



University of Surrey

Financial statements for the year ended 31 July 2013

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Operating and financial review

Introduction

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

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

History and constitution

The University has its origins in the Battersea Polytechnic Institute which was founded in 1891. It became a College of Advanced Technology in 1956 and moved to Guildford in the 1960s with the University receiving its Royal Charter in 1966. Although founded as a science and engineering focused institution, it now offers a broad range of courses, research programmes and enterprise activity across the sciences, engineering, arts, humanities, law and business.

In addition to its core academic activities, the University owns and manages the Surrey Research Park. Widely regarded as the best of its kind in the UK, it is one of the few research parks still owned and managed by the University that founded it.

Operating environment

This remains a time of considerable change and uncertainty across the Higher Education sector.

The sharp increase in fees for home/EU undergraduates (effective from the 2012 intake) has not led to the significant decline in student numbers some might have expected. However, it has increased the pressure on universities to be able to demonstrate value for money. This is all the more challenging when the UK government has already announced that the fee cap for Home/EU undergraduates will remain at £9,000 for at least three years (up to and including 2014/15). Political pressure may well mean that there is no announcement of an increase in the cap before the General Election in May 2015, by which time the £9,000 fee will be worth just £8,250 (at current inflation levels). This will place increased pressure, in particular, on science and engineering courses and on their capacity for future investment.

Whilst the government's Spending Review, published in June 2013, was less damaging than many feared, expectations are that the post-election Comprehensive Spending Review will open far more complicated discussions with government, especially on the sustainability of the student loan system.

Other areas of uncertainty include the impact of increased undergraduate debt on future demand for postgraduate education and the distribution of research funding following the 2014 Research Excellence Framework (REF). Both will impact for the first time in 2015/16, when the

first cohort of undergraduates under the new funding regime becomes eligible for further study and the results of the 2014 REF inform the Funding Councils' selective allocation of research funding.

In international student recruitment, universities remain exposed to government policy changes on immigration, as well as to economic changes and exchange rate movements. Adverse publicity around the world in 2012, regarding changes to student visa rules and the revocation of London Metropolitan University's licence to sponsor overseas students, had a negative impact on 2012/13 recruitment and the sector will need to keep up the pressure on government not to introduce further immigration controls.

Within the sector, there is an increasing need to build surpluses to fund capital expenditure in the wake of significant cuts in government capital grants. Recent announcements of targeted funding from the UK Research Partnership Investment Fund (UKRPIF) have been welcomed and Surrey has received an £11.6m grant towards its 5G Innovation Centre from this source. However, this funding is primarily directed towards new facilities to support research and innovation and universities are concerned about their ability to maintain the existing core estate and to invest in new teaching and student facilities. Failure to build the necessary surpluses could result in a return to the period of historical underinvestment in capital that was only partially rectified prior to the 2010 Spending Review.

Against this background of change and uncertainty, the University has achieved considerable success in the past year and made excellent progress towards its longer term goals. Its achievements and future plans are described in more detail below.

Strategy

The University is now over half way through its ten year strategy aimed at positioning the University as a leading national and international institution by 2017. In 2011, the University reviewed the strategy and fine tuned it in light of the new challenges facing higher education. The updated strategy reinforces the bold but achievable vision established in 2007 and retains the six existing imperatives which the University considers are essential to its success: quality, international impact, sustainability, distinctiveness, collegiality and professionalism.

The University has a rolling four year plan which includes both one year and four year targets to help the University monitor progress towards achievement of its strategy. The key strategic priority themes are as follows:

- delivery of high performance in teaching and research;
- delivery of an integrated student experience;
- development of new and existing programmes and markets; and
- delivery of value for money and the reduction of support costs.

Operating and financial review (continued)

Key Performance Indicators (KPIs) relating to students, staff, research & enterprise are included in a balanced scorecard which is monitored by the University's Executive Board and Council. Relevant indicators are referred to below.

The success of this strategy is reflected in the continuous progress made, and significant improvements achieved, in the University's league table performance in recent years. In the past year the University has achieved the highest rankings in its history, with 8th place in the Guardian League Table, 12th in the Times/Sunday Times League Table, 13th in the Complete University Guide and 9th in the National Student Survey (NSS).

Public benefit statement

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and is therefore exempt from registration with the Charity Commission. Its compliance with charity law is monitored by the Higher Education Funding Council for England (HEFCE) as its principal regulator. In determining the University's strategic, operational and financial objectives, the members of Council, as trustees, have had regard to the Charity Commission's guidance on public benefit.

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

- the purpose must be beneficial; and
- the purpose must benefit the public in general or a sufficient section of the public.

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

The quality of the University's activities is evidenced by a significant and consistent strengthening of its position across all the main UK university league tables.

In June 2013 the University entered the Guardian's top ten for the first time at 8th place, whilst in September 2013 it was announced that the University had achieved 12th place in the new combined league table from the Times and the Sunday Times. The Times and the Sunday Times also shortlisted Surrey as one of five finalists for the University of the Year award, highlighting student satisfaction as the key to the University's success. Recent trends in the main UK university league tables are shown below:

Chart 1 League table rankings

	2012/13	2011/12	2010/11	2009/10	2008/09
Guardian University Guide	8	12	19	20	27
The Times		26	29	32	37
The Sunday Times	12	21	21	41	33
The Complete University Guide	13	22	28	33	31

The quality of the University's research is evidenced by the ongoing receipt of prestigious awards, media interest and commercialisation.

In January 2013 it was announced that Surrey's Department of Electronic Engineering was one of just 12 outstanding UK university departments to be awarded a Regius Professorship in the Queen's Diamond Jubilee year. Recipient institutions can either assign the title to an existing professor in the relevant department or appoint a new professor to take the Chair and hold the title. In Surrey's case, it is expected that the announcement of the Regius Chair will be linked to the opening in 2015 of a new building to house the 5G Innovation Centre for mobile communications. This development is described in more detail later in this review.

2012/13 also saw the award of two Royal Society Wolfson Research Merit Awards to Surrey academics. This award recognises academics of 'outstanding achievement and potential' and is given to only a few highly respected UK scientists a year. Professor Adrian Hilton, Director of Surrey's Centre for Vision, Speech and Signal Processing (CVSSP) won an award for his pioneering research into 4D computer vision modelling while Professor Derk-Jan Dijk, Director of the Surrey Sleep Research Centre, won an award for research which revealed that lack of sleep can affect the activity patterns of more than 700 genes.

The findings from the sleep research project referred to above were widely reported in the national media, as were the findings from a number of other research projects undertaken at the University, including the adverse impact on children's mental development of iodine deficiency in pregnancy.

Further evidence of the University's strength in health-related research came in March 2013 when the University announced that it had signed a worldwide non-exclusive agreement with international diagnostic specialist Zeus Scientific to develop and market the EN2 biomarker test. Based on research carried out by Professor Hardev Pandha, Professor of Medical Oncology, and his team, this simple urine test offers a major leap forward in the early detection of prostate cancer.

The University recognises the importance of making the results of its research publicly available in order to satisfy the public benefit requirements arising from its charitable status, to meet the new requirements of the UK Research

Operating and financial review (continued)

Councils and to improve its rankings in the international league tables.

In November 2012 RCUK published its revised policy on Open Access. The policy supports both 'Gold' and 'Green' routes to Open Access, but has a preference for 'immediate, unrestricted, on-line access to peer reviewed and published research papers, free of charge'. From April 2013 all publications arising from RCUK funded research were required to be compliant with the policy. The University is supporting Open Access through the Library and Learning Support Service and Research and Enterprise Support teams. The University is also involved in the JISC Collection Open Access Pilot developing the use of the OAK (Open Access Key), a system created to support administration of APCs (Article Processing Charges).

As further evidence of public benefit, additional examples are given elsewhere in this review of how the University has continued to advance the breadth and depth of its educational activities, has strengthened its research activities and is forging major new strategic partnerships with industry in order to develop 5G mobile communication technologies that will have a significant impact on the daily lives of millions of people worldwide.

Widening participation and student support

The University recognises the need to increase and widen participation in higher education so that able students from any background are able to access the institution and enjoy the best possible student experience in order to succeed in graduate employment. The trend in widening participation at Surrey has to be set against a steady increase in entrance tariff which has moved from 326 tariff points in 2006/07 to 436 tariff points in 2012/13.

The University includes a Widening Participation (WP) KPI on its balanced scorecard. The recent trend in this KPI, which measures the percentage of students from lower socio-economic backgrounds, is shown below:

Chart 2 Widening participation

Students in NS-SEC categories 4-7*	2012/13	2011/12	2010/11	2009/10	2008/09
	%	%	%	%	%
Actual	27.6	27.4	28.8	23.1	28.0
HESA Location Adjusted Benchmark	N/A	24.4	26.4	25.0	27.9

* Higher Education Statistics Agency (HESA) Measure T1a

The above table shows that the University exceeded the benchmark for three of the four years prior to 2012/13. The HESA location adjusted benchmark for 2012/13 will not be available until early 2014, but the 2012/13 actual figure of 27.6% exceeds the University's 2014/15 Access Agreement target of 26.4% which the University has agreed with OFFA.

The University's Access Agreement can be found at <http://www.offa.org.uk/access-agreements/>. This:

- details performance against the HESA WP benchmarks (including the benchmark shown in Chart 2 above);
- describes the University's outreach activities; and
- explains the financial support that is available to students from lower income households.

The University's bursary schemes are delivered in conjunction with the National Scholarship Programme. In 2012/13 the University provided all first year full-time home/EU undergraduates with a household income of £25,000 or less an award worth £3,000. Students were able to take this either as a £3,000 discount on accommodation charges or as a £1,000 cash bursary and a £2,000 fee waiver. In addition, the University gave all first year full-time home/EU undergraduates with a household income of between £25,001 and £30,000 a package worth £1,500. It also made a commitment to give all home/EU undergraduates with a household income of £30,000 or less an equivalent level of financial support to that received in year one for all future years of study (except for the professional training year where those with a household income of £25,000 or less will receive a full fee waiver).

Bursaries totalling £1.3m were distributed to 452 first year undergraduates in 2012/13. A further £2.2m was distributed to 1,249 continuing students under the University's existing bursary schemes. The combined figure of £3.5m compared with a total of £3.2m distributed to 1,851 students in 2011/12.

The University's 2014/15 Access Agreement was submitted to OFFA in April 2013. Having reviewed the bursary schemes and consulted with Student Union representatives, the University has committed to maintaining the same levels of financial support in 2014/15. However, those students living in University accommodation in their first year will receive the full amount (£3,000 or £1,500 depending on household income) in the form of an accommodation discount.

