares with the 2014/15 restated deficit of £1.6m.

As explained above, FRS 102 requires the University to account above the surplus/deficit line for certain items over which it has little, if any, control. The University cannot budget for these items, which may be subject to

significant volatility as a result of changes in market conditions. It therefore considers it appropriate to monitor performance against an underlying operating surplus which excludes these items.

The 2015/16 underlying operating surplus was £10.1m. This was a significant improvement on the 2014/15 underlying operating deficit of £1.9m.

Chart 10: Reconciliation to underlying operating surplus / (deficit)

	2015/16	2014/15
	£m	£m
Consolidated Surplus / (Deficit) for the Year	0.9	(1.6)
Movement on USS Provision	3.7	16.0
Increase in Interest Rate Swaps Liability	3.8	1.8
Loss / (Gain) on Surrey Research Park Revaluation	1.3	(18.3)
Other Investment Losses	0.4	0.2
Underlying Consolidated Operating Surplus / (Deficit)	10.1	(1.9)

Consolidated income rose in 2015/16 by £19.5m (8%) to £259.5m, with tuition fee income rising by £22.4m (21%) to £129.7m. This reflected an increase in both undergraduate and postgraduate student numbers following a very successful student recruitment round. Consequently there was a need to increase academic staffing levels in certain areas. The full year cost of these newly appointed staff will be reflected for the first time in 2016/17.

As described earlier in this report, research income fell in 2015/16 by £3.4m to £38.9m.

Expenditure also fell in 2015/16, by £1.9m to £256.7m. This was a net reduction within which:

- operational staff costs increased by £4.2m (3%) to £130.6m
- operating expenses increased by £3.2m (4%) to £85.2m
- depreciation increased by £3.9m (20%) to £24.0m
- the movement on the USS provision decreased by £12.3m to £3.7m, with the 2014/15 movement having reflected the impact of the new 17 year deficit recovery plan put in place after the 2014 triennial valuation.

The underlying operating surplus can be further analysed between the University's core activities and Surrey Research Park as shown in chart 11.

Strategic report (continued)

Chart 11: Analysis of underlying operating surplus

	2015/16	2014/15
	£m	£m
Core activities:		
University	5.0	(6.6)
Surrey Sports Park Limited	(0.3)	0.1
Surrey Research Park	5.4	4.6
Underlying Consolidated Operating Surplus / (Deficit)	10.1	(1.9)

Surrey Research Park

As shown above, Surrey Research Park generated a surplus for 2015/16 of £5.4m (2014/15: £4.6m). 2015/16 expenditure of £5.1m was £0.8m lower than the previous financial year, mainly as a result of lower tenants fit-out costs. Income of £10.5m was in line with 2014/15 with a rise in income from rents and dilapidation settlements offsetting the fall in income from tenants fit-out works.

Net assets

Consolidated net assets fell by £13.6m in 2015/16 to £454.4m. As shown below, this was largely due to adverse movements on the fair value of interest rate swaps and pension provisions (USS and LGPS). These adverse movements were driven by the 2015/16 fall in long term interest rates (both pre and post the Brexit vote).

Chart 12: Movement in consolidated net assets 2015/16

	£m
Consolidated Net Assets at 31 July 2015	468.0
Underlying Operating Surplus	10.1
Local Government Pension Scheme (LGPS) Actuarial Losses	(7.2)
Movement on USS Provision	(3.7)
Increase in Interest Rate Swaps Liability	(11.1)
Research Park Revaluation	(1.3)
Other Investment Losses	(0.4)
Consolidated Net Assets at 31 July 2016	454.4

The recent trend in pension provisions is shown below. In light of the upward trend in costs, the University closed the Surrey County Council LGPS to new members with effect from 1 January 2016 and put a new defined contribution scheme in place.

Chart 13: Pension provisions at 31 July

	2012	2013	2014	2015	2016
	£m	£m	£m	£m	£m
Obligation to Fund USS Pension Deficit	N/A	N/A	13.7	30.1	34.3
LGPS Pension Liability – Funded	32.9	27.4	35.4	38.0	45.6
LGPS Pension Liability – Unfunded	1.5	1.4	1.5	1.4	1.4
Total	N/A	N/A	50.6	69.5	81.3

Included in non-current assets is Surrey Research Park. The recent trend in the Park's value is shown in chart 14. Completed investment properties and development land are shown at valuation, assets under construction are shown at cost.

Chart 14: Research Park valuation at 31 July

	2012	2013	2014	2015	2016
	£m	£m	£m	£m	£m
Completed Investment Properties	76.4	79.2	91.2	105.9	110.0
Properties under Development	0.5	0.8	1.0	4.1	1.3
Development Land	1.1	1.1	6.2	9.9	8.1
Total	78.0	81.1	98.4	119.9	119.4

Cash flow

The Consolidated Cash Flow Statement on page 22 shows an increase in cash and cash equivalents in the year of £9.8m. The movement in available cash (defined as cash and cash equivalents plus short term deposits) was £9.3m as shown in chart 15.

Chart 15: Movement in consolidated available cash

	2015/16	2014/15
	£m	£m
Opening Consolidated Available Cash	59.7	76.8
Net Cash Inflow from Operating Activities	39.6	18.0
Research Park Surplus	5.4	4.6
Capital Expenditure – University	(34.3)	(53.3)
Capital Expenditure – Research Park	(1.1)	(1.9)
Capital Grants Received	9.0	10.7
Loan Drawdowns	0.5	15.0
Financing (Net Interest and Capital Repayments)	(13.7)	(12.6)
Other Movements	3.9	2.4
Closing Consolidated Available Cash	69.0	59.7

Strategic report (continued)

The above shows a considerable improvement in the net cash inflow from operating activities which rose from £18.0m in 2014/15 to £39.6m in 2015/16. This was largely a result of the £12.0m improvement in the underlying operating surplus (from a £1.9m deficit to a £10.1m surplus) with changes in working capital balances also a contributory factor.

Offset against available cash of £69.0m were borrowings of £181.1m, giving net debt at 31 July 2016 of £112.1m. This reflected a £15.4m fall in net debt in the year with net debt representing 25% of total funds at 31 July 2016 compared with 27% at the start of the financial year.

Capital investment

The University has an ongoing capital programme of investment in new buildings, equipment and other campus improvements to provide the facilities needed to deliver a first-class student experience and high quality research.

Total capital expenditure in 2015/16 was £35.4m. This compared with the previous year's total of £55.2m which was driven by spend on the Vet School and 5GIC.

The major project undertaken in 2015/16 was construction of the £12.5m Engineering for Health Laboratory. Due to open in spring 2017 and part-funded by a £5m grant from HEFCE, the laboratory is part of the University's 'Innovation for Health' initiative. Building on the University's reputation in the fields of engineering, biosciences and computer science, the new centre will educate students from different disciplines together to pioneer technologies that will address the future needs of healthcare and industry. Completion of the building will enable the University to increase the intake of STEM students to currently capacity constrained programmes and also enable it to introduce new programmes from 2017/18.

Other projects were undertaken in the year to address some of the infrastructure challenges faced by the University as it grows its student population. These included improvements to catering and retail outlets, learning space and IT capability. Projects to improve the student experience included the 'active learning spaces' project. This involved four of the University's central teaching rooms being refurbished with flexible furniture, additional audio-visual equipment and extra whiteboard areas to facilitate interactive approaches to learning, group work and collaboration.

Use of University monies to leverage funding from HEFCE and other funders is a core part of strategy. The Engineering for Health Laboratory is an example of University funds being used to leverage HEFCE capital funding. The University is also investing in capital infrastructure in order to leverage research funding. During 2015/16 the University commenced spending on four projects with a total value of £0.5m. This committed capital investment has leveraged £3.1m from Research

Councils and will enable the University to collaborate with a wider academic base outside the University, bringing in further funding from both Research Councils and industry. A further two projects have been awarded, committing University match funding valued at £0.3m and leveraging funding of £1.3m from Research Councils.

The pace of capital investment will increase significantly in 2016/17 as the University begins construction of the next phase of student accommodation on its Manor Park campus. 480 beds will be available from September 2018 with a further 670 beds due to come on stream in September 2019. This will increase the total number of beds on the Manor Park campus to circa 3,000.

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.

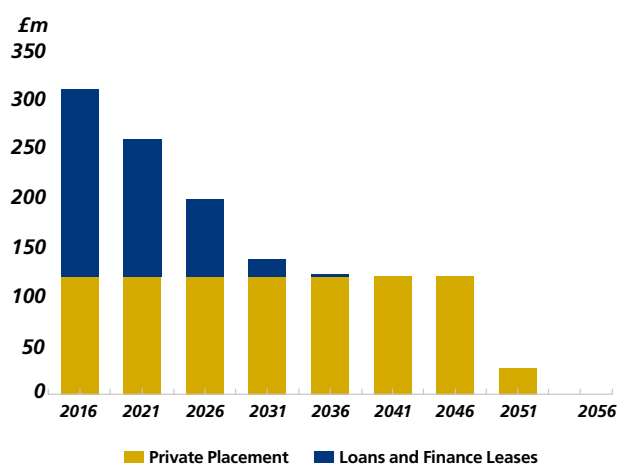
As at 31 July 2016 the University had outstanding borrowings and finance lease obligations on its balance sheet of £181.1m (2015: £187.1m). This figure excludes undrawn bank loan facilities of £10.0m.

The University recognises that it has a relatively high gearing ratio. However, the University has borrowed to fund assets which produce a strong income stream in themselves and which contribute to the strategic ambitions of the University. The University benefits from competitive margins and light financial covenants on its bank loans. It manages the risk of interest rate rises through standalone hedging instruments and a fixed rate on £30m of loan finance. The University's policy is to fix the interest rate on at least 70% of its total term debt, allowing cash balances to act as a natural hedge against a portion of the debt. The weighted average cost of capital on drawn funds at 31 July 2016 was 3.76% (2015: 3.74%).

During 2015/16 the University secured £120m of private placement funds, to be drawn in 2016/17. £75m will finance construction of the 1,150 beds referred to above. The remaining £45m provides headroom for additional investment in support of the University's strategic goals. This may include projects to enable academic expansion, projects with strong investment returns (e.g. Surrey Research Park) and projects to enhance the student experience. The University was able to leverage strong demand to secure its target amount of £120m with three investors on very favourable terms. These include an average all-in cost of funds of 3.38% and no additional financial covenants. Bullet repayments are due in 2046 and 2052.

Strategic report (continued)

Chart 16: Debt profile at 31 July (including undrawn funds)



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 counterparty credit ratings and limits on the amount placed with any one provider.

The weighted average return on short term deposits fell slightly from 0.79% in 2014/15 to 0.74% in 2015/16 reflecting the continuing downward trend in short term interest rates.

Risks and uncertainties

As described in the Corporate Governance Statement on pages 15 and 16, 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.

Mention has already been made of the risk of significant changes to funding and access to top academics following the June 2016 Brexit vote. The University remains focussed on:

- raising awareness of the current situation
- taking positive action in order to reassure staff and students
- contributing to debates within the higher education sector about how best to respond
- lobbying government.