In addition to the bursary schemes described above, the University offers a number of undergraduate scholarships. Whilst these are merit based and available to all undergraduate students, they do provide another means of helping talented students from low income households to attend the University. The total spent on undergraduate scholarships in 2012/13 was £2.1m. This included £0.7m on Chancellors Scholarships which were introduced for the first time in 2012/13.

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

The University offers a wide range of support to students with disabilities or specific learning difficulties to enable them to participate fully in University life and employs a number of disability advisors who can offer information to

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both current and prospective students and liaise with University departments, Student Finance England and external agencies for students.

Review of operations

Senior appointments

2012/13 saw some significant senior appointments and a further strengthening of the University's Executive Board.

On 1 October 2012 Professor Vince Emery joined the University as Pro-Vice-Chancellor (International Relations). Professor Emery previously held the post of Pro-Provost (Africa and the Middle East) at University College, London. He succeeded Professor Colin Grant who moved to the University of Bath.

In June 2013 the University announced that Professor Michael Kearney, Pro-Vice-Chancellor for REF, would take up the position of Deputy Vice-Chancellor (Research and Innovation) in 2013/14 following the retirement of Professor Stephen Williamson.

In March 2013 Professor Emery, together with Mr Mike Hounsell, Director of Marketing and Communications, joined the University's Executive Board in recognition of the increasing importance of the need to raise the profile of the University's brand and of its international activities in an increasingly competitive and global market.

Academic development and the student experience

Learning and teaching

The University recognises that course content is an important driver in a student's decision on where to study. As such, it continues to develop new courses and refresh existing ones at both undergraduate and postgraduate level. In 2012/13 it completed a review of postgraduate taught programmes, as a result of which a number of new programmes will be introduced for 2014/15. At undergraduate level, the University will introduce a liberal arts degree and a Sports & Exercise BSc, while 2013/14 sees the launch of the UK's first MBA catering specifically for the needs of the UK's expanding space industry.

Most significantly, and in line with the University's strategy for growth, the University announced in October 2012 its plans to open a new School of Veterinary Medicine. This will become one of only eight specialist Veterinary Schools in the UK and the only one south of London. The School will take its first cohort of students in 2014 and will open brand new purpose built facilities in 2015, with the capacity to house an annual intake of c. 120 students and in the region of 80 staff.

The University's five year undergraduate veterinary medicine programme will be unique and multi-disciplinary, with an emphasis on research, livestock medicine and pathology and the inclusion of modules designed to equip the vets of the future with key business skills. The School

will be built on the concept 'One Health – One Medicine', with the undergraduate programme fostering interdisciplinary collaborations to improve human and animal health. Included in the new facilities will be a state-of-the-art Clinical Skills Centre, made possible by a grant of £4.9m from HEFCE's Catalyst Fund. Combining live and simulation veterinary clinical skills training in a single facility, this will not only be used by undergraduate and postgraduate students but will also offer lifelong learning opportunities for practicing veterinary surgeons, veterinary nurses, para-professionals and clinical scientists.

As the University's courses evolve in response to changes in demand, so the University continues to develop the way in which it delivers its programmes. The University's new Virtual Learning Environment 'SurreyLearn' went live in August 2012. It is now being used by over 80% of staff and the feedback from staff and students has been extremely positive.

As students seek value for money from the higher undergraduate fee, there is an increasing focus within the sector on employability. Having led the rankings for graduate employment for many years, the University is now facing strong competition from other institutions and the latest HESA figures show Surrey in fifth position among 'traditionally defined' universities. Recognising the importance to employability of the University's highly respected Professional Training Year (PTY), the University commissioned an external review of the PTY in 2012/13. The final report, received in July 2013, confirmed that the scheme remained a strong selling point and was generally working well. At the same time, it made recommendations for increasing student take-up, broadening and strengthening employer relationships, and developing employability skills beyond the PTY (eg through the curriculum and with support from the Careers Service). These recommendations are now being developed into a formal implementation plan.

Student satisfaction

The 2013 National Student Survey saw the University achieving its highest ever overall rating, with 92% of students expressing satisfaction with the quality of their course. This represented a 2% rise in overall satisfaction from the previous year and saw the University rise six places to joint 9th. This compared with its position of joint 32nd just two years ago and 64th three years ago.

As was the case the previous year, the University saw rises in all seven areas: Teaching, Assessment & Feedback, Academic Support, Organisation & Management, Learning Resources, Personal Development and Overall Satisfaction. 13 subjects were ranked in the top 10 nationally, with a further 7 in the top 20.

Chart 3 National student survey

	2012/13	2011/12	2010/11	2009/10	2008/09
Overall Satisfaction	92%	90%	87%	82%	85%
Position	=9/136	=15/135	=32/129	=64/133	=39/133

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Student numbers

Applications, enrolments and student population

In line with its strategic focus on quality, the University planned for a reduction in its undergraduate applications for 2012/13 entry of approximately 24%. This compared with a national fall in applications of 9% (due in part to the number of students who accelerated entry to 2011/12 to avoid the tuition fee increase). The University recruited in line with plan and increased its average UCAS entry tariff from 431 to 436 points.

Chart 4 Undergraduate applications and enrolments (excluding clearing students)

	2012/13 Entry	2011/12 Entry	2010/11 Entry	2009/10 Entry	2008/09 Entry
Applications	17,125	22,788	20,427	17,087	15,019
Enrolments	2,082	2,938	2,898	2,643	2,425
Applications to Enrolments	8.23:1	7.76:1	7.05:1	6.47:1	6.19:1
Average UCAS Entry Tariff	436	431	405	391	372

The University maintained this focus on quality for 2013/14 entry and managed the risk of lower student numbers by improving the targeting and quality of its recruitment activities. It implemented the recommendations from a review of its UCAS Days (now renamed Applicant Days), invested in its digital platforms and updated other recruitment-facing marketing and branding collateral.

The University's enhanced reputation led to record attendance at its improved open days and an increase of over 30% in applications for 2013/14 undergraduate entry. Coupled with a successful adjustment and clearing campaign, the University has exceeded its planned level of undergraduate recruitment for 2013/14 and, once the data is finalised, expects to see a modest increase in its entry tariff.

Application rates from overseas applicants for entry to the University's 2012/13 postgraduate taught programmes were strong. However, the University saw a significant reduction in the conversion rate. Nationally, there was a marked decline in postgraduate taught admissions for 2012/13, influenced by negative publicity around the world arising from UK immigration policy and its enforcement by the UK border agency, including the removal of post-study visas and revocation of London Metropolitan University's licence to sponsor overseas students. In Surrey's case increased academic standards and the University's decision to raise its English language requirements are also considered to have had an impact. The University carried out a strategic review of PGT recruitment with the aim of re-focusing its recruitment activities for future years and the review recommendations are now in implementation.

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

Chart 5 Student numbers (headcount)

	2012/13	2011/12	2010/11	2009/10	2008/09
Undergraduate	9,842	10,878	10,411	9,996	9,652
Postgraduate Taught	2,820	3,157	3,099	3,991	3,707
Postgraduate Research	1,214	1,174	1,268	1,200	1,082
Total	13,876	15,209	14,778	15,187	14,441
Overseas Students included above	3,206	3,649	3,353	2,979	2,586

Research

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

Highlights of the University's research activities can be found in the 2013 Annual Review at www.surrey.ac.uk/about/corporate/documents

Research income grew by just under 5% in 2012/13 to £28.8m (2011/12: £27.5m). Whilst this was a move in the right direction, it reflects a disappointingly slow recovery after two years of virtually static income.

New awards announced during 2012/13 totalled £32.8m (2011/12: £26.5m). Although significant pressures remain with regard to sustaining and growing research income, this was an encouraging result.

The total value of bids submitted during 2012/13 was £159m. This was significantly higher than in any previous year and all four academic faculties exceeded their three year averages. There is, however, growing evidence that success rates in some areas are falling. The position will be monitored closely and any necessary corrective action taken.

Chart 6 Research bids, awards & extensions

	2012/13	2011/12	2010/11	2009/10	2008/09
	£m	£m	£m	£m	£m
Research Awards and Extensions	33	26	23	39	30
Research Bids	159	117	118	106	117

As mentioned earlier in this review, the 2014 Research Excellence Framework (REF) will determine the allocation of government's block funding for research from 2015/16. The REF, which succeeds the Research Assessment Exercise (last run in 2008), is perhaps the most significant measure in defining a leading research profile. Considerable time and resource has been devoted to the University's preparations for submission which will include details of research outputs and, for the first time, case studies relating to the impact of research undertaken over the last

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few years. In its submission, the University will be providing many excellent examples of how its research has impacted both nationally and internationally.

Enterprise and innovation

2012/13 was a significant year for the University's Enterprise and Innovation programme.

In October 2012 the University announced the receipt of a grant of nearly £12m from the UK Research Partnership Investment Fund (UKRPIF). Together with co-investment of approximately £25m from key telecommunications and technology companies, this will enable the University to establish the UK's foremost centre for the development of future 5G mobile communications. Following a bid to HEFCE's Catalyst Fund, the University learned in August 2013 that it was to receive a further grant of £3m to build an innovation gateway for connected digital economy and 5G mobile technologies. Forming part of a government initiative to stimulate the UK economy, the £3m Catalyst funding will be matched by c. £9m of funding from mobile phone operators and other industry partners.

The University is also playing a key role in the UK space industry drive to lead the world in the manufacture of small satellites and in the commercial opportunities arising from the use of satellite data and communications. February 2013 saw the successful launch into space of STRaND-1, the world's first nanosatellite to contain a smartphone. Developed by the University of Surrey's Surrey Space Centre and Surrey Satellite Technology Limited (the University's former subsidiary company), STRaND-1 (Surrey Training Research and Nanosatellite Demonstrator-1) is a training and demonstration mission designed to test commercial off-the-shelf technologies in space.

With its work in the mobile telecommunications field and the space industry placing the University at the centre of two economic sectors of national importance, the University continues to develop its current students to be the next generation of innovators. For example, Surrey's Business School is now spearheading the development of new courses in "Agile Innovation" where students will be given innovation and management training in conjunction with courses covering Space and Mobile Communications Technology.

2012/13 also saw a further significant increase in Surrey's business incubation activity, with an additional £9m of funding raised from the Surrey 100 Business Angel Club, making a total of £19m since the club's inception. Companies supported include start-up companies based on the Surrey Research Park and others from the University's wider network of partners. Surrey continues to retain its place as one of the top performing universities in the UK in terms of provision of such start-up finance, with only Cambridge, Oxford and Imperial raising larger amounts.

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. A copy of the strategy can be found at: <http://www.surrey.ac.uk/internationalrelations/files/International%20strategy-2013%20Edition.pdf>

Under the leadership of the new Pro-Vice-Chancellor (International Relations), the University is delivering its international strategy by:

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

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

Following the renewal in January 2012 of the agreement with Santander Universities Global Division for a further three years, a range of new initiatives were deployed in 2012/13. These included scholarships for graduates and postgraduates, international and national mobility grants for students and staff, and support to the UGPN.

The Surrey International Study Centre (SISC), which is run by Study Group on the University's campus, continues to play a key role in preparing international students for university life and study. In 2012/13 218 students entered SISC's International Foundation Year (IFY) which offers a direct pathway to undergraduate study at the University of Surrey. Although this figure was slightly lower than the previous year (249), it exceeded the 2010/11 figure of 159. The 78% conversion rate to Surrey degree programmes was also lower than the previous year (90%), but exceeded the 75% target.

In late 2012 the Quality Assurance Agency (QAA) carried out a review of UK Transnational Education in China. This included a review of Surrey International Institute (SII), the University's partnership with Dongbei University of Finance and Economics. The QAA highlighted a number of positive features in the operation of SII including rigorous due diligence procedures, the positive impact on the student

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experience of utilising Surrey staff based at SII to deliver the programmes and the approach taken to enhance the development of students' proficiency in the English language. The QAA's endorsement of SII was complemented by a positive Erasmus audit during 2012/13.

Stakeholder relationships

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

Student engagement

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

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

Staff engagement

2012/13 saw further delivery against the HR Strategy with significant achievements on a broad front.

The University has continued to strengthen its academic workforce. Since 1 January 2012 it has recruited nearly 120 new academic staff who meet the University's quality threshold for REF submission. In 2012/13 it achieved an ATHENA Swan bronze award in recognition of its success in developing employment practices to further and support the careers of women in science, technology, engineering, mathematics and medicine (STEMM) departments.

Improvements in health and safety were recognised through achievement of a bronze level ROSPA Award, whilst the University was also very active in improving staff wellbeing. With the University's support, over 300 staff in 46 teams participated in the Global Corporate Challenge, an international workplace fitness programme, which ran for three months from July 2013.

The Staff Development Team continued its flagship programmes including the new Academic Head of Department programme. It also supported those impacted by organisational restructuring, both in the pre and post change periods, undertaking a range of bespoke team building events and coaching interventions.

The 2013 staff satisfaction survey received a 76% response rate, the highest recorded in the sector for an all staff scheme. This reflected a 3% rise on the previous year and a 14% rise in the past two years. It was slightly disappointing that the staff engagement score (as measured by six 'core' engagement questions within the survey) fell by 1% to 68% and the University has developed action plans at both an institutional and a local level in response to staff feedback.

Staff are encouraged to participate in formal and informal consultations at University, faculty and departmental level, often through membership of formal committees. Members of senior management meet regularly with representatives of trade unions who represent the interests of staff through consultative committees. Staff are advised in accordance with the University's agreed employment policies when matters affect their employment directly.

Community engagement

The University continues to have a significant involvement in its local community. Local residents are encouraged to visit the University and use its facilities and senior management meets regularly with representatives from local communities and associations to discuss regional engagement with the University's activities and other areas of common interest.

Facilities open to the general public include the state-of-the-art sporting facilities at Surrey Sports Park (opened in 2010) and the Ivy Theatre (opened in 2011). The latter hosts a varied programme of public performances by students of the Guildford School of Acting (now fully incorporated within the University).

During 2012/13 Surrey Sports Park was involved in a range of post-Olympic activity, running free community focused 'get involved' events. In Spring 2013, Surrey Sports Park became the official sponsor of the Surrey Youth Games, the most important youth sports event in the region, having hosted the games since 2010.

The University has also continued to show its support for the local community through its engagement with the local 'Employment Works' scheme. 2012/13 marked the third year of the University's involvement in the scheme which sees the University providing placements across campus to students with learning disabilities. This gives the participants the opportunity to develop skills and hands-on experience in the workplace that will improve their future employability.

Environmental sustainability

The University continues to make steady progress with the implementation of the Eco-Campus Environmental Management System (EMS). Following its achievement of the bronze award in March 2012, the University attained the silver award in July 2013. It is on track to achieve the gold award in 2014 and the platinum award by 2015, with the option to seek accreditation under the international standard ISO14001.

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Further recognition of the University's success in improving its environmental performance came with the results of the 2013 People & Planet Green League, the country's only comprehensive and independent ranking of the environmental and ethical performance of all universities. Following a 67 place rise in the 2012 League, Surrey rose a further 13 places in 2013 to 34th (out of 143 universities) and received a First Class Award.

The University was particularly pleased to have been awarded full marks in the Green League's 'Sustainable Food' category, rewarding the hard work that went into gaining the Food for Life accreditation on campus. Surrey also won one point for the first time in the 'Education & Learning' category. Although there is still a lot of work to be done in this area, this recognises the progress that has been made on embedding sustainability into the University's curriculum.

The University continues to make improvements in its waste management. Alongside the introduction of a new contract with its local waste contractor, it has engaged with the British Heart Foundation to raise valuable funds for charity. The British Heart Foundation returned to campus for a second time at the end of the 2012/13 academic year, encouraging students to donate unwanted items (eg books, clothes, kitchen equipment and electricals). A total of 2,531 bags were collected, raising just over £150,000 and putting the University in 2nd place in the rankings of those universities who take part in the project. Central & Residential Services have also donated large quantities of furniture to the British Heart Foundation as part of on-going refurbishment programmes.

Financial review

Income and expenditure

Consolidated results

The University achieved a consolidated surplus for 2012/13 of £3.2m. Although lower than the previous year's figure of £6.8m, this was in line with plan.

Consolidated income rose by £2.4m to £213.7m (2011/12: £211.3m).

Core University activities

Core activities include the activities of Surrey Sports Park Limited. They exclude the activities of the Surrey Research Park.

Having achieved in 2010/11 (one year ahead of plan) its stated aim to break even on core activities, the University set itself the target of achieving an annual consolidated net surplus of at least 5% by 2016/17. However, for strategic reasons, it planned for a deficit in 2012/13 on its core activities. This reflected the strategic decisions taken to focus on raising the quality of the undergraduate intake (knowing that this would have a short term impact on student numbers) and to invest in further academic posts

to improve student:staff ratios and to build capacity ahead of the Research Excellence Framework.

In line with this strategy, the University's core activities made a loss in 2012/13 of £2.1m, after allowing for a £1.3m surplus on property disposals. This compared with the previous year's surplus on core activities of £1.2m.

Total income from core activities grew by a relatively modest £2.6m (1.3%) to £204.2m. Funding Council Grants fell by £6.0m (13.0%) as funding shifted from the state to the student under the new undergraduate funding regime. Tuition fees and educational grant income rose by a total of £7.8m (9.4%) to £90.7m with income from non-EU students rising £3.4m (9.9%) to £37.9m. Research income grew by £1.3m (4.6%) to £28.8m, as described earlier in this review.

Expenditure on core activities rose by £7.1m (3.5%) to £207.7m. Staff costs (excluding restructuring costs) rose by £6.7m (6.2%) to £115.8m, reflecting the investment in academic staff described above.

Foundation Fund

The Surrey Research Park, which is the Foundation Fund's main asset, maintained good occupancy levels and a strong income stream despite the continuing weak economy. Income for the year totalled £9.5m. The surplus before interest rose from £6.4m in 2011/12 to £6.9m in 2012/13. After allowing for a change in the basis for allocation of interest costs between the Foundation Fund and the University's core activities, the 2012/13 net surplus was £5.2m (2011/12: £5.6m).

Balance sheet

Consolidated net assets rose in 2012/13 by £9.4m (4.9%) to £198.2m, helped by positive movements in both pension fund and Research Park valuations.

Chart 7 Movement in consolidated net assets 2012/13

	£m
Consolidated Net Assets at 31 July 2012	188.8
Surplus for the Year	3.2
Actuarial Gains on Pension Schemes (LGPS)	6.1
Investment Property Revaluation	2.0
Other Movements	(1.9)
Consolidated Net Assets at 31 July 2013	198.2

Pension fund actuarial gains of £6.1m reflected the strong performance of stock markets in 2012/13. The overall reduction in the balance sheet pension liability was £5.5m. This represented a decrease in the liability for the Surrey County Council LGPS (which covers approximately 25% of the workforce) from £32.0m to £26.5m. The balance sheet liability for the London Pensions Fund Authority LGPS (which covers a small number of former employees) remained at £0.9m.

The recent trend in the pension liability is shown below:

Operating and financial review (continued)

Chart 8 Net pension liability at 31 July

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Net Pension Liability	27	33	21	29	34

It should be noted that the liability in respect of the Universities Superannuation Scheme, which covers the majority of employees (including academic staff), remains off balance sheet as the University cannot separately identify its share of the underlying assets and liabilities.

The value of completed investment properties on the Research Park rose by £2.8m to £79.2m. This reflected an upwards revaluation adjustment of £2.0m and capital additions of £0.8m. Despite the pro-active approach taken by the Research Park management team to maintain occupancy levels, the value of the Research Park remains well below its 2007 peak of £101m. The recent trend in investment property values is shown below:

Chart 9 Completed investment properties at 31 July

	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Completed Investment Properties	79	76	*81	76	75

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

Cash flow

The Consolidated Cash Flow Statement on page 19 shows a fall in cash in the year of £19.2m, which was broadly in line with plan. When combined with a reduction in short term investments of £3.0m, this gave a decrease in available cash of £22.2m to £43.1m as shown below:

Chart 10 Movement in consolidated available cash 2012/13

	£m
Consolidated Available Cash at 31 July 2012	65.3
Net Cash Inflow from Core Operating Activities	5.5
Foundation Fund Surplus	5.2
Capital Expenditure – University	(20.9)
Capital Expenditure – Research Park	(2.1)
Capital Grants Received	2.9
Financing (Net Interest and Capital Repayments)	(12.3)
Other Movements	(0.5)
Consolidated Available Cash at 31 July 2013	43.1

Offset against the available cash of £43.1m were borrowings of £150.0m, giving net debt at 31 July 2013 of £106.9m. This reflected a £15.7m rise in net debt in the year. Despite positive movements on the pension liability

and investment property values, the ratio of net debt to total funds rose from 48.3% at 31 July 2012 to 53.9% at 31 July 2013 due to the fall in cash balances.

Capital investment

Additions to tangible fixed assets in the year totalled £24.2m (2011/12: £17.4m).

2012/13 saw further investment in student accommodation with the construction of a 212 unit residences block on the Manor Park campus. This was completed, at a cost of just under £10m, in time for the 2013/14 academic year and brought to 1,750 the number of units that have been built on the Manor Park campus since development began in 2005. There is outline planning permission in place for a further 2,250 units.