The other main areas of risk in achieving the University's strategic goals and long term sustainability are as follows:

- campus infrastructure
- research income and quality
- student numbers
- student experience and outcomes

Campus infrastructure

Work is ongoing to address the key infrastructure challenges that limit the University's ability to maximise its growth potential in the short term.

The University has implemented a number of changes to its residential allocation policy to increase the number of rooms available to new UG and PGT students ahead of the additional Manor Park accommodation becoming available. It has refurbished Guildford Court (on the Stag Hill campus) to extend its life and successfully launched the University's own private letting agency to aid students in finding off-campus accommodation.

Various actions are being taken to increase capacity in terms of student learning space and to make better use of spaces outside the library. Work is also underway to tighten the University's timetable policy and practice to increase room utilisation rates throughout the teaching day.

A new estates strategy and masterplan are due for completion by summer 2017. In the meantime there is a focus is on ensuring that the capital plan includes sustainable levels of spend for planned long-term maintenance as well as a sustainable level of IT spend.

Research income and quality

The University needs to grow its research quality and performance to enhance its global reputation which is critical to its long term sustainability. This is challenging at a time when many research funders, particularly those funding the basic/fundamental research that correlates most highly with research standing, do not cover the full costs of research. The research environment is also increasingly competitive with many universities seeking to increase their research portfolios at a time when many funders are resource constrained. The Brexit vote adds further challenges and uncertainties.

The University continues to address these risks through its six research strategy work-streams.

Student numbers

Integration of the recruitment and admissions teams with the marketing function facilitates a more cohesive and streamlined approach to student recruitment. It also allows the University to respond more quickly to behaviour changes across the various markets, thereby ensuring that the University's growth trajectory is maintained.

The Brexit vote (combined with removal of the accommodation guarantee) has had some impact on the conversion of 2016/17 EU PGT applications to enrolments and the University will take appropriate action to increase recruitment from other markets should the evidence suggest a similar pattern for 2017/18 entry.

Strategic report (continued)

The University is diversifying its overseas recruitment efforts as part of its international recruitment strategy in order to reduce reliance on key markets, particularly those where potential students are deterred from applying to the University by changes to post-study work visas and other UK Visas and Immigration (UKVI) policies.

Student experience and outcomes

The University is extremely sensitive to the need to ensure that growth in student numbers does not come at the expense of the quality of the student experience. Any fall in student satisfaction would have an adverse impact on league table performance and institutional attractiveness, hence future recruitment.

In addition to investing in its physical infrastructure, the University is pro-actively managing and monitoring both student:staff ratios and cohort size/mix, recognising that these have a direct impact on the student experience. It is also implementing a number of supporting strategies, including the University's first wellbeing strategy and a new employability strategy.

Conclusion

Whilst the challenges facing the higher education sector cannot be underestimated, the University of Surrey heads into its 50th anniversary year in a strong position.

Corporate governance

The University is a body incorporated by Royal Charter originally granted in 1966 and an exempt charity within the meaning of Schedule 3 of the Charities Act 2011.

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). The Council is satisfied that the University has had regard to, and materially complies with, the Higher Education Code of Governance published by the Committee of University Chairs (CUC).

Summary of the University's structure of corporate governance

The University's 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.

During 2015/16 the Council adopted a new Scheme of Delegation. This records the reserved powers of the Council and the delegation of the Council's powers and duties to its sub-committees; to the Vice-Chancellor; and to the Senate and its sub-committees. Delegations from the Council and the Senate are not exclusive and both bodies expressly retain the power to exercise the function other than through the delegate.

The Council continually assesses its mix of skills, experience and diversity to ensure its appropriateness. New members receive an induction programme tailored to their specific needs. The effectiveness of the Council is reviewed regularly, with the next formal review scheduled to take place in 2016/17. This will comprise a mix of formal questions and one-to-one meetings aimed at obtaining feedback regarding the functions, considerations and administration of the Council.

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 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.

Corporate governance (continued)

The Nominations Committee, under the chairmanship of the Chair of Council, meets as required to consider and make recommendations to the Council on the appointment of external members to the Council and on the deployment of external members 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.

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 which include external members where relevant. As described in the Strategic Report, the Executive Board was restructured in 2015/16 to align the responsibilities of Executive Board members with the University's key strategic goals.

During 2015/16 HEFCE undertook its five-yearly assurance review at the University. The aim of the review, as set out in HEFCE Circular Letter 25/2006, was to examine how the University exercises accountability for the public funding it receives. HEFCE's overall conclusion was that it could place reliance on the accountability information.

Statement of internal control

The Council, as governing body, is responsible for ensuring that the University has a sound system of internal control and for reviewing its effectiveness. Such a system is designed to understand and 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:

- a comprehensive Scheme of Delegation, approved by the Council, which records the reserved powers of the Council and the delegation of the Council's powers to its sub-committees; to the Vice-Chancellor; and to the Senate and its sub-committees
- 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
- a professional Internal Audit team whose annual programme is approved by the Audit and Assurance Committee

The University has an agreed Risk Management Policy and a Risk Appetite Statement which have been approved by the Council. The Executive Board is responsible for identifying and evaluating the major risks faced by the University and for ensuring that appropriate actions are taken to mitigate those risks. The University's high-level risk register, covering financial, operational, reputational and legal/regulatory risks, is regularly reviewed and updated. The risk management process is overseen by the Audit and Assurance Committee and the status of the University's high-level risks (in terms of likelihood and impact of becoming a reality), together with actions taken to mitigate those risks, is reported on regularly to the Finance Committee and the Council. The high-level risk register forms the basis of the internal audit programme.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the principal risks to achievement of the University's objectives; that it has been in place for the year ended 31 July 2016 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 the 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 of the 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 of the University of Surrey for the year ended 31 July 2016 set out on pages 19 to 59. 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) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 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 17 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 Strategic Report 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:

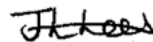
- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2016 and of the Group's and University's income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education; and
- meet the requirements of HEFCE's Accounts direction to higher education institutions for 2015/16 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 Group and the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- 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; and
- the corporate governance and internal control requirements of HEFCE's Accounts direction to higher education institutions for 2015/16 financial statements have been met.



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

Date 01 DECEMBER 2016

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.

Statement of comprehensive income and expenditure for the year ended 31 July 2016

	Note	Consolidated		University	
		2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Income					
Funding council grants	2	29,386	30,765	29,386	30,765
Tuition fees and education grants	3	129,749	107,338	129,749	107,338
Research grants and contracts	4	38,946	42,304	38,946	42,304
Other income	5	49,641	47,671	44,973	43,050
Investment income	6	11,066	11,270	11,279	11,541
Donations and endowments	7	702	594	702	594
Total income		259,490	239,942	255,035	235,592
Expenditure					
Staff costs - operational	8	130,628	126,378	127,757	123,853
Staff costs - movement on USS provision	8	3,650	16,019	3,650	16,019
Staff costs - restructuring	8	468	4,607	468	4,607
Other operating expenses	11	85,176	81,977	82,929	79,952
Depreciation		23,985	20,056	23,980	20,062
Interest and other finance costs	10	12,786	9,509	12,786	9,489
Total expenditure	11	256,693	258,546	251,570	253,982
Surplus/(deficit) before other gains and losses		2,797	(18,604)	3,465	(18,390)
Loss on disposal of fixed assets		(36)	(411)	(36)	(411)
(Loss)/gain on investments		(1,660)	18,146	(1,904)	18,146
Surplus/(deficit) before taxation		1,101	(869)	1,525	(655)
Taxation	12a	(161)	(735)	(98)	(710)
Surplus / (deficit) for the year		940	(1,604)	1,427	(1,365)
Unrealised deficit on revaluation of land and buildings		-	(331)	-	(331)
Actuarial loss in respect of pension scheme		(7,152)	(2,179)	(6,898)	(1,978)
Change in fair value of hedging financial instruments		(7,337)	(3,428)	(7,337)	(3,428)
Total comprehensive income for the year		(13,549)	(7,542)	(12,808)	(7,102)
Represented by:					
Endowment comprehensive income for the year		111	(294)	111	(294)
Restricted comprehensive income for the year		20	150	20	150
Unrestricted comprehensive income for the year		(13,680)	(7,398)	(12,939)	(6,958)
		(13,549)	(7,542)	(12,808)	(7,102)

All income and expenditure relates to continuing operations.

Statement of changes in reserves for the year ended 31 July 2016

Consolidated

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2014	2,855	25	485,422	(12,826)	475,476
Surplus/(deficit) from the income and expenditure statement	266	340	(2,210)	-	(1,604)
Other comprehensive income	-	-	(2,179)	(3,428)	(5,607)
Revaluation of estate adjustment	-	-	(331)	-	(331)
Release of restricted funds spent in year	(560)	(190)	750	-	-
	<u>(294)</u>	<u>150</u>	<u>(3,970)</u>	<u>(3,428)</u>	<u>(7,542)</u>
Balance at 1 August 2015	2,561	175	481,452	(16,254)	467,934
Surplus from the income and expenditure statement	355	181	404	-	940
Other comprehensive income	-	-	(7,152)	(7,337)	(14,489)
Release of restricted funds spent in year	(244)	(161)	405	-	-
Total comprehensive income for the year	<u>111</u>	<u>20</u>	<u>(6,343)</u>	<u>(7,337)</u>	<u>(13,549)</u>
Balance at 31 July 2016	2,672	195	475,109	(23,591)	454,385

University

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2014	2,855	25	491,916	(12,826)	481,970
Surplus/(deficit) from the income and expenditure statement	266	340	(1,971)	-	(1,365)
Other comprehensive income	-	-	(1,978)	(3,428)	(5,406)
Revaluation of estate adjustment	-	-	(331)	-	(331)
Release of restricted funds spent in year	(560)	(190)	750	-	-
	<u>(294)</u>	<u>150</u>	<u>(3,530)</u>	<u>(3,428)</u>	<u>(7,102)</u>
Balance at 1 August 2015	2,561	175	488,386	(16,254)	474,868
Surplus from the income and expenditure statement	355	181	891	-	1,427
Other comprehensive income	-	-	(6,898)	(7,337)	(14,235)
Release of restricted funds spent in year	(244)	(161)	405	-	-
Total comprehensive income for the year	<u>111</u>	<u>20</u>	<u>(5,602)</u>	<u>(7,337)</u>	<u>(12,808)</u>
Balance at 31 July 2016	2,672	195	482,784	(23,591)	462,060


Balance sheets as at 31 July 2016

	Note	Consolidated		University	
		2016 £000	2015 £000	2016 £000	2015 £000
Non-current assets					
Intangible assets	13	587	896	587	896
Fixed assets	14	695,818	679,326	695,682	679,512
Investment properties	15	119,784	119,907	119,384	119,907
Other investments	16	1,753	4,901	4,457	7,299
		817,942	805,030	820,110	807,614
Current assets					
Stocks		4,385	4,724	455	461
Trade and other receivables	17	24,762	24,521	33,703	33,327
Investments	19	15,267	16,032	15,267	16,032
Cash and cash equivalents		53,992	44,158	52,562	42,900
		98,406	89,435	101,987	92,720
Creditors : amounts falling due within one year	20	(106,236)	(92,849)	(105,455)	(92,613)
Net current (liabilities)/assets		(7,830)	(3,414)	(3,468)	107
Total assets less current liabilities		810,112	801,616	816,642	807,721
Creditors : amounts falling due after more than one year	21	(274,428)	(264,138)	(274,375)	(264,073)
Provisions					
Pension provisions	23	(81,299)	(69,544)	(80,207)	(68,780)
Total net assets		454,385	467,934	462,060	474,868
Restricted reserves					
Income and expenditure reserve- endowment reserve	24	2,672	2,561	2,672	2,561
Income and expenditure reserve-restricted reserve	26	195	175	195	175
Unrestricted reserves					
Income and expenditure reserve - unrestricted		475,109	481,452	482,784	488,386
Cash flow hedge reserve	27	(23,591)	(16,254)	(23,591)	(16,254)
		454,385	467,934	462,060	474,868

The financial statements and notes on pages 19 to 59 were approved by the Council on 24 November 2016 and signed on its behalf by:



Professor G Q Max Lu
President and Vice-Chancellor



Dr Jim Glover
Chair of Council

Consolidated cash flow statement for the year ended 31 July 2016

	Note	2015/16 £000	2014/15 £000
Cash inflow from operating activities			
Surplus/(deficit) for the year		940	(1,604)
Add: taxation		161	735
Adjustments for non-cash items			
Depreciation	14	23,417	19,452
Amortisation of intangibles	13	568	488
Loss/(gain) on investments		1,660	(18,146)
Impairment of fixed assets		136	-
Increase in stocks		(338)	(831)
Increase in receivables		(236)	(5,273)
Increase in creditors		7,866	6,981
Increase in pension provision		2,632	14,877
Adjustment for investing or financing activities			
Net income from Research Park		(5,403)	(4,610)
Other investment income		(606)	(570)
Interest payable	10	12,786	9,509
Endowment income		(355)	(594)
Loss on sale of fixed assets		293	377
Capital grant income		(3,603)	(2,813)
Adjustment for taxation			
Tax paid		(403)	(26)
Net cash inflow from operating activities		39,515	17,952
Cashflows from investing activities			
Proceeds from sale of fixed assets		7	558
Capital grant receipts		9,052	10,720
Disposal of non-current asset investments		3,044	245
Withdrawal of deposits		472	18,500
Research Park net income		5,403	4,538
Investment income		666	1,059
Payments made to acquire fixed assets		(34,080)	(53,298)
Payments made to acquire intangible assets		(259)	-
New non-current asset investments		(1,076)	(1,916)
		(16,771)	(19,594)
Net cash inflow from financing activities			
Interest paid		(6,153)	(5,245)
Interest element of finance lease payments		(672)	(672)
Endowment cash received		355	594
New unsecured loans		453	15,000
Repayments of amounts borrowed		(6,239)	(6,027)
Capital element of finance lease payments	28	(654)	(655)
		(12,910)	2,995
Increase in cash and cash equivalents in the year	28	9,834	1,353
Cash and cash equivalents at beginning of the year		44,158	42,805
Cash and cash equivalents at end of the year		53,992	44,158

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 2015 (2015 SORP)* and in accordance with Financial Reporting Standard FRS 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of fixed assets and derivative financial instruments).

The University has significant cash equivalents 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 and all its subsidiaries for the financial year to 31 July 2016. Intra group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of the Students' Union as the University does not exert control or dominant influence over its policy decisions.

Recognition of income

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

Fee income is stated gross and credited to the statement of consolidated income and expenditure 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.

Grant funding

Government revenue grants including funding council block grants and research grants are recognised in income over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income 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. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises as either restricted or unrestricted income according to the terms applied to the individual endowment fund.

There are three main types of donations and endowments identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Donations and endowments (continued)

2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University has the power to use the capital.
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Capital grants

Government capital grants are recognised in income over the expected useful lives of the related assets. Other capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

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 were, until April 2016, 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 Section 28 of FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive income and expenditure represents the contributions payable to the scheme in respect of the accounting period.

A liability is recorded within provisions for any contractual commitment to fund past deficits within the USS scheme.

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 Section 28 of FRS 102 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 statement of comprehensive income and expenditure as they become payable in accordance with the scheme rules.

- Defined contribution plan

A defined contribution plan is a post employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the comprehensive statement of income and expenditure in the periods during which services are rendered by employees.

- Defined benefit plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the group. The group recognises a liability for its obligations under defined benefit plans, net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

Agency arrangements

Funds received and disbursed as paying agent on behalf of a funding body are excluded from the comprehensive statement of income and expenditure where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Tangible fixed assets

Fixed assets are stated at cost / deemed cost less accumulated depreciation and accumulated impairment losses. Certain assets, that had been revalued to fair value on the date of transition to the 2015 SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

a. Land and buildings

Under the transition rules of FRS 102, land and buildings were revalued on 1 August 2014 to fair value. Depreciation and impairment losses are subsequently charged on the revalued amount. Additions subsequent to this date 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.

Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the University.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of up to 80 years.

No depreciation is charged on assets in the course of the construction.

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.

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
Other computing equipment	-	3 years
Equipment acquired for specific research projects	-	project life
Other equipment	-	5 to 20 years
Furniture	-	10 years

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each balance sheet.

Finance costs

Borrowing costs and interest receivable which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

Intangible assets and goodwill

Intangible assets are amortised over 5-7 years representing the remaining estimated economic life of the assets and are subject to periodic impairment reviews as appropriate.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

Leased assets

a) Operating lease

Costs in respect of operating leases are charged on a straight line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

b) Finance lease

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Maintenance of premises

The University has a five year rolling long term maintenance plan which forms the basis of the ongoing maintenance of the estate. Expenditure on long term maintenance which does not meet the FRS 102 criteria for capitalisation, and expenditure on all routine corrective maintenance, is charged to the statement of comprehensive income and expenditure as incurred.

Investment properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the comprehensive statement of income and expenditure. Properties are not depreciated but are revalued annually according to market conditions as at 31 July each year.

Investments

Non-current asset investments are held on the balance sheet at fair value where this is readily available. Otherwise they are recorded at amortised cost less impairment.

Current asset investments are held at fair value with movements recognised in the statement of comprehensive income and expenditure.

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 and cash equivalents

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.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

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.

Derivatives

Derivatives are held on the Balance Sheet at fair value. The University has adopted and complied with the requirements of hedge accounting in respect of certain interest rate swaps. Movement in fair value are recorded in the Surplus/Deficit or within Other Comprehensive Income, as appropriate.

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.

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.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

Transition to 2015 SORP

The University is preparing its financial statements in accordance with FRS 102 for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to the 2015 SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the University is provided in note 37.

Application of first time adoption, grants certain exemption from the full requirements of the 2015 SORP in the transition period. The following exemptions have been applied to these financial statements:

- A revaluation of the University's land and buildings at 1 August 2014 has been used for the deemed cost for land and buildings measured at fair value as at that date.
- The residual benefit or cost associated with lease incentives relating to leases commencing before the date of transition to the 2015 SORP will continue to be recognised on the same basis as that applied at the date of transition to the 2015 SORP.

Notes to the financial statements (continued)**2 Funding council grants**

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Recurrent grant				
Higher Education Funding Council				
Teaching	8,077	9,145	8,077	9,145
Research	14,587	14,900	14,587	14,900
	22,664	24,045	22,664	24,045
Skills Funding Agency	-	188	-	188
Specific grants				
Higher Education Innovation Fund	2,958	3,073	2,958	3,073
Other	602	730	602	730
Deferred capital grants released in year				
Building	1,856	1,651	1,856	1,651
Equipment	1,306	1,078	1,306	1,078
	29,386	30,765	29,386	30,765

3 Tuition fees and education grants

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
UK & EU undergraduates	54,035	45,070	54,035	45,070
UK & EU postgraduates	5,888	8,413	5,888	8,413
Non-EU undergraduates	24,498	19,620	24,498	19,620
Non-EU postgraduates	23,241	14,853	23,241	14,853
Non-credit bearing courses	3,230	2,443	3,230	2,443
Nurse training contract	14,674	12,329	14,674	12,329
Research training support grants	4,183	4,610	4,183	4,610
	129,749	107,338	129,749	107,338

4 Research grants and contracts

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Research councils	12,491	11,311	12,491	11,311
UK based charities	2,173	2,138	2,173	2,138
UK central government tax credits for R & D expenditure	222	3,027	222	3,027
Other UK government, health and hospital authorities	3,877	3,181	3,877	3,181
UK industry and commerce	7,910	6,989	7,910	6,989
EU government bodies	7,538	10,670	7,538	10,670
EU industry and commerce	3,779	3,732	3,779	3,732
Other grants and contracts	956	1,256	956	1,256
	38,946	42,304	38,946	42,304

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

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Residences, catering and conferences	30,772	28,893	29,442	28,893
Other services rendered	4,084	4,562	4,326	4,562
Income from use of University facilities	5,299	4,768	448	1,054
Other income	9,486	9,448	10,757	8,541
	49,641	47,671	44,973	43,050

6 Investment income

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Investment income on endowments	44	38	44	38
Research Park income	10,469	10,290	10,469	10,290
Income from non-current investments	18	519	18	519
Income from cash deposits	535	405	529	401
Other interest receivable	-	18	219	293
	11,066	11,270	11,279	11,541

7 Donations and endowments

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
New endowments	355	133	355	133
Donations with restrictions	196	340	196	340
Unrestricted donations	151	121	151	121
	702	594	702	594

8 Staff

	Consolidated		University	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Staff costs - operational:				
Wages and salaries	105,019	102,394	102,451	100,144
Social security costs	8,903	8,136	8,716	7,965
Pension costs:				
- Employer contributions	15,831	15,031	15,719	14,927
- SCC actuarial adjustments	875	817	871	817
	130,628	126,378	127,757	123,853
Movement on USS provision	3,650	16,019	3,650	16,019
Staff costs - restructuring	468	4,607	468	4,607
	134,746	147,004	131,875	144,479

	Consolidated		University	
	2015/16 Number	2014/15 Number	2015/16 Number	2014/15 Number
Full time equivalent staff numbers:				
Research and teaching	1,030	1,036	1,030	1,036
Professional	1,006	984	976	951
Technical and experimental	121	109	121	109
Operational	357	333	301	282
Other	9	11	9	11
	2,523	2,473	2,437	2,389

Notes to the financial statements (continued)**9 Emoluments of higher paid staff**

		2015/16	2014/15
		£000	£000
Emoluments of President and Vice-Chancellor: (1 August 2015 to 30 September 2015)	Salary	52	310
	Benefits in kind	-	4
	Allowance in lieu of pension contributions	8	49
		<u>60</u>	<u>363</u>
	Pension contributions	<u>-</u>	<u>-</u>
		<u>60</u>	<u>363</u>
Emoluments of Acting Vice-Chancellor: (1 October 2015 to 24 April 2016)	Salary	123	-
	Benefits in kind	2	-
	Allowance in lieu of pension contributions	2	-
		<u>127</u>	<u>-</u>
	Pension contributions	<u>12</u>	<u>-</u>
		<u>139</u>	<u>-</u>
Emoluments of President and Vice-Chancellor: (25 April 2016 to 31 July 2016)	Salary	83	-
	Benefits in kind	2	-
	Relocation allowance	7	-
	Allowance in lieu of pension contributions	4	-
		<u>96</u>	<u>-</u>
	Pension contributions	<u>10</u>	<u>-</u>
		<u>106</u>	<u>-</u>

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 £12,000 for the period 1 August 2015 to 30 September 2015, not included in the figures above (2014/15: £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 allowances in lieu of pension contributions:

	Consolidated	
	2015/16	2014/15
	Number of employees	
Remuneration band		
£100,001- £110,000	18	17
£110,001- £120,000	8	10
£120,001- £130,000	8	9
£130,001- £140,000	7	5
£140,001- £150,000	4	2
£150,001- £160,000	2	2
£160,001- £170,000	1	3
£170,001- £180,000	1	-
£200,001- £210,000	-	1
£220,001- £230,000	1	-
	<u>50</u>	<u>49</u>

In accordance with HEFCE's Accounts Direction for 2015/16 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 2015/16 (2014/15: £nil).