The pace of capital investment will increase considerably in the next two years as the University undertakes the construction of its new School of Veterinary Medicine on the Manor Park campus and the 5G Innovation Centre on the Stag Hill campus.

Consolidated trends

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

These reflect the University's strategy to focus in the short term on improving the quality of its student intake and on investing in high quality academic staff in order to achieve longer term growth.

Treasury management

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

As at 31 July 2013 the University had outstanding borrowings and finance lease obligations of £150.0m (2012: £156.6m). This figure included £11.1m in respect of finance lease obligations relating to student residences.

The University uses hedging instruments to limit the risk of interest rate rises. The University's policy is to hedge at least 70% of its total term debt, which allows for cash balances to act as a natural hedge against a portion of the debt. The fair value of interest rate swaps at 31 July 2013 was £21.4m in favour of the counterparty (2012: £28.8m in favour of the counterparty). This £7.4m movement in the University's favour reflected a rise in long term interest rates in the past year.

The University recognises that it has a relatively high gearing ratio, but debt continues to be secured largely against strong revenue streams, primarily from student residences and the Research Park. The University also benefits from very competitive margins on its borrowings and extremely light financial covenants. The weighted average cost of capital at 31 July 2013 was 4.0% (2012: 3.6%).

Operating and financial review (continued)

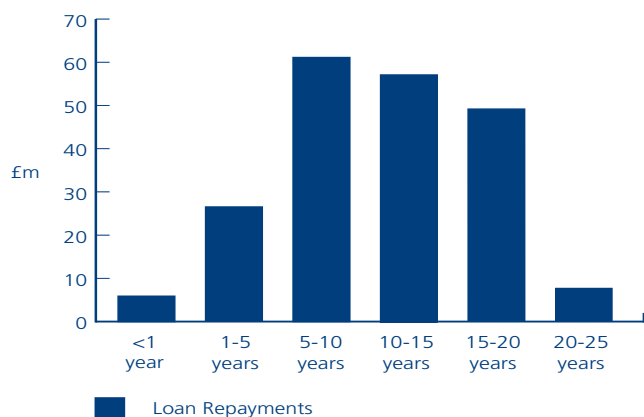
The University's Financial Strategy states that it will consider extending its external borrowings to support further growth on the Research Park and other projects where there is a robust business plan and borrowing costs can be more than covered by reliably identified sources of income over the life of the project.

In line with the above strategy, the University entered into a £60m, 20 year, facility with Lloyds Bank in June 2013 to provide financing for the Vet School project and further development on the Surrey Research Park. The lender's margin is higher than on the University's existing borrowings, although the loan agreement is still relatively covenant light. Moreover, the all-in interest rate on the 50% of the loan on which the University has fixed the rate (4.65%) is broadly in line with the rate achieved on the University's previous financing in 2009. This reflects the downward trend in long-term interest rates in recent years. The decision to fix the interest rate on 50% of the new loan ensures ongoing compliance with the hedging policy described above.

In the absence of capital grants from HEFCE or other sources, any capital expenditure that does not fit the criteria for external financing will be funded from internally generated operating cash flows.

The loan repayment profile including the new £60m loan facility, as at 31 July 2013, is shown below:

Chart 11 Loan repayment profile



The main objective in making investments is to achieve a reasonable rate of return whilst minimising risk. In view of ongoing uncertainty in the banking sector, the University has continued to adopt a prudent approach in respect of its short term investments. It has a standard minimum acceptable credit rating of A+ (Standard & Poor's), with a lower minimum rating of A- for six institutions categorised by Standard and Poor's as being of 'high systemic importance' in the UK. The credit limits for these six institutions are higher than for other deposit takers, but there are restrictions on the amounts that can be held with maturity dates of more than three and nine months ahead.

The University places some deposits direct with its banking partners and others via its brokers and cash managers. During 2012/13 the University continued its strategy of

investing in up to 12 month deposits, with deposits planned so as to ensure that funds mature on a regular basis. This assists in maximising returns, whilst ensuring that funds are readily available should they be needed. The weighted average return on short term deposits for 2012/13 was 1.47% (2011/12: 1.40%), which compared favourably with the average three month LIBOR rate of 0.55% (2011/12: 0.97%).

Risks and uncertainties

As explained in the Corporate Governance Statement on pages 12 and 13, the University's Executive Board is responsible for identifying and evaluating the major risks faced by the University and for ensuring that appropriate actions are taken to mitigate those risks. The risk process is overseen by the Audit Committee and the high-level risk register forms the basis of the internal audit programme. During 2012/13 the University reviewed and updated its Risk Management Policy and Risk Appetite Statement to ensure they remain relevant to the University's strategy in today's more challenging operating environment.

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

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

- research quality
- student numbers / quality of students and access agreement targets
- student experience and outcomes
- delivery of financial surpluses

The key actions to be taken in 2013/14 to manage these risks are described below.

Research quality

Recognition of the quality of the University's research is the major challenge facing Surrey in its bid to improve its position in the World League Tables. An increase in the academic headcount of c. 25% over the three years to 2013/14 reflects the University's success in attracting world-leading and internationally excellent researchers. This will contribute to REF 2014 and REF 2020 goals, as well as increasing international recognition of the University's research.

The University will continue the drive to ensure that all research-active staff meet appraisal targets for publication in Quartile 1 journals (or equivalent) and that outputs are correctly captured for open-access. It will also develop a formal action plan to maximise and communicate opportunities to increase citation counts.

Operating and financial review (continued)

Recognising the need to recruit the appropriate number and quality of postgraduate research students (PGRs) to support research activity, the University will formally articulate its PGR recruitment strategy.

Student numbers / quality of students and access agreement targets

The University is focused on removing barriers to growth in the student population and is looking to technological solutions to manage pressure on laboratories and teaching timetables.

Building on the work undertaken in 2012/13 to increase market insight, the University will formally articulate in the coming months new strategies for undergraduate, postgraduate taught and postgraduate research recruitment. These strategies will reflect a number of improvements that have already been made, together with new tools and processes to be implemented in the coming year and beyond. These include the launch in October 2013 of the first phase of a new postgraduate portal including a simplified programme application selection process, together with implementation of a new prospect management system in the first half of 2014.

The University recognises the risk that the drive to increase entrance standards could impact negatively on widening participation. It continues to set itself challenging but realistic targets of maintaining the key HESA widening participation benchmarks and has set targets to improve evaluation of outreach activities as a mechanism for ensuring that they are focused effectively on raising the aspiration and attainment of widening participation students.

Student experience and outcomes

As described earlier in this review, the University has achieved significant improvements in its National Student Survey scores in recent years and attention is now focused on sustaining performance.

In relation to the academic experience, the University is aiming for further improvements in progression rates following the embedding of the Code of Practice on Assessment. It remains firmly focused on maintaining recent improvements in assessment and feedback which for Surrey, as for most universities, is still the lowest scoring area within the National Student Survey.

In response to the increased focus on employability which has resulted from the higher undergraduate fee, the University will implement the recommendations from the 2012/13 Professional Training Year review and articulate and deliver a revised strategy for the Careers Service.

The new undergraduate fee regime has also raised student expectations in terms of their physical environment. Despite pressure on capital budgets, the University remains committed to reviewing, and upgrading where necessary, teaching rooms and laboratory facilities.

Delivery of financial surpluses

Given the current uncertainties in the HE funding environment, the University is firmly focused on maintaining a sustainable medium term financial plan and on ensuring that it is able to mitigate against the adverse impact of any potential or actual income shortfall.

The University's ability to manage its cost base over the longer term would be seriously threatened by any further rise in pension contributions. The 2014 triennial valuation of the USS is likely to be a particular challenge and the University will continue to work with the sector to ensure the scheme is sustainable in the longer term.

Over recent years, the University has developed a more sustained approach to value for money and has shifted the focus towards more faculty/departmental cross-cutting activity. Up-front efficiency savings have been included in 2013/14 budgets. However, the University has identified scope for significant additional value for money activity which will be prioritised in accordance with agreed criteria. The University continues, wherever possible, to reduce its support costs to enable continued investment in frontline academic activity and the student experience.

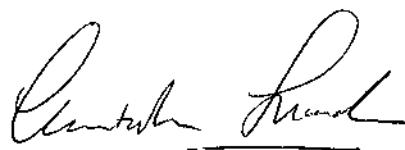
Summary

The University has had another successful year. It has significantly strengthened its position in the league tables and achieved a financial surplus in line with plan.

The strategic decisions the University has taken to focus on quality and invest for future growth are already bearing fruit. The University has significantly increased the size of its 2013/14 undergraduate intake whilst maintaining entry standards.

Interest is high in the new School of Veterinary Medicine which will welcome its first undergraduate student intake in 2014 and move into new state-of-the-art purpose built facilities in 2015. At the same time, the University's establishment of the 5G Innovation Centre positions it as one of the leading universities in the government's drive to strengthen the contribution of the research base to economic growth.

Whilst changes to the undergraduate funding regime, cuts in government capital funding and uncertainties regarding government immigration policies continue to present challenges, the University is well positioned to achieve its vision of becoming a leading national and international university by 2017.



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

Corporate governance

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

Summary of the University's structure of corporate governance

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

In accordance with the requirements of its Charter and Statutes, the University's Council comprises a majority of external members, together with ex officio and elected University representatives. The role of the Chair of the Council is separated from the role of the University's Chief Executive, the President and Vice-Chancellor.

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

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

The primary responsibilities of the Council are:

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

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

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

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

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

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

Statement of internal control

The University Council, as governing body, is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate governance (continued)

The key elements of the University's system of internal control include the following:

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

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

The University Council is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, and that it has been in place for the year ended 31 July 2013 and up to the date of approval of the financial statements. The process is regularly reviewed by the Council and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for Higher Education.

Responsibilities of the Council of the University of Surrey

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

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

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

- suitable accounting policies are selected and consistently applied;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University and the Group will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps:

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

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

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

We have audited the Group and University financial statements (the "financial statements") of the University of Surrey for the year ended 31st July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Council and auditor

As explained more fully in the Statement of Responsibilities of the Council set out on page 14 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31st July 2013 and of the Group's income and expenditure, recognised

gains and losses and cash flows for the year then ended;

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

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

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



Chris Wilson

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

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

27 November 2013

Consolidated income and expenditure account for the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Income			
Funding council grants	2	40,157	46,143
Tuition fees and education grants	3	90,717	82,933
Research grants and contracts	4	28,811	27,536
Other income	5	43,656	44,097
Endowment and investment income	6	10,326	10,641
Total income		213,667	211,350
Expenditure			
Staff costs - operational	7	115,843	109,084
Staff costs - restructuring	7	483	2,115
Other operating expenses	10	72,546	71,029
Depreciation	10	15,950	15,776
Interest and other finance costs	9	7,197	6,736
Total expenditure	10	212,019	204,740
Surplus before taxation and exceptional items		1,648	6,610
Taxation	11a	(44)	(119)
Surplus before exceptional items		1,604	6,491
Exceptional items - surplus on disposal of building	12	1,290	-
Surplus after taxation and exceptional items	13	2,894	6,491
Transfer from accumulated income in endowment funds	25	276	324
Surplus for the year retained within general reserves		3,170	6,815

All income and expenditure relates to continuing operations.