Notes to the financial statements (continued)**9 Emoluments of higher paid staff (continued)****Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Key management personnel compensation is included in staff costs.

The University of Surrey defines its "key management personnel" to be the Executive Board members.

	2015/16	2014/15
	£000	£000
Key management personnel compensation	<u>2,451</u>	<u>2,567</u>

10 Interest and other finance costs

	Consolidated		University	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
On bank loans and other loans:				
Loans wholly repayable within five years	-	71	-	71
Loans not wholly repayable within five years	6,405	5,075	6,405	5,075
	<u>6,405</u>	<u>5,146</u>	<u>6,405</u>	<u>5,146</u>
On finance leases	631	672	631	672
Increase in fair value of derivatives	3,834	1,835	3,834	1,835
Net charge on pension scheme	1,907	1,846	1,907	1,826
Other interest payable	9	10	9	10
	<u>12,786</u>	<u>9,509</u>	<u>12,786</u>	<u>9,489</u>

11 Analysis of expenditure by activity

	Consolidated		University	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Academic departments	80,422	76,649	80,451	76,673
Academic services	21,468	19,397	21,499	19,424
Research grants and contracts	32,633	32,610	32,633	32,610
Residences, catering & conferences	17,616	19,504	17,693	19,556
Premises	29,495	26,741	29,452	26,732
Administration	53,079	47,304	47,836	42,607
Other expenses	21,980	36,341	22,006	36,380
	<u>256,693</u>	<u>258,546</u>	<u>251,570</u>	<u>253,982</u>

	Consolidated		University	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Other operating expenses include:				
External auditors remuneration in respect of the audit of these financial statements	83	65	83	65
External auditors remuneration in respect of other services:				
Audit of the University's subsidiaries	13	14	-	-
Audit of non-statutory accounts	-	6	-	6
Audit related services	39	45	39	45
Operating lease rentals: land and buildings	1,642	1,339	1,554	1,276
other	1,590	1,147	1,492	1,052
Foreign exchange losses/(gains)	157	(25)	157	(25)

Trustees

No trustee received payment for serving as a trustee during the year (2014/15: £nil).

No trustee received payment for services provided to the University (2014/15: £nil).

The total expenses paid to or on behalf of three trustees were £1,318 (2014/15: £nil).

Notes to the financial statements (continued)**12a Taxation**

	Consolidated	
	2015/16	2014/15
	£000	£000
Recognised in the statement of comprehensive income		
Corporation tax on RDEC claim	60	682
Tax on profits of subsidiary undertakings	63	25
Foreign tax	38	28
Current tax charge	161	735

12b Factors affecting current tax charge

	Consolidated	
	2015/16	2014/15
	£000	£000
Surplus/(deficit) before taxation	1,101	(869)
Surplus/(deficit) multiplied by standard rate of corporation tax in the UK of 20% (2014/15: 20.67%)	220	(180)
Factors affecting charge:		
University (surplus)/deficit exempt from tax	(305)	112
Balances eliminated on consolidation exempt from tax	4	49
Adjustment for small company rate @ 20% (2014/15: 20%)	-	1
Adjustment in respect of prior periods for subsidiary undertakings	-	42
Tax charged on RDEC claim	60	682
Tax charged on profits earned overseas	38	28
Write off deferred tax debtor in subsidiary	53	-
Corporation tax payment by subsidiary	9	-
Losses carried forward in subsidiary	21	-
Expenses disallowable for tax in subsidiaries	36	-
Other	25	1
Total current tax charge (note 12a)	161	735

13 Intangible assets**Software**

	Consolidated & University £'000
Cost	
At 1 August 2015	7,227
Additions at cost	259
At 31 July 2016	7,486
Amortisation	
At 1 August 2015	6,331
Charge for the year	568
At 31 July 2016	6,899
Net book value	
At 31 July 2016	587
At 31 July 2015	896

Additions during the year relate to the purchase of software intangible assets.

Notes to the financial statements (continued)**14 Tangible fixed assets**

Consolidated	Land and buildings		Assets under construction	Plant and equipment	Total
	Freehold	Leasehold			
	£000	£000	£000	£000	£000
Cost					
At 1 August 2015	620,998	8,780	44,029	97,361	771,168
Additions at cost	1,067	-	24,894	14,092	40,053
Transfers	44,003	-	(44,280)	277	-
Disposals at cost	-	-	-	(219)	(219)
At 31 July 2016	666,068	8,780	24,643	111,511	811,002
Depreciation					
At 1 August 2015	14,300	244	-	77,298	91,842
Charge for the year	15,475	248	-	7,694	23,417
Impairment	17	-	-	119	136
Disposals	-	-	-	(211)	(211)
At 31 July 2016	29,792	492	-	84,900	115,184
Net book value					
At 31 July 2016	636,276	8,288	24,643	26,611	695,818
At 31 July 2015	606,698	8,536	44,029	20,063	679,326
University					
	Freehold	Leasehold	Assets under construction	Plant and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 August 2015	621,308	8,780	44,029	97,361	771,478
Additions at cost	740	-	24,894	14,092	39,726
Transfers	44,003	-	(44,280)	277	-
Disposals at cost	-	-	-	(219)	(219)
At 31 July 2016	666,051	8,780	24,643	111,511	810,985
Depreciation					
At 1 August 2015	14,424	244	-	77,298	91,966
Charge for the year	15,469	248	-	7,695	23,412
Impairment	17	-	-	119	136
Disposals	-	-	-	(211)	(211)
At 31 July 2016	29,910	492	-	84,901	115,303
Net book value					
At 31 July 2016	636,141	8,288	24,643	26,610	695,682
At 31 July 2015	606,884	8,536	44,029	20,063	679,512

At 31 July 2016 freehold land and buildings included £151,959,000 (2015: £153,779,000) in respect of freehold land which is not depreciated.

The freehold and leasehold land and buildings comprising the University of Surrey's estate were valued as at 1 August 2014 by an external valuer, Gerald Eve LLP, a regulated firm of Chartered Surveyors. The valuation was prepared in accordance with the requirement of the RCIS Valuation - Professional Standards, January 2014 amendment and Financial Reporting Standard 102 and the 2015 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a Fair Value basis, with non-specialised operational properties valued on a Fair Value basis equating to Market Value on the assumption of a continuation of the existing use. The valuation is reported under the special assumptions to exclude any value of development opportunities for which planning permission would be required and has not been granted or where development has not yet commenced.

During the year £110,000 (2014/15: £1,491,000) of borrowing costs were capitalised in fixed assets, at a capitalisation rate of 3.49%.

Notes to the financial statements (continued)**14 Tangible fixed assets (continued)**

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

	Consolidated & University	
	2016	2015
	£000	£000
Net book value		
Land & buildings	10,527	10,826
Equipment	369	43
	<u>10,896</u>	<u>10,869</u>
Depreciation charge for year		
Land & buildings	297	295
Equipment	61	149
	<u>358</u>	<u>444</u>

15 Investment properties

Consolidated	Research Park		Other		Total
	Buildings Under Development £000	Completed Buildings £000	Land £000	Buildings £000	
At 1 August 2015	4,109	105,928	9,870	-	119,907
Additions	1,076	-	-	400	1,476
Transfers	(3,899)	3,899	-	-	-
Disposals	-	(265)	-	-	(265)
Change in market value	-	486	(1,820)	-	(1,334)
At 31 July 2016	<u>1,286</u>	<u>110,048</u>	<u>8,050</u>	<u>400</u>	<u>119,784</u>
University	Buildings Under Development £000	Completed Buildings £000	Land £000	Buildings £000	Total £000
At 1 August 2015	4,109	105,928	9,870	-	119,907
Additions	1,076	-	-	-	1,076
Transfers	(3,899)	3,899	-	-	-
Disposals	-	(265)	-	-	(265)
Change in market value	-	486	(1,820)	-	(1,334)
At 31 July 2016	<u>1,286</u>	<u>110,048</u>	<u>8,050</u>	<u>-</u>	<u>119,384</u>

The Research Park, which has a historical cost of £53,942,000 (2015: £50,044,000), was valued as at 31 July 2016 by an external valuer, Philip Macauley MRICS for Deloitte LLP. The valuation of the property was in accordance with Valuation Practice Standard 3, paragraph 7(j) of the RICS Valuation – Professional Standards Global and UK Edition – January 2014 (revised April 2015) ('The Red Book'). The valuation was on the following bases of value and assumptions:

- investment property: valued to Market Value assuming the property would be sold subject to any existing lease.
- owner-occupied property: valued to existing use value (EUV) assuming that the property would be sold as part of the continuing business.

The valuer's opinion of Market Value and EUV was primarily derived using comparable recent market transactions on arm's-length terms.

Notes to the financial statements (continued)**16 Other non-current investments****Consolidated**

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2015	-	4,901	4,901
Additions	-	-	-
Disposals	-	(3,044)	(3,044)
Change in market value	-	(104)	(104)
At 31 July 2016	-	1,753	1,753

University

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2015	2,892	4,407	7,299
Additions	500	-	500
Disposals	-	(3,044)	(3,044)
Change in market value	(194)	(104)	(298)
At 31 July 2016	3,198	1,259	4,457

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.

17 Trade and other receivables

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade receivables	6,782	5,703	7,057	5,655
Amounts owed by subsidiary undertakings	-	-	9,023	9,235
Other receivables	174	239	139	214
Deferred tax (note 18)	241	233	-	-
Prepayments and accrued income	17,565	18,346	17,484	18,223
	24,762	24,521	33,703	33,327

Other receivables in the Consolidated and University balance sheets include £nil which is due after more than one year (2015: £100,000).

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

Notes to the financial statements (continued)

18 Deferred tax asset

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
The deferred tax asset comprises:				
Accelerated capital allowances	19	22	-	-
Losses	-	54	-	-
Short term timing differences	3	3	-	-
Pension	219	154	-	-
	241	233	-	-
Deferred tax asset excluding pension:				
Balance at 1 August	79	99	-	-
expenditure	(57)	(20)	-	-
Balance at 31 July	22	79	-	-
Deferred tax pension asset:				
Balance at 1 August	154	101	-	-
Credit to the statement of comprehensive income and expenditure	2	1	-	-
Credit to other comprehensive income	63	52	-	-
Balance at 31 July	219	154	-	-

19 Current asset investments

	Consolidated & University	
	2016 £000	2015 £000
Short term deposits (maturing within 1 year)	15,028	15,500
Other investments	239	532
	15,267	16,032

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 3 months and less than 12 months maturity at inception.

20 Creditors : amounts falling due within one year

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
Bank loans (note 22a)	6,380	5,995	6,380	5,995
Obligations under finance leases (note 22b)	662	549	662	549
Other loans (note 22c)	238	244	238	244
Payments received on account	8,758	9,202	8,758	9,202
Trade creditors	3,087	5,128	3,162	4,955
Amounts owed to group undertakings	-	-	47	8
Other creditors including taxation and social security	14,858	12,783	14,958	13,330
Government deferred capital grants	4,044	3,576	4,044	3,576
Accruals and deferred income	68,209	55,372	67,206	54,754
	106,236	92,849	105,455	92,613

Deferred income

Included within accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Consolidated & University	
	2016 £000	2015 £000
Research grants received on account	5,183	3,750
Grant income	679	427
	5,862	4,177

Notes to the financial statements (continued)**21 Creditors : amounts falling due after more than one year**

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
Bank loans (note 22a)	163,421	169,801	163,421	169,801
Obligations under finance leases (note 22b)	9,273	9,661	9,273	9,661
Government deferred capital grants	65,831	60,147	65,831	60,147
Derivatives	34,758	23,587	34,758	23,587
Other loans (note 22c)	1,092	877	1,092	877
Other creditors	53	65	-	-
	274,428	264,138	274,375	264,073

The derivatives relate to interest rate swaps that the University has entered into in order to fix the interest rate paid on certain of its borrowings.

During 2015/16 a hedging loss of £3,834,000 (2014/15: £1,835,000) was recognised in the statement of comprehensive income and expenditure for changes in fair value of interest rate swaps and £7,337,000 (2014/15: £3,428,000) was reclassified from the cash flow hedge reserve to the statement of comprehensive income and expenditure.

22 Borrowings**a. Bank loans**

	Consolidated & University	
	2016 £000	2015 £000
Bank loans are repayable as follows:		
Within one year or on demand	6,380	5,995
Between one and two years	6,784	6,380
Between two and five years	32,928	29,614
Over five years	123,709	133,807
	169,801	175,796
Due within one year or on demand	(6,380)	(5,995)
Due after more than one year	163,421	169,801
Unsecured loans repayable by 2035	169,801	175,796

Bank loans at 31 July 2016 were as follows:

Lender	Amount £000	Interest rate %	Term	Borrower
Scottish Widows	20,504	variable	2031	University
Scottish Widows	26,458	variable	2022-2026	University
Lloyds	50,000	fixed / variable	2033	University
National Westminster	15,712	variable	2030	University
National Westminster	1,960	variable	2022	University
National Westminster	11,812	variable	2032	University
Santander	43,355	variable	2035	University
	169,801			

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 36, 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 2016, inclusive of bank margins and swap costs, was 3.76% (2015: 3.74%).

Notes to the financial statements (continued)

22 Borrowings (continued)

b. Finance leases

Net finance lease obligations are repayable as follows:

Consolidated & University	2016		Total £000	2015		Total £000
	Land & buildings £000	Plant & equipment £000		Land & buildings £000	Plant & equipment £000	
Within one year	562	100	662	530	19	549
Between two and five years	3,540	198	3,738	2,461	26	2,487
Over five years	5,535	-	5,535	7,174	-	7,174
	<u>9,637</u>	<u>298</u>	<u>9,935</u>	<u>10,165</u>	<u>45</u>	<u>10,210</u>

c. Other loans

Other loans are repayable as follows:

	Consolidated & University	
	2016 £000	2015 £000
Within one year	238	244
Between two and five years	514	300
Over five years	578	577
Total other loans	<u>1,330</u>	<u>1,121</u>

23 Provisions

Consolidated	Obligation to fund deficit on USS pension £000	Defined benefit obligations £000	Pension enhancements on termination £000	Total £000
At 1 August 2015	30,112	38,028	1,404	69,544
Utilised in year	(1,020)	(4,395)	(129)	(5,544)
Additions	5,206	11,971	122	17,299
At 31 July 2016	<u>34,298</u>	<u>45,604</u>	<u>1,397</u>	<u>81,299</u>
University	Obligation to fund deficit on USS pension £000	Defined benefit obligations £000	Pension enhancements on termination £000	Total £000
At 1 August 2015	30,112	37,264	1,404	68,780
Utilised in year	(1,020)	(4,353)	(129)	(5,502)
Additions	5,206	11,601	122	16,929
At 31 July 2016	<u>34,298</u>	<u>44,512</u>	<u>1,397</u>	<u>80,207</u>

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision. The University is funding the deficit through monthly payments into the scheme at a rate of 2.1% of pensionable pay. The provision is based on the deficit recovery plan agreed following the March 2014 valuation. This recovery plan provides for the deficit to be paid off by 2031. The deficit recovery plan is subject to revision following each triennial valuation.

The defined benefit obligations comprise the deficits on the local government pension schemes (Surrey Pension Fund and LPFA Pension Fund). The University is currently making monthly payments to the Surrey Pension Fund of £144,000 to pay off the deficit by 2033 and an annual payment to the LPFA Pension Fund of £76,000, rising annually with CPI, to pay off the deficit by 2028. The obligations and payments are subject to revision following each triennial valuation.

For the assumptions on the discount rate and inflation used for calculating the provision for pension enhancements on termination see note 33b.

Notes to the financial statements (continued)**24 Endowment reserve****Consolidated & University**

	Restricted permanent £000	Restricted expendable £000	2016 Total £000	2015 Total £000
Balances at 1 August 2015				
Capital	396	2,036	2,432	2,441
Accumulated income	57	72	129	414
	<u>453</u>	<u>2,108</u>	<u>2,561</u>	<u>2,855</u>
New endowments	-	355	355	133
Investment income	11	32	43	38
Expenditure	(4)	(239)	(243)	(560)
(Decrease)/increase in market value of investments	(21)	(36)	(57)	95
	<u>(14)</u>	<u>112</u>	<u>98</u>	<u>(294)</u>
At 31 July 2016	<u>439</u>	<u>2,220</u>	<u>2,659</u>	<u>2,561</u>

Represented by:

Capital	253	1,979	2,232	2,431
Accumulated income	186	241	427	130
	<u>439</u>	<u>2,220</u>	<u>2,659</u>	<u>2,561</u>

Analysis by type of purpose:

Scholarships and bursaries	235	1,216	1,451	871
Prize funds	178	122	300	1,340
Hardship funds	26	128	154	303
General	-	748	748	40
Research support	-	6	6	7
	<u>439</u>	<u>2,220</u>	<u>2,659</u>	<u>2,561</u>

Analysis by asset:

Listed investments			1,042	1,175
Cash held as part of investment portfolio			104	45
Cash held at bank for endowment funds			1,513	1,341
			<u>2,659</u>	<u>2,561</u>

25 Connected charitable institutions

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

Connected institutions with income under £100,000

	At 1 August 2015 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2016 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	597	15	(15)	(28)	569
Studentship (2 funds)	381	4	(41)	-	344
Other (1 fund)	6	-	(6)	-	-
	<u>984</u>	<u>19</u>	<u>(62)</u>	<u>(28)</u>	<u>913</u>

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

Notes to the financial statements (continued)**26 Restricted reserves****Consolidated & University**

	Donations £000	2016 Total £000	2015 Total £000
At 1 August 2015	175	175	25
New donations	181	181	340
Expenditure	(161)	(161)	(190)
At 31 July 2016	195	195	175

	2016 Total £000	2015 Total £000
Analysis of other restricted funds/donations by type of purpose:		
Scholarships and bursaries	68	22
Prize funds	6	15
Hardship fund	7	-
General	98	129
Research support	16	9
	195	175

27 Cash flow hedge reserve

	Consolidated & University	
	2016 Total £000	2015 Total £000
At 1 August 2015	16,254	12,826
Hedging loss	7,337	3,428
At 31 July 2016	23,591	16,254

The hedge reserve is used to record transactions arising from the University's cash flow hedging arrangements.

28 Analysis of changes in net debt**Consolidated**

	At 1 August 2015 £000	Cash flows £000	Non-cash changes £000	At 31 July 2016 £000
Loans due within one year (note 20)	(6,239)	6,239	(6,618)	(6,618)
Loans due after one year (note 21)	(170,678)	(453)	6,618	(164,513)
Finance leases (note 22b)	(10,210)	654	(379)	(9,935)
Financing	(187,127)	6,440	(379)	(181,066)
Cash and cash equivalents	44,158	9,834	-	53,992
Short term deposits (note 19)	15,500	(472)	-	15,028
	(127,469)	15,802	(379)	(112,046)

29 Capital commitments

	Consolidated & University	
	2016 £000	2015 £000
Commitments contracted at 31 July	10,639	9,456
Authorised but not contracted at 31 July	16,545	22,369
	27,184	31,825

Notes to the financial statements (continued)**30 Lease obligations**

Total rentals payable under non-cancellable operating leases are as follows:

Consolidated & University

	2016		2015	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	478	14	445	18
Between two and five years	-	1,554	-	595
Over five years	-	-	-	-
	<u>478</u>	<u>1,568</u>	<u>445</u>	<u>613</u>

Total rentals receivable under non-cancellable operating leases are as follows:

	2016		2015	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	4,827	-	4,833	-
Between two and five years	15,134	-	14,552	-
Over five years	9,165	-	8,943	-
	<u>29,126</u>	<u>-</u>	<u>28,328</u>	<u>-</u>

31 Contingent assets and liabilities

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.

32 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 interest on the balance is payable at a variable rate.

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

b. Private placement

On 21 July 2016 the University entered into an agreement with three institutional investors for a private placement of £120m of senior notes. £40m of notes were issued on 4 August 2016 and the remaining £80m will be issued on 30 March 2017. £95m is repayable on 4 August 2046 and £25m on 30 March 2052. Interest is payable at a weighted average all-in cost of funds of 3.38%.

Notes to the financial statements (continued)

33 Pension schemes

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

	Consolidated	
	2015/16	2014/15
	Total £000	Total £000
USS	16,571	28,432
Local government pension scheme	3,443	3,140
Other pension schemes	342	295
Total pension cost	<u>20,356</u>	<u>31,867</u>

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

	Consolidated	
	2015/16	2014/15
	£000	£000
USS	28	321
Local Government Pension Scheme curtailments	49	49
	<u>77</u>	<u>370</u>

a. Universities Superannuation Scheme (USS)

USS is valued every three years by a professionally qualified independent actuary using the projected unit method. 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 2016 are included in this note.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the Scheme as a whole.