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

Statement of consolidated total recognised gains and losses for the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Surplus for the year after taxation and exceptional items		2,894	6,491
New endowments	25	159	174
Revaluation of permanent endowment assets	25	2,008	(6,096)
Increase in value of expendable endowment assets	25	84	2
Unrealised surplus on revaluation of fixed asset investments	27	308	44
Realised revaluation surplus on sale of investments	27	(51)	(76)
Actuarial gains/(losses) in respect of pension schemes		6,091	(11,604)
Deferred tax on actuarial gains	27	14	-
Total recognised gains/(losses) relating to the year		<u>11,507</u>	<u>(11,065)</u>
Reconciliation			
Opening reserves and endowments		132,236	143,301
Total recognised gains/(losses) for the year		<u>11,507</u>	<u>(11,065)</u>
Closing reserves and endowments		<u>143,743</u>	<u>132,236</u>

Balance sheets as at 31 July 2013

	Note	Consolidated		University	
		2013 £000	2012 £000	2013 £000	2012 £000
Fixed assets					
Tangible assets	14	284,925	276,816	285,123	277,021
Investments	15	45,046	41,891	45,963	42,748
		329,971	318,707	331,086	319,769
Endowment asset investments	16	44,179	42,204	44,179	42,204
Current assets					
Stocks and stores in hand		496	498	456	467
Assets held for resale	17	394	394	394	394
Debtors	18	19,036	19,094	19,034	18,637
Investments	19	25,059	28,059	25,059	28,059
Cash at bank and in hand		18,041	37,317	17,444	36,604
		63,026	85,362	62,387	84,161
Creditors : amounts falling due within one year	20	(66,757)	(73,529)	(66,553)	(72,606)
Net current (liabilities)/assets		(3,731)	11,833	(4,166)	11,555
Total assets less current liabilities		370,419	372,744	371,099	373,528
Creditors : amounts falling due after more than one year	21	(143,378)	(149,488)	(143,290)	(149,386)
Less: Provisions for liabilities and charges	23	(1,437)	(1,552)	(1,437)	(1,552)
Total net assets excluding pension liability		225,604	221,704	226,372	222,590
Pension liability		(27,422)	(32,925)	(27,368)	(32,825)
Total net assets including pension liability		198,182	188,779	199,004	189,765
Deferred capital grants	24	54,439	56,543	54,439	56,543
Endowments					
Expendable	25	2,562	2,598	2,562	2,598
Permanent	25	41,617	39,606	41,617	39,606
		44,179	42,204	44,179	42,204
Reserves	27				
Income and expenditure account excluding pension reserve		126,490	122,718	127,258	123,604
Pension reserve		(27,422)	(32,925)	(27,368)	(32,825)
Income and expenditure account including pension reserve		99,068	89,793	99,890	90,779
Revaluation reserve		496	239	496	239
		99,564	90,032	100,386	91,018
Total funds		198,182	188,779	199,004	189,765

The financial statements and notes on pages 16 to 47 were approved by Council on 21 November 2013 and signed on its behalf by:



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



Jim Glover
Chairman of Council

Consolidated cash flow statement for the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Net cash inflow from operating activities	28	5,479	24,863
Returns on investments and servicing of finance	29	(588)	181
Taxation		(70)	(10)
Capital expenditure and financial investment	30	(20,179)	(17,747)
Management of liquid resources	31	3,000	(2,000)
Financing	32	(6,918)	(6,121)
Decrease in cash in the year	33	<u>(19,276)</u>	<u>(834)</u>

	2012/13 £000	2011/12 £000
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	(19,276)	(834)
Cash inflow from increase in loans	(250)	(450)
Repayment of long term loans	6,693	5,752
New finance leases	(328)	-
Capital element of finance lease payments	475	819
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<u>(3,000)</u>	<u>2,000</u>
Change in net funds	(15,686)	7,287
Net debt at 1 August	(91,179)	(98,466)
Net debt at 31 July	33	<u>(106,865)</u>

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education 2007* and in accordance with other applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Basis of consolidation

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

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

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

Recognition of income

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

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

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

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

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

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Recognition of income (continued)

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

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

Pension schemes

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

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

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

The 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 employees of certain subsidiary companies. Contributions are charged in the income and expenditure account as they become payable in accordance with the scheme rules.

Agency arrangements

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

Tangible fixed assets

a. Land and buildings

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

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

b. Equipment

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

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

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

Fixed asset impairments

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

Assets funded by specific grants

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

Leased assets

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

Leasing agreements that transfer to the University substantially all of the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful economic lives of equivalent owned assets.

Maintenance of premises

The University has a five year rolling long term maintenance plan which forms the basis of the ongoing maintenance of the estate. Expenditure on long term maintenance which does not meet the FRS15 criteria for capitalisation, and expenditure on all routine corrective maintenance, is charged to the income and expenditure account as incurred.

Investments

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

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

Stocks

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

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

Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly Schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1, Schedule 6 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 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

The University's subsidiary companies are subject to corporation tax in the same way as any commercial organisation.

Deferred taxation

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

Financial instruments

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

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

Intra-group transactions

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

Research and development

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

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Foreign currency translation

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

Accounting for charitable donations

a. Unrestricted donations

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

b. Endowment funds

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

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

c. Donations for fixed assets

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

d. Gifts in kind, including donated tangible fixed assets

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

e. Heritage assets

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

Provisions, contingent liabilities and contingent assets

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

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

Notes to the financial statements (continued)

2 Funding council grants

	Consolidated	
	2012/13	2011/12
	£000	£000
Recurrent grant		
Teaching	17,104	22,864
Research	15,603	15,614
	<u>32,707</u>	<u>38,478</u>
Specific grants		
Higher Education Innovation Fund	2,675	2,803
Other	865	756
Deferred capital grants released in year (note 24)		
Building	2,267	2,178
Equipment	1,643	1,928
Total grants from funding councils	<u>40,157</u>	<u>46,143</u>

3 Tuition fees and education grants

	Consolidated	
	2012/13	2011/12
	£000	£000
UK & EU undergraduates	24,725	19,922
UK & EU postgraduates	8,942	8,745
Non-EU students	37,927	34,467
Non-credit bearing courses	2,878	2,975
Nurse training contract	13,345	13,123
Research training support grants	2,900	3,701
	<u>90,717</u>	<u>82,933</u>

4 Research grants and contracts

	Consolidated	
	2012/13	2011/12
	£000	£000
Research councils	10,652	10,673
UK based charities	1,309	1,513
UK government, health and hospital authorities	2,047	1,826
UK industry and commerce	1,784	1,775
EU bodies	11,891	11,339
Other grants and contracts	1,128	410
	<u>28,811</u>	<u>27,536</u>

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

	Consolidated	
	2012/13	2011/12
	£000	£000
Residences, catering and conferences	25,196	26,670
Other services rendered	3,385	3,146
Released from deferred capital grants (note 24)	144	129
Released from deferred studentships	5,613	5,174
Income from use of University facilities	5,680	5,123
Other income	3,638	3,855
	<u>43,656</u>	<u>44,097</u>

6 Endowment and investment income

	Consolidated	
	2012/13	2011/12
	£000	£000
Income from expendable endowments (note 25)	44	42
Income from permanent endowments (note 25)	9,322	9,563
Income from short and long term investments	960	1,036
	<u>10,326</u>	<u>10,641</u>

7 Staff

	Consolidated	
	2012/13	2011/12
	£000	£000
Staff costs - operational:		
Wages and salaries	94,341	89,168
Social security costs	7,627	7,147
Other pension costs (note 38)	13,875	12,769
	<u>115,843</u>	<u>109,084</u>
Staff costs - restructuring	483	2,115
	<u>116,326</u>	<u>111,199</u>

	Consolidated	
	2012/13	2011/12
	Number	Number
Full time equivalent staff numbers:		
Research and teaching	1,002	953
Professional	957	987
Technical and experimental	105	102
Operational	345	349
Other	12	11
	<u>2,421</u>	<u>2,402</u>

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

	2012/13	2011/12
	£000	£000
Emoluments of President and Vice-Chancellor: Salary and benefits before pension allowance	329	320
Allowance in lieu of pension contributions	47	23
	376	343
Pension contributions to USS	-	23
	376	366

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

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

	2012/13	2011/12
	Consolidated	
Remuneration band	Number of Employees	
£100,001- £110,000	15	6
£110,001- £120,000	8	8
£120,001- £130,000	9	5
£130,001- £140,000	2	3
£140,001- £150,000	2	2
£150,001- £160,000	-	3
£160,001- £170,000	4	2
£200,001- £210,000	1	-
	41	29

These bands include the annual emoluments of staff who joined the University during 2012/13 although actual payments were pro rata to the number of months employed.

Compensation for loss of office of £46,000 was paid in respect of higher paid staff in 2012/13 (2011/12: £146,000).

9 Interest and other finance costs

	Consolidated	
	2012/13	2011/12
	£000	£000
On bank loans and other loans:		
Loans wholly repayable within five years	396	475
Loans not wholly repayable within five years	5,105	4,858
	5,501	5,333
On finance leases	722	767
Net charge on pension scheme	943	590
Other interest payable	31	46
Total	7,197	6,736

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

	Consolidated	
	2012/13	2011/12
	£000	£000
Surplus before taxation	2,938	6,610
Surplus multiplied by standard rate of corporation tax in the UK of 23.67% (2011/12: 25.33%)	695	1,674
Factors affecting charge:		
University and Foundation Fund surplus exempt from tax	(663)	(1,616)
Subsidiary's profit exempt from tax	-	(35)
Adjustment for small company rate @ 20% (2011/12: 20%)	(7)	(11)
Accelerated capital allowances and other timing differences	-	13
Utilisation of tax losses by subsidiary	-	(17)
Adjustment in respect of prior periods for subsidiary	4	18
Tax charged on profits earned overseas	2	100
Other	13	(7)
Total current tax charge (note 11a)	44	119

12 Exceptional items

	Consolidated	
	2012/13	2011/12
	£000	£000
Proceeds from insurance claim	1,485	-
Net book value of building	(18)	-
Other disposal costs	(177)	-
Surplus on disposal of building	1,290	-

Exceptional items relate to the demolition of an accommodation block due to irreparable subsidence.

13 Surplus for the year after taxation and exceptional items

	Consolidated	
	2012/13	2011/12
	£000	£000
The surplus for the year after taxation and exceptional items is made up as follows:		
University (deficit)/surplus (excluding Foundation Fund)	(2,423)	759
Foundation Fund surplus	5,222	5,621
Unconsolidated surplus	2,799	6,380
Net surpluses retained by subsidiaries	150	177
Balances eliminated on consolidation	(55)	(66)
	2,894	6,491

Notes to the financial statements (continued)

14 Tangible fixed assets (continued)

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

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Net book value				
Land & buildings	11,417	11,714	11,417	11,714
Equipment	389	237	389	237
	11,806	11,951	11,806	11,951
Depreciation charge for year				
Land & buildings	297	297	297	297
Equipment	176	340	176	340
	473	637	473	637

15 Fixed asset investments

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Subsidiary companies	-	-	1,398	1,404
Investments in spinouts	482	486	1	6
Investment: Research Park	41,514	39,298	41,514	39,298
Listed investments	2,654	1,731	2,654	1,731
Cash held as part of investment portfolio	170	79	170	79
Other investments	226	297	226	230
	45,046	41,891	45,963	42,748

Significant shareholdings in subsidiaries

Name	Nature of business	Class of share	% held
Surrey Sports Park Limited	Sports park	Ordinary	100
UniSGrist Limited	Grants to entrepreneurs	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100

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

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

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Balance at 1 August	42,204	48,448	42,204	48,091
Net disposals	(691)	(227)	(691)	(230)
Increase/(decrease) in market value of investments	2,092	(6,094)	2,092	(6,092)
Transfer from The Guildford School of Acting Conservatoire	-	-	-	352
Increase in cash balances held for endowment funds	574	77	574	83
Balance at 31 July	44,179	42,204	44,179	42,204
Represented by:				
Foundation Fund land and buildings	41,207	39,242	41,207	39,242
Listed investments	1,080	1,644	1,080	1,644
Cash held as part of investment portfolio	74	94	74	94
Cash held at bank for endowment funds	1,818	1,224	1,818	1,224
Total endowments	44,179	42,204	44,179	42,204

17 Assets held for resale

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Leasehold land and buildings	394	394	394	394

18 Debtors

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	5,982	7,344	5,782	6,677
Amounts owed by subsidiary companies	-	-	402	423
Other debtors	277	292	272	292
Deferred tax	150	204	-	-
Prepayments and accrued income	12,627	11,254	12,578	11,245
	19,036	19,094	19,034	18,637

Other debtors in the Consolidated and University balance sheets include £100,000 which is due after more than one year (2012: £117,000).

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

Notes to the financial statements (continued)

19 Current asset investments

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Short term deposits (maturing within 1 year)	25,000	28,000	25,000	28,000
Other investments	59	59	59	59
	<u>25,059</u>	<u>28,059</u>	<u>25,059</u>	<u>28,059</u>

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

Other investments represents shares with a market value at the balance sheet date of £1,770,000 (2012: £1,628,000).

20 Creditors : amounts falling due within one year

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Bank loans (note 22a)	5,281	6,083	5,281	6,083
Obligations under finance leases (note 22b)	671	476	671	476
Other loans (note 22c)	723	610	723	610
Payments received on account	5,052	5,363	5,052	5,363
Trade creditors	4,100	5,653	4,022	5,570
Amounts owed to group companies	-	-	783	10
Other creditors including taxation and social security	8,444	10,293	8,304	10,148
Accruals and deferred income	42,486	45,051	41,717	44,346
	<u>66,757</u>	<u>73,529</u>	<u>66,553</u>	<u>72,606</u>

21 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Bank loans (note 22a)	131,429	136,710	131,429	136,710
Obligations under finance leases (note 22b)	10,822	11,164	10,822	11,164
Other loans (note 22c)	1,039	1,512	1,039	1,512
Other creditors	88	102	-	-
	<u>143,378</u>	<u>149,488</u>	<u>143,290</u>	<u>149,386</u>

22 Borrowings

a. Bank loans

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Bank loans are repayable as follows:				
In one year or on demand	5,281	6,083	5,281	6,083
Between one and two years	5,634	5,281	5,634	5,281
Between two and five years	19,158	18,008	19,158	18,008
In five years or more	106,637	113,421	106,637	113,421
	<u>136,710</u>	<u>142,793</u>	<u>136,710</u>	<u>142,793</u>
Due within one year or on demand	(5,281)	(6,083)	(5,281)	(6,083)
Due after more than one year	<u>131,429</u>	<u>136,710</u>	<u>131,429</u>	<u>136,710</u>
Unsecured loans repayable by 2035	<u>136,710</u>	<u>142,793</u>	<u>136,710</u>	<u>142,793</u>

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

Consolidated bank loans at 31 July 2013 were as follows:

Lender	Amount £000	Interest rate %	Term	Borrower
Lloyds	26,695	0.20 above base/LIBOR	2031	University
Lloyds	28,517	0.20 above base/LIBOR	2022-2026	University
National Westminster	17,739	0.20 above base/LIBOR	2030	University
National Westminster	2,747	0.20 above base/LIBOR	2022	University
National Westminster	14,063	0.20 above base/LIBOR	2032	University
Santander	46,949	0.17 above LIBOR	2035	University
	<u>136,710</u>			

b. Finance leases

The net finance lease obligations are:

Consolidated	Plant & equipment £000	2013 Land & buildings £000	Total £000	Plant & equipment £000	2012 Land & buildings £000	Total £000
In one year or less	199	472	671	31	445	476
Between two and five years	156	2,189	2,345	27	2,064	2,091
Over five years	-	8,477	8,477	-	9,073	9,073
	<u>355</u>	<u>11,138</u>	<u>11,493</u>	<u>58</u>	<u>11,582</u>	<u>11,640</u>

University	Plant & equipment £000	2013 Land & buildings £000	Total £000	Plant & equipment £000	2012 Land & buildings £000	Total £000
In one year or less	199	472	671	31	445	476
Between two and five years	156	2,189	2,345	27	2,064	2,091
Over five years	-	8,477	8,477	-	9,073	9,073
	<u>355</u>	<u>11,138</u>	<u>11,493</u>	<u>58</u>	<u>11,582</u>	<u>11,640</u>

c. Other loans	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
HEFCE repayable capital:				
In one year or less	300	250	300	250
Between two and five years	-	300	-	300
Over five years	-	-	-	-
	<u>300</u>	<u>550</u>	<u>300</u>	<u>550</u>
Other loans:				
In one year or less	423	360	423	360
Between two and five years	462	635	462	635
Over five years	577	577	577	577
	<u>1,462</u>	<u>1,572</u>	<u>1,462</u>	<u>1,572</u>
Total other loans	<u>1,762</u>	<u>2,122</u>	<u>1,762</u>	<u>2,122</u>

Notes to the financial statements (continued)

23 Provisions for liabilities and charges

	Consolidated 2013 £000	University 2013 £000
At 1 August 2012	1,552	1,552
Utilised in year	(105)	(105)
Transfer to income and expenditure account	(10)	(10)
At 31 July 2013	<u>1,437</u>	<u>1,437</u>

The provision relates to premature retirement compensation.

24 Deferred capital grants

Consolidated	Funding council £000	Other grants £000	Total £000
At 1 August 2012			
Building	47,288	4,055	51,343
Equipment	5,080	120	5,200
Total	<u>52,368</u>	<u>4,175</u>	<u>56,543</u>
Grants received/receivable			
Building	1,363	25	1,388
Equipment	401	161	562
Total	<u>1,764</u>	<u>186</u>	<u>1,950</u>
Released to income and expenditure account			
Building	2,267	113	2,380
Equipment	1,643	31	1,674
Total	<u>3,910</u>	<u>144</u>	<u>4,054</u>
At 31 July 2013			
Building	46,384	3,967	50,351
Equipment	3,838	250	4,088
Total	<u>50,222</u>	<u>4,217</u>	<u>54,439</u>
University	Funding council £000	Other grants £000	Total £000
At 1 August 2012			
Building	47,288	4,055	51,343
Equipment	5,080	120	5,200
Total	<u>52,368</u>	<u>4,175</u>	<u>56,543</u>
Grants received/receivable			
Building	1,363	25	1,388
Equipment	401	161	562
Total	<u>1,764</u>	<u>186</u>	<u>1,950</u>
Released to income and expenditure account			
Building	2,267	113	2,380
Equipment	1,643	31	1,674
Total	<u>3,910</u>	<u>144</u>	<u>4,054</u>
At 31 July 2013			
Building	46,384	3,967	50,351
Equipment	3,838	250	4,088
Total	<u>50,222</u>	<u>4,217</u>	<u>54,439</u>

Notes to the financial statements (continued)

25 Endowments

Consolidated

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2013 Total £000	2012 Total £000
Balances at 1 August 2012						
Capital	39,242	273	39,515	2,380	41,895	48,079
Accumulated income	-	91	91	218	309	369
	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,448</u>
New endowments	-	-	-	159	159	174
Investment income	9,314	8	9,322	44	9,366	9,605
Expenditure	(9,314)	(5)	(9,319)	(323)	(9,642)	(9,929)
	<u>-</u>	<u>3</u>	<u>3</u>	<u>(120)</u>	<u>(117)</u>	<u>(150)</u>
Increase/(decrease) in market value of investments	1,965	43	2,008	84	2,092	(6,094)
At 31 July 2013	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>
Represented by:						
Capital	41,207	273	41,480	2,380	43,860	41,895
Accumulated income	-	137	137	182	319	309
	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>

University

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2013 Total £000	2012 Total £000
Balances at 1 August 2012						
Capital	39,242	273	39,515	2,380	41,895	47,755
Accumulated income	-	91	91	218	309	336
	<u>39,242</u>	<u>364</u>	<u>39,606</u>	<u>2,598</u>	<u>42,204</u>	<u>48,091</u>
New endowments	-	-	-	159	159	166
Transfer from subsidiary	-	-	-	-	-	352
Investment income	9,314	8	9,322	44	9,366	9,601
Expenditure	(9,314)	(5)	(9,319)	(323)	(9,642)	(9,914)
	<u>-</u>	<u>3</u>	<u>3</u>	<u>(120)</u>	<u>(117)</u>	<u>205</u>
Increase/(decrease) in market value of investments	1,965	43	2,008	84	2,092	(6,092)
At 31 July 2013	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>
Represented by:						
Capital	41,207	273	41,480	2,380	43,860	41,895
Accumulated income	-	137	137	182	319	309
	<u>41,207</u>	<u>410</u>	<u>41,617</u>	<u>2,562</u>	<u>44,179</u>	<u>42,204</u>