The latest triennial actuarial valuation of the scheme was as at 31 March 2014 ("the valuation date"). 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. FRS 102 valuations of these assets and liabilities at 31 July 2015 and 31 July 2016 were:

	2016	2015
	£000	£000
Scheme assets	49,800,000	49,100,000
Total scheme liabilities	<u>(58,300,000)</u>	<u>(60,200,000)</u>
FRS 102 total scheme deficit	<u>(8,500,000)</u>	<u>(11,100,000)</u>
FRS 102 total funding level	85%	82%

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year, and 4.0% thereafter
Pension increases (CPI)	2.2%	2.2%

The Universities Superannuation Scheme (USS) is the main scheme covering most academic and academic related staff, which provides benefits based on final pensionable salary. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Notes to the financial statements (continued)**33 Pension schemes (continued)****a. Universities Superannuation Scheme (USS) (continued)**

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	98% of S1NA ["light"] YoB tables - no age rating
Female members' mortality	99% of 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 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	2016	2015
Males/females currently aged 65	24.3/26.5 years	24.2/26.4 years
Males/females currently aged 45	26.4/28.8 years	26.3/28.7 years

As part of the 31 March 2014 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 contribution rate payable by the University was increased from 16.0% of pensionable salaries to 18.0% 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. In the intervening years the actuary reviews the progress of the scheme.

The contribution payable by the employer, as a percentage of payroll, is 19.9%. This 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 section 28 of FRS102, "Employee benefits", 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 2016.

A full actuarial valuation was carried out as at 31 March 2013 and updated to 31 July 2016 on an FRS102 basis by a qualified independent actuary. The material assumptions used by the actuary were:

	Consolidated	
	2016	2015
Pension increase rate (CPI)	1.9%	2.6%
Salary increase rate	3.4%	4.0%
Discount rate	2.4%	3.6%

Notes to the financial statements (continued)

33 Pension schemes (continued)

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

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:

	2016		2015	
	Males	Females	Males	Females
Current pensioners	22.5 years	24.6 years	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2013 is 45 years)	24.5 years	26.9 years	24.5 years	26.9 years

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

The Group's estimated share of the assets in the scheme was:

	Consolidated	
	2016 £000	2015 £000
Equities	68,483	60,786
Bonds	14,417	12,968
Property	5,407	5,673
Cash	1,802	1,621
	<u>90,109</u>	<u>81,048</u>

The following amounts were measured in accordance with the requirements of FRS 102:

Analysis of amounts shown in the balance sheet

	Consolidated	
	2016 £000	2015 £000
Fair value of employer assets	90,109	81,048
Present value of funded liabilities	(134,920)	(118,380)
Net underfunding in funded plans	(44,811)	(37,332)
Present value of unfunded liabilities	(1,286)	(1,293)
Net liability	(46,097)	(38,625)

Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure

	Consolidated	
	2016 £000	2015 £000
Current service cost	3,443	3,140
Net interest	1,374	1,422
Past service cost (including curtailments)	49	49
	<u>4,866</u>	<u>4,611</u>
Actual return on plan assets	(7,272)	(6,859)

Notes to the financial statements (continued)**33 Pension schemes (continued)****b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)****Analysis of amounts recognised in other comprehensive income**

	Consolidated	
	2015/16	2014/15
	£000	£000
Changes in financial assumptions	(13,115)	(7,160)
Other experience gains	1,743	1,032
Return on assets excluding amounts shown in net interest	4,320	3,923
Total measurements recognised in other comprehensive income	<u>(7,052)</u>	<u>(2,205)</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2015/16	2014/15
	£000	£000
Opening defined benefit obligation	119,673	108,793
Current service cost	3,443	3,140
Interest cost on defined benefit obligation	4,326	4,358
Contributions by members	789	801
Changes in financial assumptions	13,115	7,160
Other experience gains	(1,743)	(1,032)
Past service cost (including curtailments)	49	49
Estimated benefits paid	(3,358)	(3,509)
Unfunded benefits paid	(87)	(87)
Closing defined benefit obligation	<u>136,207</u>	<u>119,673</u>

Changes in the fair value of employer assets

	Consolidated	
	2015/16	2014/15
	£000	£000
Opening fair value of employer assets	81,048	72,665
Interest on net assets	2,951	2,936
Contributions by members	789	801
Contributions by the employer	4,359	4,232
Contributions in respect of unfunded benefits	87	87
Return on assets less interest	4,320	3,923
Estimated benefits paid	(3,358)	(3,509)
Unfunded benefits paid	(87)	(87)
Closing fair value of employer assets	<u>90,109</u>	<u>81,048</u>

Notes to the financial statements (continued)

33 Pension schemes (continued)

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 Section 28 of FRS 102, "Employee benefits", 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 2016.

A full actuarial valuation was carried out as at 31 March 2013 and updated to 31 July 2016 on an FRS 102 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2016 were:

	2015/16	2014/15
Pension increase rate (CPI)	1.5%	1.9%
Salary increase rate	3.3%	3.7%
Discount rate	1.6%	2.9%

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

	2015/16		2015	
	Males	Females	Males	Females
Retiring today	21.9 years	24.0 years	21.8 years	24.0 years
Retiring in 20 years	24.3 years	26.4 years	24.1 years	26.3 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 was:

	2015/16	2014/15
	£000	£000
Cashflow matching	157	268
Equities	927	821
Cash	75	239
Target return portfolio	438	360
Other assets	204	166
	1,801	1,854

The following amounts were measured in accordance with the requirements of FRS 102:

Analysis of amounts shown in the balance sheet

	2015/16	2014/15
	£000	£000
Fair value of employer assets	1,801	1,854
Present value of funded liabilities	(2,594)	(2,548)
Net underfunding in funded plans	(793)	(694)
Present value of unfunded liabilities	(111)	(111)
Net liability	(904)	(805)

Notes to the financial statements (continued)**33 Pension schemes (continued)****c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund) (continued)****Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure**

	2015/16	2014/15
	£000	£000
Net interest on the defined liability	22	27
Administration expenses	3	3
	25	30
Actual return on plan assets	(95)	(85)

Analysis of amounts recognised in other comprehensive income

	2015/16	2014/15
	£000	£000
Return on assets less interest	43	13
Experience losses	(4)	(4)
Changes in assumptions underlying the present value of the scheme liabilities	(202)	(41)
Total measurements recognised in other comprehensive income	(163)	(32)

Changes in the present value of the defined benefit obligation

	2015/16	2014/15
	£000	£000
Opening defined benefit obligation	2,659	2,765
Interest cost	74	93
Change in financial assumptions	202	44
Experience loss on defined benefit obligation	4	4
Estimated benefits paid	(221)	(234)
Unfunded benefits paid	(13)	(13)
Closing defined benefit obligation	2,705	2,659

Changes in the fair value of employer assets

	2015/16	2014/15
	£000	£000
Opening fair value of employer assets	1,854	2,006
Interest on assets	52	66
Return on assets less interest	43	19
Contributions by the employer	76	-
Contributions in respect of unfunded benefits	13	13
Estimated benefits paid	(221)	(234)
Unfunded benefits paid	(13)	(13)
Administration expenses	(3)	(3)
Closing fair value of employer assets	1,801	1,854

Notes to the financial statements (continued)**34 Amounts disbursed as agent**

	Consolidated & University	
	2015/16 £000	2014/15 £000
Balance at 1 August	-	7
Funding council grants	-	-
	<u>-</u>	<u>7</u>
Disbursed to students		(7)
Administration expenses	-	-
Balance unspent at 31 July	<u>-</u>	<u>-</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 statement of comprehensive income and expenditure.

35 Related party transactions

The financial statements of the University include transactions with related parties. In accordance with FRS 102, these are disclosed where members of Council disclose an interest in a body with which the University undertakes transactions. Due to the nature of the University's operations and the composition of the Council (including members 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, including those identified below, are conducted in accordance with the University's financial regulations and normal procurement procedures.

The University has taken advantage of the exemption under FRS 102 not to disclose transactions with subsidiaries that are wholly owned.

	Income recognised within the financial statements	Expenditure recognised within the financial statements	Balance due to/(from) the University recognised within the financial statements
	£000	£000	£000
Andrews and Partners Ltd	122	-	21
Philips Electronics UK Ltd	30	20	28
Recycling Technologies Ltd	22	-	2
Electrical Research Association Foundation	75	-	-
Universities UK	36	2	-
Surrey County Council	110	21	10

During the year ended 31 July 2016 transactions with the Students' Union totalling £1,055,000 net were charged to the consolidated statement of comprehensive income and expenditure (2014/15: £855,000 net). As at 31 July 2016 the Students' Union owed a net balance of £nil (2015: £nil).

Notes to the financial statements (continued)**36 Financial instruments****Carrying amount of financial instruments**

The carrying amounts of the financial assets include:

	2016	2015
	£000	£000
Assets measured at fair value through the statement of comprehensive income and expenditure	1,281	4,594
Liabilities measured at fair value through the statement of comprehensive income and expenditure	(34,758)	(23,587)

Assets

The fair value of the financial assets measured at fair value through the statement of comprehensive income and expenditure is determined by reference to their quoted bid price at the balance sheet date.

During the year income arising from assets measured at fair value of £48,000 (2014/15: £86,000) and net gains on changes in fair value of £467,000 (2014/15: £658,000 loss) were recognised in the statement of comprehensive income and expenditure.

Liabilities

The University uses interest rate swaps as cash flow hedges in order to hedge against the risk of fluctuations in cash flows arising from interest rate changes on certain of the University's borrowings. These swaps, included in liabilities above, are as follows:

Lender	Interest rate %	Term	Interest payment frequency	Fair value	
				2016	2015
				£000	£000
Barclays	5.09	2032	Quarterly	4,774	3,455
Barclays	5.38	2032	Quarterly	2,546	1,924
Lloyds	5.49	2022	Quarterly	1,605	1,677
Lloyds	4.00	2038	Quarterly	6,339	3,826
RBS	4.74	2024	Quarterly	1,649	1,122
RBS	4.52	2024	Quarterly	1,564	1,095
Barclays	4.33	2035	Quarterly	16,281	10,488
				<u>34,758</u>	<u>23,587</u>

The fair value of interest rate swaps, recorded in liabilities, is based on broker quotes using forecast projections of LIBOR. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date.

During the year changes in the fair value of the interest rate swaps of £3,834,000 (2014/15: £1,835,000) were recognised in interest payable and £7,337,000 (2014/15: £3,428,000) in other comprehensive income.

Notes to the financial statements (continued)

37 Transition to FRS 102 and the 2015 SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the 2015 SORP. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 July 2016, the comparative information presented for the year ended 31 July 2015 and in the preparation of an opening FRS 102 balance sheet at 1 August 2014. In preparing its FRS 102 SORP based financial statements, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP). An explanation of how the transition to FRS 102 and the 2015 SORP has affected the University's financial position, financial performance and cash flows is set out in the following tables:

	Notes	1 August 2014			31 July 2015		
		2007 SORP £000	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000	2015 SORP £000	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000
Consolidated balance sheets							
Non-current assets							
Intangible assets	a)	-	972	-	972	896	896
Fixed assets	a), b)	294,715	345,692	1,396	641,803	343,646	679,326
Investments	l)	43,244	1,154	58,700	103,098	1,207	124,808
		<u>337,959</u>	<u>347,818</u>	<u>60,096</u>	<u>745,873</u>	<u>345,749</u>	<u>805,030</u>
Endowment assets		55,383	(2,855)	(52,528)	-	(2,561)	-
Current assets							
Stock		3,893	-	-	3,893	4,724	4,724
Assets held for resale		394	-	-	394	-	-
Trade and other receivables	o)	19,344	100	1,455	20,899	147	24,521
Investments	d)	34,059	1,266	-	35,325	473	16,032
Cash and cash equivalents	l)	40,400	1,702	703	42,805	1,341	44,158
		<u>98,090</u>	<u>3,068</u>	<u>2,158</u>	<u>103,316</u>	<u>1,961</u>	<u>89,435</u>
Less: Creditors: amounts falling due within one year	e), f), g)	(79,929)	(4,282)	(3,526)	(87,737)	(10,735)	(92,849)
Net current assets/(liabilities)		<u>18,161</u>	<u>(1,214)</u>	<u>(1,368)</u>	<u>15,579</u>	<u>(8,774)</u>	<u>(3,414)</u>
Total assets less current liabilities		411,503	343,749	6,200	761,452	334,414	801,616
Creditors: amounts falling due after more than one year	e), h)	(172,193)	(63,205)	-	(235,398)	(83,733)	(264,138)
Provisions							
Provisions for liabilities	m)	(1,475)	1,475	-	-	1,404	-
Pension liability	m)	(35,311)	35,311	-	-	37,873	-
Pension provision	i), m), o)	-	(50,582)	-	(50,582)	(69,544)	(69,544)
Total net assets		<u>202,524</u>	<u>266,748</u>	<u>6,200</u>	<u>475,472</u>	<u>220,414</u>	<u>467,934</u>

Notes to the financial statements (continued)

37 Transition to FRS 102 and the 2015 SORP (continued)

Consolidated balance sheets (continued)

	1 August 2014		31 July 2015				
Notes	2007 SORP £000	Effect of transition to 2015 SORP £000	Correction of error (notes n & c) £000	2015 SORP £000	Effect of transition to 2015 SORP £000	Correction of error (notes n & c) £000	2015 SORP £000
Deferred capital grants							
e), j)	51,890	(51,890)	-	72,765	(72,765)	-	-
Restricted reserves							
Income and expenditure - endowment reserve	55,383	-	(52,528)	2,855	-	(66,908)	2,561
Income and expenditure - restricted reserve	-	25	-	25	175	-	175
Unrestricted reserves							
Income and expenditure reserve - unrestricted	94,713	331,978	58,728	485,419	309,920	76,778	481,452
Revaluation reserve	538	(538)	-	-	(662)	-	-
Cash flow hedge reserve	-	(12,827)	-	(12,827)	(16,254)	-	(16,254)
	150,634	318,638	6,200	475,472	164,885	9,870	467,934
Total funds	<u>202,524</u>	<u>266,748</u>	<u>6,200</u>	<u>475,472</u>	<u>237,650</u>	<u>9,870</u>	<u>467,934</u>

Notes to the reconciliation of reserves

- a) £972,000 (2014), £896,000 (2015) of intangible assets have been reclassified from fixed assets to intangible assets.
- b) The University revalued its land and buildings on transition to FRS 102 on 1 August 2014. This resulted in an increase in fixed assets of £346,665,000.
- c) Land with fair value of £6,200,000 (2014), £9,870,000 (2015) in the Research Park, previously accounted for at cost, has been recognised under investment property at fair value.
- d) Investments in shares, previously recorded at cost, have been recognised at fair value resulting in an increase in value of £1,266,000 (2014), £473,000 (2015).
- e) Government capital grants have been moved to creditors under the accruals accounting method. £2,811,000 (2014), £3,576,000 (2015) is shown in creditors due within one year and £44,880,000 (2014), £60,176,000 (2015) in creditors greater than one year.
- f) £1,647,000 (2014), £1,724,000 (2015) of unused annual leave has been recognised in creditors due within one year.
- g) Deferred income with no performance conditions attached of £177,000 (2014) £332,000 (2015) has been released to restricted (2014: £25,000, 2015: £175,000) and unrestricted (2014: £152,000, 2014: £157,000) reserves.
- h) Interest rate swaps with mark-to-market value of £18,324,000 (2014), £23,587,000 (2015) have been recognised in creditors due in greater than one year.
- i) The University's share of the obligation to fund the USS pension deficit of £13,696,000 (2014), £30,112,000 (2015) has been recognised in pension liabilities.
- j) Non-government capital grants of £4,197,000 (2014), £4,028,000 (2015) have been released to unrestricted reserves.
- k) The revaluation reserve relating to increases in the market value of shares (2014: £538,000, 2015: £662,000) has been released to unrestricted reserves.
- l) Endowment investments comprising cash and shares (2014: £1,155,000, 2015: £1,221,000) have been reclassified as investments and cash and cash equivalents.
- m) The pension liability and provision for liabilities (2014: £36,786,000, 2015: £39,278,000) have been transferred to the pension provision.
- n) Following legal counsel's opinion the University's interest in the Research Park, previously accounted for as an endowment, has been reclassified as unrestricted funds from 1 August 2014.
- o) The deferred tax asset on the pension actuarial valuation (2014 £100,000, 2015: £154,000) has been transferred from the pension liability to debtors.

Notes to the financial statements (continued)

37 Transition to FRS 102 and the 2015 SORP (continued)

	1 August 2014		31 July 2015	
	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000
Notes	2007 SORP £000	2015 SORP £000	2007 SORP £000	2015 SORP £000
University balance sheets				
Non-current assets				
Intangible assets	-	972	-	896
a) Fixed assets	294,907	345,692	334,480	343,646
a), b) Investments	44,648	1,154	49,517	1,207
l)	339,555	347,818	383,997	345,749
	55,383	(2,855)	69,469	(2,561)
		(52,528)		(66,908)
Endowment assets				
Current assets				
Stock	453	-	461	-
Assets held for resale	394	-	-	-
Trade and other receivables	28,231	1,455	32,098	(7)
d) Investments	34,059	1,266	15,559	473
l)	39,190	1,702	39,648	1,341
Cash and cash equivalents	102,327	2,968	87,766	1,807
	(79,751)	(4,282)	(77,647)	(10,729)
e), f), g)		(3,526)		(4,237)
Less: Creditors: amounts falling due within one year	22,576	(1,314)	10,119	(8,922)
Net current (liabilities)/assets	417,514	343,649	463,585	334,266
Total assets less current liabilities	(172,109)	(63,205)	(180,339)	(83,734)
Creditors: amounts falling due after more than one year		-		(235,314)
Provisions				
Provisions for liabilities	(1,475)	1,475	(1,404)	1,404
m) Pension liability	(34,910)	34,910	(37,263)	37,263
i), m) Pension provision	-	(50,081)	-	(68,780)
	209,020	266,748	244,579	220,419
Total net assets		6,200		9,870
				(264,073)
				474,868

Notes to the financial statements (continued)**37 Transition to FRS 102 and the 2015 SORP (continued)****University balance sheets (continued)**

	1 August 2014		31 July 2015	
	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000	Effect of transition to 2015 SORP £000	Correction of error (notes n) & c) £000
Notes	2007 SORP £000	2015 SORP £000	2007 SORP £000	2015 SORP £000
Deferred capital grants				
e), j)	51,890	(51,890)	72,765	(72,765)
Restricted Reserves				
Income and expenditure reserve - endowment reserve	55,383	-	69,469	(66,908)
Income and expenditure reserve - restricted reserve	-	25	-	175
Unrestricted Reserves				
Income and expenditure reserve - unrestricted	101,209	331,978	101,683	309,925
Revaluation reserve	538	(538)	662	(662)
Other reserves	-	(12,827)	-	(16,254)
	<u>157,130</u>	<u>318,638</u>	<u>171,814</u>	<u>293,184</u>
	<u>209,020</u>	<u>266,748</u>	<u>244,579</u>	<u>220,419</u>
Total Funds		<u>481,968</u>		<u>9,870</u>
				<u>474,868</u>

Notes to the reconciliation of reserves

- a) £972,000 (2014), £896,000 (2015) of intangible assets have been reclassified from fixed assets to intangible assets.
- b) The University revalued its land and buildings on transition to FRS 102 on 1 August 2014. This resulted in an increase in fixed assets of £346,665,000.
- c) Land with fair value of £6,200,000 (2014), £9,870,000 (2015) in the Research Park, previously accounted for at cost, has been recognised under investment property at fair value.
- d) Investments in shares, previously recorded at cost, have been recognised at fair value resulting in an increase in value of £1,266,000 (2014), £473,000 (2015).
- e) Government capital grants have been moved to creditors under the accruals accounting method. £2,811,000 (2014), £3,576,000 (2015) is shown in creditors due within one year and £44,880,000 (2014), £60,176,000 (2015) in creditors greater than one year.
- f) £1,647,000 (2014), £1,719,000 (2015) of unused annual leave has been recognised in creditors due within one year.
- g) Deferred income with no performance conditions attached of £177,000 (2014), £332,000 (2015) has been released to restricted (2014: £25,000, 2015: £175,000) and unrestricted (2014: £152,000, 2014: £157,000) reserves.
- h) Interest rate swaps with mark-to-market value of £18,324,000 (2014), £23,587,000 (2015) have been recognised in creditors due in greater than one year.
- i) The University's share of the obligation to fund the USS pension deficit of £13,696,000 (2014), £30,112,000 (2015) has been recognised in pension liabilities.
- j) Non-government capital grants of £4,197,000 (2014), £4,028,000 (2015) have been released to unrestricted reserves.
- k) The revaluation reserve relating to increases in the market value of shares (2014: £538,000, 2015: £662,000) has been released to unrestricted reserves.
- l) Endowment investments comprising cash and shares (2014: £1,155,000, 2015: £1,221,000) have been reclassified as investments and cash and cash equivalents.
- m) The pension liability and provision for liabilities (2014: £36,786,000, 2015: £39,278,000) have been transferred to the pension provision.
- n) Following legal counsel's opinion the University's interest in the Research Park, previously accounted for as an endowment, has been reclassified as unrestricted funds from 1 August 2014.