Notes to the financial statements (continued)

26 Connected charitable institutions

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

Connected institutions with income under £100,000

	At 1 August 2012 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2013 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	527	11	(37)	68	569
Research (2 funds)	729	11	(145)	-	595
Other (1 fund)	79	2	(32)	(2)	47
	<u>1,335</u>	<u>24</u>	<u>(214)</u>	<u>66</u>	<u>1,211</u>

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

27 Reserves

	Consolidated 2013 £000	University 2013 £000
Income and expenditure reserve		
At 1 August 2012	122,718	123,604
Surplus for the year	3,170	3,075
Add back pension deficit	602	579
At 31 July 2013	<u>126,490</u>	<u>127,258</u>
Pension reserve		
At 1 August 2012	(32,925)	(32,825)
Actuarial gains in respect of pension schemes (note 38)	6,091	6,036
Deferred tax on actuarial gains	14	-
Deficit retained within reserves	(602)	(579)
At 31 July 2013	<u>(27,422)</u>	<u>(27,368)</u>
Revaluation reserve		
At 1 August 2012	239	239
Revaluation of investments in year	308	308
Realised revaluation surplus on sale of investments	(51)	(51)
At 31 July 2013	<u>496</u>	<u>496</u>

Notes to the financial statements (continued)**28 Reconciliation of surplus before taxation to net cash inflow from operating activities**

	Consolidated	
	2012/13	2011/12
	£000	£000
Surplus before tax and exceptional items	1,648	6,610
Depreciation and amortisation	15,950	15,756
Deferred grants released (note 24)	(4,054)	(4,235)
Investment income	(1,011)	(1,087)
Interest payable	7,197	6,736
Decrease in stocks	2	22
Decrease in debtors	16	706
(Decrease)/increase in creditors and accruals	(9,134)	5,445
Loss on disposal of property and equipment	174	471
Foundation Fund appropriation	(5,222)	(5,621)
Net expenditure relating to restricted endowments	276	314
Revaluation of investments	111	107
Pension cost (excluding interest) less contributions payable (note 38)	(474)	(361)
Net cash inflow from operating activities	<u>5,479</u>	<u>24,863</u>

29 Returns on investments and servicing of finance

	Consolidated	
	2012/13	2011/12
	£000	£000
Foundation Fund appropriation received	4,721	5,538
Income from other endowments	52	49
Interest and dividends received	859	761
Interest element of finance lease rental payments	(722)	(766)
Other interest paid	(5,498)	(5,401)
	<u>(588)</u>	<u>181</u>

30 Capital expenditure and financial investment

	Consolidated	
	2012/13	2011/12
	£000	£000
Purchase of tangible fixed assets	(20,938)	(18,267)
Endowments invested	(159)	(175)
Purchase of long term investments	(703)	(237)
Proceeds from sale of fixed assets and investments	1,371	1,053
Increase in investment in Research Park	(1,744)	(2,187)
Deferred capital grants received	1,835	1,892
Endowments received (note 25)	159	174
	<u>(20,179)</u>	<u>(17,747)</u>

Notes to the financial statements (continued)

31 Management of liquid resources

	Consolidated	
	2012/13 £000	2011/12 £000
Cash withdrawn from/(invested) in short term deposits	<u>3,000</u>	<u>(2,000)</u>

32 Financing

	Consolidated	
	2012/13 £000	2011/12 £000
New long term loans	250	450
Repayment of long term loans	(6,693)	(5,752)
Capital element of finance lease payment	(475)	(819)
Net cash flow from financing	<u>(6,918)</u>	<u>(6,121)</u>

33 Analysis of changes in net debt

Consolidated	At 1 August 2012 £000	Cash flows £000	Non-cash changes £000	At 31 July 2013 £000
Cash at bank and in hand	37,317	(19,276)	-	18,041
Short term deposits (note 19)	28,059	(3,000)	-	25,059
Debts due within one year (note 20)	(6,693)	6,693	(6,004)	(6,004)
Debts due after one year (note 21)	(138,222)	(250)	6,004	(132,468)
Finance leases (note 22b)	(11,640)	475	(328)	(11,493)
	<u>(91,179)</u>	<u>(15,358)</u>	<u>(328)</u>	<u>(106,865)</u>

34 Capital commitments

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Commitments contracted at 31 July	6,405	11,545	6,405	11,545
Authorised but not contracted at 31 July	54,856	7,800	54,856	7,800
	<u>61,261</u>	<u>19,345</u>	<u>61,261</u>	<u>19,345</u>

Notes to the financial statements (continued)**35 Lease obligations**

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

Consolidated	2013		2012	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	650	183	864	50
Between two and five years	-	517	-	365
Over five years	-	-	-	-
	<u>650</u>	<u>700</u>	<u>864</u>	<u>415</u>

University	2013		2012	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	650	183	864	50
Between two and five years	-	516	-	365
Over five years	-	-	-	-
	<u>650</u>	<u>699</u>	<u>864</u>	<u>415</u>

36 Contingent assets and liabilities

As part of the agreement for the sale of Surrey Satellite Technology Limited on 31 December 2008, the University gave certain standard warranties and indemnities. The tax warranties remain in place until 31 December 2015.

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

There are no other known contingent assets or liabilities.

37 Financial commitments

On 4 June 2013 the University entered into an agreement with Lloyds TSB Bank plc to borrow £60,000,000. £35,000,000 of this balance is to be drawn down by 31 October 2013, £15,000,000 by 31 October 2014 and the balance by 31 December 2017. No amounts had been drawn down as at 31 July 2013.

Interest on £30,000,000 (amortising) will be charged at a fixed rate of 4.65% from 31 July 2014. Interest on the balance will be payable at a variable rate of 1.50% above LIBOR until June 2014 and at 1.75% above LIBOR thereafter.

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

Notes to the financial statements (continued)

38 Pension schemes

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

	Consolidated	
	2012/13	2011/12
	£000	£000
USS contributions paid	11,018	10,227
Local Government Pension Scheme charge to the income and expenditure account	2,516	2,327
Contributions paid to other pension schemes	341	215
Total pension cost (note 7)	<u>13,875</u>	<u>12,769</u>

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

	Consolidated	
	2012/13	2011/12
	£000	£000
USS	57	220
Local Government Pension Scheme curtailments	123	92
Other	-	8
	<u>180</u>	<u>320</u>

a. Universities Superannuation Scheme (USS)

USS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contributions payable being determined by the trustees on the advice of the actuaries. The actuary carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are included in this note.

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

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

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

Notes to the financial statements (continued)**38 Pension schemes (continued)****a. Universities Superannuation Scheme (USS) (continued)**

The following amounts were measured at the valuation date: £000

Value of scheme assets	32,433,500
Value of the scheme's technical provisions	(35,343,700)
Deficit	<u>(2,910,200)</u>

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

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

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

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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 2013, USS had over 148,000 active members and the University had 1,825 active members participating in the scheme.

The total pension cost for the institution for 2012/13 was £11,018,000 (2011/12: £10,227,000). This includes £1,464,000 (2012: £1,366,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

Notes to the financial statements (continued)

38 Pension schemes (continued)

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

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

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

Under the definitions set out in FRS17, the Surrey Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2013.

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

A full actuarial valuation was carried out at 31 March 2010 and updated to 31 July 2013 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2013 were:

	Consolidated	
	2013	2012
Pension increase rate (CPI)	2.8%	2.2%
Salary increase rate (see * below)	5.1%	4.5%
Discount rate	4.6%	4.1%

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

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

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

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

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

	Consolidated	
	2013	2012
	£000 (%)	£000 (%)
Equities	52,014 (6.4%)	41,059 (5.5%)
Bonds	10,950 (3.8%)	10,835 (3.3%)
Property	3,422 (4.6%)	2,852 (3.7%)
Cash	2,053 (3.4%)	2,281 (2.8%)
	<u>68,439 (5.8%)</u>	<u>57,027 (4.9%)</u>

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

Analysis of the amounts shown in the balance sheet

	Consolidated	
	2013	2012
	£000	£000
Fair value of employer assets	68,439	57,027
Present value of funded liabilities	(94,979)	(89,081)
Net underfunding in funded plans	(26,540)	(32,054)
Present value of unfunded liabilities	(1,328)	(1,441)
Net liability	<u>(27,868)</u>	<u>(33,495)</u>

Notes to the financial statements (continued)**38 Pension schemes (continued)****b. Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) (continued)****Analysis of amounts recognised in the income and expenditure account**

	Consolidated	
	2012/13	2011/12
	£000	£000
Current service cost	2,506	2,327
Interest cost	3,717	4,102
Expected return on employer assets	(2,810)	(3,573)
Losses on curtailments and settlements	123	92
Past service cost	10	-
	<u>3,546</u>	<u>2,948</u>
Actual return on plan assets	<u>(10,776)</u>	<u>(967)</u>

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

	Consolidated	
	2012/13	2011/12
	£000	£000
Actuarial gains/(losses)	<u>6,159</u>	<u>(11,553)</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2013	2012
	£000	£000
Opening defined benefit obligation	90,522	77,316
Current service cost	2,506	2,327
Interest cost	3,717	4,102
Contributions by members	771	797
Other actuarial losses	1,808	8,935
Past service cost	10	-
Losses on curtailments	123	92
Estimated unfunded benefits paid	(93)	(96)
Estimated benefits paid	(3,057)	(2,951)
Closing defined benefit obligation	<u>96,307</u>	<u>90,522</u>

Changes in the fair value of employer assets

	Consolidated	
	2013	2012
	£000	£000
Opening fair value of employer assets	57,027	55,624
Expected return on assets	2,810	3,573
Contributions by members	771	797
Contributions by the employer	2,921	2,602
Contributions in respect of unfunded benefits	93	96
Actuarial gains/(losses)	7,967	(2,618)
Unfunded benefits paid	(93)	(96)
Benefits paid	(3,057)	(2,951)
Closing fair value of employer assets	<u>68,439</u>	<u>57,027</u>

Notes to the financial statements (continued)

38 Pension schemes (continued)

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

Consolidated amounts for the current and previous accounting periods

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Fair value of employer assets	68,439	57,027	55,624	54,071	44,109
Present value of defined benefit obligation	(96,307)	(90,522)	(77,316)	(83,810)	(78,380)
Deficit	<u>(27,868)</u>	<u>(33,495)</u>	<u>(21,692)</u>	<u>(29,739)</u>	<u>(34,271)</u>
Experience gains/(losses) on assets:	<u>7,967</u>	<u>(2,618)</u>	<u>(2,460)</u>	<u>5,894</u>	<u>(7,019)</u>
Experience gains/(losses) on liabilities:	<u>87</u>	<u>(1,284)</u>	<u>8,128</u>	<u>91</u>	<u>(67)</u>
Actuarial gains/(losses)	<u>6,159</u>	<u>(11,553)</u>	<u>8,797</u>	<u>5,982</u>	<u>(14,822)</u>
Cumulative actuarial (losses)/gains	<u>(976)</u>	<u>(7,135)</u>	<u>4,418</u>	<u>(4,379)</u>	<u>(10,361)</u>

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

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

Under the definitions set out in FRS17, the London Pensions Fund Authority LGPS is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2013. The pension scheme assets are held in a separate trustee-administered fund.