Notes to the financial statements (continued)**37 Transition to FRS 102 and the 2015 SORP (continued)****Consolidated statement of comprehensive income for the year ended 31 July 2015**

	Notes	2007 SORP £000	STRGL Items* £000	Effect of transition to 2015 SORP £000	Correction of error note (q) £000	2015 SORP £000
Income						
Funding body grants	a)	31,520	-	(755)	-	30,765
Tuition fees and education contracts		107,338	-	-	-	107,338
Research grants and contracts		42,304	-	-	-	42,304
Other income	b), c)	48,032	-	(361)	-	47,671
Investment income	d), e)	11,483	-	(213)	-	11,270
Donations and endowments	f)	522	(389)	461	-	594
Total income		241,199	(389)	(868)	-	239,942
Expenditure						
Staff costs - operational	g)	126,297	-	81	-	126,378
Staff costs - movement on USS provision	h)	-	-	16,019	-	16,019
Staff costs - restructuring		4,607	-	-	-	4,607
Other operating expenses	i), j), k)	81,851	-	126	-	81,977
Depreciation	l)	18,167	-	1,889	-	20,056
Interest and other finance costs	e), h), m), n)	5,829	-	3,680	-	9,509
Total expenditure		236,751	-	21,795	-	258,546
Loss on disposal of fixed assets	k)	-	-	(411)	-	(411)
Gain on investments	o), q)	-	14,599	(123)	3,670	18,146
Surplus/(deficit) before tax		4,448	14,210	(23,197)	3,670	(869)
Taxation		(735)	-	-	-	(735)
Surplus/(deficit) for the year		3,713	14,210	(23,197)	3,670	(1,604)
Unrealised deficit on revaluation of land and buildings	p)	-	-	(331)	-	(331)
Actuarial (loss)/gain in respect of pension schemes	m)	-	(3,672)	1,493	-	(2,179)
Change in fair value of hedging financial instruments	n)	-	-	(3,428)	-	(3,428)
Total comprehensive income for the year		3,713	10,538	(25,463)	3,670	(7,542)

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income (SOCi). This column does not include recognition of valuation changes arising from the adoption of the 2015 SORP. These are included within the effect of transition to 2015 SORP column.

Notes to the financial statements (continued)

37 Transition to FRS102 and the 2015 SORP (continued)

Notes to the reconciliation of surplus/(deficit)

- a) The lives of non-government grants were amended in line with the revised lives given to corresponding buildings on 1 August 2014. As a result, the grant amortisation to the SOCI has been reduced by £755,000.
- b) Deferred income of £307,000, previously held on the balance sheet, with no performance conditions was released to reserves at 1 August 2014.
- c) Amortisation of £54,000 of non government capital grants, released to reserves at 1 August 2014, has been removed.
- d) £162,000 of interest receivable relating to funds drawn down ahead of capital expenditure has been capitalised in fixed assets.
- e) Pension return on assets of £44,000 has been netted off against interest payable.
- f) The performance method of accounting for donations has resulted in the release of an extra £461,000 of income.
- g) The movement in the staff annual leave accrual was £81,000.
- h) The increase in the USS pension deficit liability arising from changes in market conditions of £16,019,000 is shown in staff costs.
- i) The fall in the fair value of shares was £669,000.
- j) The reversal of impairment of fixed assets previously adjusted for in the revaluation of land and buildings at 1 August 2014 was £131,000.
- k) The loss on disposal of fixed assets of £411,000 has been transferred from Other operating expenses to loss on disposal of fixed assets.
- l) The University revalued its land and buildings on transition to FRS 102 on 1 August 2014. This resulted in an increase in depreciation of £1,889,000.
- m) The change in the net discount rate for the local government pension scheme has resulted in £1,493,000 being transferred from actuarial loss to interest payable.
- n) The change in the mark-to-market value of interest swaps was £1,835,000 for swaps not eligible for hedge accounting, shown in interest payable and £3,428,000 for those swaps that were eligible for hedge accounting.
- o) £123,000 of losses on endowment asset investments have been recognised in the statement of comprehensive income.
- p) £331,000 of losses relating to the write off of fixed asset additions in 2014/15 arising from the revaluation of the land and buildings.
- q) Land in the Research Park, previously accounted for at cost, has been recognised under investment property at fair value. The movement on the fair value during the year was £3,670,000.

Notes to the financial statements (continued)**37 Transition to FRS 102 and the 2015 SORP (continued)****University statement of comprehensive income for the year ended 31 July 2015**

University	Notes	2007 SORP £'000	STRGL Items* £'000	Effect of transition to 2015 SORP £'000	Correction of error note (q) £'000	2015 SORP £'000
Income						
Funding body grants	a)	31,520	-	(755)	-	30,765
Tuition fees and education contracts		107,338	-	-	-	107,338
Research grants and contracts		42,304	-	-	-	42,304
Other income	b), c)	43,411	-	(361)	-	43,050
Investment income	d), e)	11,742	-	(201)	-	11,541
Donations and endowments	f)	522	(389)	461	-	594
Total income		236,837	(389)	(856)	-	235,592
Expenditure						
Staff costs - operational	g)	123,782	-	71	-	123,853
Staff costs - movement on USS provision	h)	-	-	16,019	-	16,019
Staff costs - restructuring		4,607	-	-	-	4,607
Other operating expenses	i), j), k)	79,825	-	127	-	79,952
Depreciation	l)	18,173	-	1,889	-	20,062
Interest and other finance costs	e), h), m), n)	5,829	-	3,660	-	9,489
Total expenditure		232,216	-	21,766	-	253,982
Loss on disposal of fixed assets	k)	-	-	(411)	-	(411)
Gain on investments	o), q)	-	14,599	(123)	3,670	18,146
Surplus/(deficit) before tax		4,621	14,210	(23,156)	3,670	(655)
Taxation		(735)	-	25	-	(710)
Surplus/(deficit) for the year		3,886	14,210	(23,131)	3,670	(1,365)
Unrealised deficit on revaluation of land and buildings	p)	-	-	(331)	-	(331)
Actuarial (loss)/gain in respect of pension schemes	m)	-	(3,440)	1,462	-	(1,978)
Change in fair value of hedging financial instruments	n)	-	-	(3,428)	-	(3,428)
Total comprehensive income for the year		3,886	10,770	(25,428)	3,670	(7,102)

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income (SOCl). This column does not include recognition of valuation changes arising from the adoption of the 2015 SORP. These are included within the effect of transition to 2015 SORP column.

Notes to the financial statements (continued)

37 Transition to FRS102 and the 2015 SORP (continued)

Notes to the reconciliation of surplus/(deficit)

- a) The lives of non-government grants were amended in line with the revised lives given to corresponding buildings on 1 August 2014. As a result, the grant amortisation to the SOCI has been reduced by £755,000.
- b) Deferred income of £307,000, previously held on the balance sheet, with no performance conditions was released to reserves at 1 August 2014.
- c) Amortisation of £54,000 of non government capital grants, released to reserves at 1 August 2014, has been removed.
- d) £162k of interest receivable relating to funds drawn down ahead of capital expenditure has been capitalised in fixed assets.
- e) Pension return on assets of £33,000 has been netted off against interest payable.
- f) The performance method of accounting for donations has resulted in the release of an extra £461,000 of income.
- g) The movement in the staff annual leave accrual was £71,000.
- h) The increase in the USS pension deficit liability arising from changes in market conditions of £16,019 is shown in staff costs. An unwinding of discount of £397,000 is shown in interest payable.
- i) The fall in the fair value of shares was £669,000.
- j) The reversal of impairment of fixed assets previously adjusted for in the revaluation of land and buildings at 1 August 2014 was £131,000.
- k) The loss on disposal of fixed assets of £411,000 has been transferred from Other operating expenses to loss on disposal of fixed assets.
- l) The University revalued its land and buildings on transition to FRS 102 on 1 August 2014. This resulted in an increase in depreciation of £1,889,000.
- m) The change in the net discount rate for the LGPS pension scheme has resulted in £1,462,000 being transferred from actuarial loss to interest payable.
- n) The change in the mark-to-market value of interest swaps was £1,835,000 for swaps not eligible for hedge accounting, shown in interest payable and £3,428,000 for those swaps that were eligible for hedge accounting.
- o) £123,000 of losses on endowment asset investments have been recognised in the statement of comprehensive income.
- p) £331,000 of losses relating to the write off of fixed asset additions in 2014/15 arising from the revaluation of the land and buildings.
- q) Land in the Research Park, previously accounted for at cost, has been recognised under investment property at fair value. The movement on the fair value during the year was £3,670,000.

Notes to the financial statements (continued)

38 Accounting estimates and judgements

The preparation of financial statements under FRS102 requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The judgements, estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are discussed below.

Pensions

The various assumptions and parameters used in the valuation of the pension liabilities are disclosed in note 33.

Fixed assets

The University operational academic buildings have been valued using a depreciated replacement cost (DRC) approach. Assumptions have been made under this basis on the cost of a modern equivalent asset. Non-specialised operational properties, such as student accommodation and other residential properties, have been valued at fair value. This value has been derived with reference to trading income and expenditure.

Buildings have been apportioned between three components: structure, fit-out costs and plant & machinery. The apportionment of the costs between these components was based on the elemental cost breakdowns of recent university building projects to establish the appropriate proportion of notional replacement cost that should be attributed to the identified components.

Assumptions have also been made on the remaining useful economic lives of the buildings. Consideration has been given to both the physical and functional obsolescence of the buildings and its components, as well as other environmental factors.

Land has similarly been valued under the DRC basis, having regards to the likely costs of acquiring a site for an equivalent development in a relevant location at the valuation date.

Management assesses the useful economic life of plant & equipment by considering the expected usage, estimated technical obsolescence, residual value and physical wear and tear of the asset. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the plant & equipment and may result in adjustments to future depreciation.

Investment property

Investment property has been valued on the basis of fair value. This is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Annual leave accrual

The University has provided for the cost of unused annual leave of its employees at the end of the financial year. This accrual was based on the actual leave carried forward at 31 July of a number of employees sampled across University departments. The results from this sample were extrapolated over the University employee population as a whole to determine the total accrual.

Financial instruments

As detailed in note 36, the University has entered into a number of interest rate swaps. These swaps have been valued at the year end using mark-to-market values as provided by Bloomberg.

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 (to January 2016)

Mr A Stuart (from February 2016)

Ex officio members

President & Vice-Chancellor

Professor Sir C M Snowden (to September 2015)

Professor G Q M Lu (from April 2016)

Acting Vice-Chancellor

Professor M Kearney (from May 2015 to April 2016)

Provost & Executive Vice-President

Professor M Kearney (from April 2016)

Vice-President & Deputy Vice-Chancellor, Academic Affairs

Professor G Nicholls (to March 2016)

Vice-President & Deputy Vice-Chancellor, Research & Innovation

Professor M Kearney (to April 2016)

President, Students' Union

Mr M Smith (to July 2016)

Ms A Mackenzie Smith (from July 2016)

Elected by the Senate

Professor V Emery (to December 2015)

Professor L Roberts (to July 2016)

Dr S Usherwood (to December 2015)

Professor R Brooks (from January 2016)

Dr R Woods (from January 2016)

Lay members

Dr H Bowcock

Dr A Bragg

Dr M Goodfellow (from January 2016)

Mr A Herman

Dr S Howes

Ms C Ighodaro

Mr P Maskell

Mr D McNulty (to December 2015)

Mr M Queen

Mr I Robertson (to December 2015)

Ms J Sawkins

Mr A Stuart

Dato Dr Kim Tan

Mr K Taylor

University of Surrey
Guildford, Surrey GU2 7XH, UK

T: +44 (0)1483 300800

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