A full actuarial valuation was carried out at 31 March 2010 and updated to 31 July 2013 on an FRS17 basis by a qualified independent actuary. The material assumptions used by the actuary at 31 July 2013 were:

	2013	2012
Pension increase rate (CPI)	1.7%	1.8%
Salary increase rate	3.4%	3.5%
Discount rate	2.3%	3.9%

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

	2013		2012	
	Males	Females	Males	Females
Retiring today	20.7 years	22.9 years	20.6 years	22.8 years
Retiring in 20 years	22.7 years	24.9 years	22.6 years	24.8 years

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

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

	2013 £000 (%)	2012 £000 (%)
Cashflow matching	287 (3.4%)	582 (2.8%)
Equities	900 (6.4%)	225 (5.8%)
Cash	19 (0.5%)	56 (0.5%)
Target return portfolio	555 (4.9%)	1,014 (4.3%)
Alternative assets	153 (5.4%)	-
	<u>1,914 (5.4%)</u>	<u>1,877 (3.9%)</u>

Notes to the financial statements (continued)**38 Pension schemes** (continued)**c. London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund)** (continued)

The following amounts at 31 July 2013 were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	2013	2012
	£000	£000
Fair value of employer assets	1,914	1,877
Present value of funded liabilities	(2,810)	(2,748)
Net underfunding in funded plans	(896)	(871)
Present value of unfunded liabilities	(109)	(111)
Net liability	(1,005)	(982)

Analysis of amounts recognised in the income and expenditure account

	2012/13	2011/12
	£000	£000
Expected return on employer assets	(70)	(86)
Interest cost	107	147
Net charge	37	61
Actual return on plan assets	(215)	(105)

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

	2012/13	2011/12
	£000	£000
Actual return less expected return on employer assets	144	18
Experience gains/(losses)	1	(10)
Changes in assumptions underlying the present value of the scheme liabilities	(213)	(59)
Actuarial loss recognised in the STRGL	(68)	(51)

Changes in the present value of the defined benefit obligation

	2013	2012
	£000	£000
Opening defined benefit obligation	2,859	2,893
Interest cost	107	147
Other actuarial losses	212	69
Estimated unfunded benefits paid	(13)	(13)
Estimated benefits paid	(246)	(237)
Closing defined benefit obligation	2,919	2,859

Changes in the fair value of employer assets

	2013	2012
	£000	£000
Opening fair value of employer assets	1,877	1,941
Expected return on assets	70	86
Contributions by the employer	71	65
Contributions in respect of unfunded benefits	11	17
Actuarial gains	144	18
Unfunded benefits paid	(13)	(13)
Benefits paid	(246)	(237)
Closing fair value of employer assets	1,914	1,877

Notes to the financial statements (continued)

38 Pension schemes (continued)

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

Amounts for the current and previous accounting periods

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Fair value of employer assets	1,914	1,877	1,941	1,949	1,771
Present value of defined benefit obligation	(2,919)	(2,859)	(2,893)	(2,659)	(2,872)
Deficit	<u>(1,005)</u>	<u>(982)</u>	<u>(952)</u>	<u>(710)</u>	<u>(1,101)</u>
Experience gains/(losses) on assets:	<u>144</u>	<u>18</u>	<u>54</u>	<u>287</u>	<u>(182)</u>
Experience gains/(losses) on liabilities:	<u>1</u>	<u>(10)</u>	<u>(475)</u>	<u>64</u>	<u>-</u>
Actuarial (losses)/gains	<u>(68)</u>	<u>(51)</u>	<u>(256)</u>	<u>429</u>	<u>(303)</u>
Cumulative actuarial losses	<u>(665)</u>	<u>(597)</u>	<u>(546)</u>	<u>(290)</u>	<u>(719)</u>

39 Access funds

	Consolidated and University	
	2012/13 £000	2011/12 £000
Balance at 1 August	3	6
Funding Council Access funds	<u>130</u>	<u>153</u>
	<u>133</u>	<u>159</u>
Disbursed to students	(127)	(151)
Administration costs	(3)	(5)
Balance unspent at 31 July	<u>3</u>	<u>3</u>

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

40 Related party transactions

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

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

In accordance with FRS 2, the activities of the University of Surrey Students Union have not been consolidated on the grounds that the University does not operate dominant influence over its activities. During the year ended 31 July 2013 transactions with the Students Union totalling £779,000 net were charged to the Income & Expenditure Account (2011/12: £736,000). As at 31 July 2013, the Students Union owed a net balance of £39,000 (2012: £238,000).

Five year summary

Summary consolidated income and expenditure account

	2012/13 £000	2011/12 £000	2010/11 £000	2009/10 £000	2008/09 £000
Total income	213,667	211,350	211,591	193,827	191,296
Total expenditure	(212,019)	(204,740)	(200,819)	(190,083)	(191,300)
Surplus/(deficit) before taxation	1,648	6,610	10,772	3,744	(4)
Taxation, minority interest and transfers from endowments	232	205	141	311	158
Surplus before exceptional items	1,880	6,815	10,913	4,055	154
Exceptional items	1,290	-	-	-	33,894*
Retained surplus for the year	3,170	6,815	10,913	4,055	34,048

Summary consolidated balance sheet

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Fixed assets	329,971	318,707	315,093	308,939	285,080
Endowment asset investments	44,179	42,204	48,448	50,539	48,785
Current assets	63,026	85,362	85,855	65,511	60,697
Creditors : amounts falling due within one year	(66,757)	(73,529)	(68,379)	(67,544)	(59,759)
Total assets less current liabilities	370,419	372,744	381,017	357,445	334,803
Creditors : amounts falling due after more than one year	(143,378)	(149,488)	(156,614)	(146,951)	(131,750)
Provisions for liabilities and charges	(1,437)	(1,552)	(1,449)	(1,576)	(1,700)
Pension liability	(27,422)	(32,925)	(21,195)	(28,873)	(33,672)
Total net assets	198,182	188,779	201,759	180,045	167,681
Deferred capital grants	54,439	56,543	58,458	53,921	53,876
Endowments	44,179	42,204	48,448	50,539	48,785
Reserves	99,564	90,032	94,853	75,585	65,020
Total funds	198,182	188,779	201,759	180,045	167,681

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

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

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

	2012/13	2011/12	2010/11	2009/10	2008/09
Surplus (calculated before transfer from/(to) endowments) as % of income	1.4%	3.1%	5.1%	2.0%	17.8%
Return on net assets (excluding pension liability)	1.3%	2.9%	4.8%	1.9%	16.9%
Staff costs as % of income	54.4%	52.6%	49.9%	52.7%	55.0%
Discretionary reserves (excluding pension reserve) as % of income	60.4%	59.3%	56.2%	55.2%	52.8%
Gross borrowing as % of income	69.4%	73.1%	75.9%	78.1%	70.4%
Net debt as a % of total funds	53.9%	48.3%	48.8%	59.9%	55.7%
Current ratio	0.94	1.16	1.26	0.97	1.02
Net liquidity / (expenditure - depreciation) in days	80	126	127	94	87
Operating cashflow as % of income	2.6%	11.8%	14.9%	10.7%	5.1%

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

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 (from Aug 2013)
Mr M Taylor (to July 2013)

Vice-Chairman

Ms A Watts (from Aug 2013)
Dr J Glover (from Jan to July 2013)
Mr D Eustace (to Dec 2012)

Ex officio members

President & Vice-Chancellor
Professor Sir C M Snowden

University Treasurer
Mr T Chambers

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

VP & Deputy Vice-Chancellor, Research & Innovation
Professor S Williamson (to July 2013)

Chair, Academic Assembly
Ms S Ryle

President, Students' Union
Ms E Bollon (from Aug 2013)
Mr D Halls (to July 2013)

Elected by the Senate

Professor D Allen
Professor S Price
Professor J Seville

Elected by non-academic staff

Vacancy

Co-opted members

Mr D Eustace (from Jan 2013)
Dr J Forrest
Dr J Glover (to Dec 2012)
Mr A Herman
Ms C Ighodaro (from Aug 2013)
Mr D McNulty
Mr I Robertson
Mr D Rogers
Mr K Taylor
Ms A Watts (to July 2013)
Professor Lord R Winston

Clerk to the Council

Ms S Litchfield

Finance Committee members

Ex officio

Chair

University Treasurer
Mr T Chambers

President & Vice-Chancellor
Professor Sir C M Snowden

Chair of Council
Dr J Glover (from Aug 2013)
Mr M Taylor (to July 2013)

Vice-Chair of Council
Ms A Watts (from Aug 2013)
Dr J Glover (from Jan to July 2013)
Mr D Eustace (to Dec 2012)

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

VP & Deputy Vice-Chancellor, Research & Innovation
Professor S Williamson (to July 2013)

Chair, Academic Assembly
Ms S Ryle

Nominated Dean of Faculty
Professor P Powrie

Lay members appointed by Council

Mr D Eustace (from Jan 2013)
Mr I Robertson
Mr D Rogers

Co-opted members

Vacancy
Vacancy

Audit Committee members

Chair

Mr D McNulty

Lay members of Council

Ms C Ighodaro (from Aug 2013)
Mr K Taylor
Ms A Watts (to July 2013)

Co-opted members

Ms L Benson
Vacancy

Officers of the University of Surrey

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

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

Chair of Council
Dr J Glover (from Aug 2013)
Mr M Taylor (to July 2013)

University Treasurer
Mr T Chambers, FCA, AMCT, FIET

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

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

Vice-President & Deputy Vice-Chancellor, Research &
Innovation
Professor S Williamson, FREng, FIET, FIEEE, FCGI (to July
2013)

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

Chief Financial Officer
Mr D J Sharkey, ACA

Vice-President and Registrar
Dr D Ashton

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

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