

Financial Statements

2016/17



University of Surrey

Financial statements for the year ended 31 July 2017

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Vice-Chancellor's introduction



I am pleased to introduce the 2016/17 financial statements. These reflect another successful year for the University, with growth in student numbers driving a 5% increase in total income to £272m.

2016/17 marked the 50th anniversary of the granting of our Royal Charter and a programme of events through the year has provided opportunities to highlight our achievements and strengthen links at both a local and international level. The Festival of Wonder, held in May 2017, saw us welcoming over 6,000 people (including many local residents) to campus for an open day event including hands-on workshops, student arts performances and talks. The same month we held our first ever overseas graduation ceremonies, in China.

The 2017 league table rankings reflect our continuing firm standing in the top 20 of UK higher education institutions, while a strong year for teaching and learning culminated in receipt of a prestigious gold award in the first Teaching Excellence Framework (TEF) exercise.

Applications for 2016/17 undergraduate entry were exceptionally high following our 'University of the Year' and 'University of the Year for Student Experience' awards for 2016 by The Times / The Sunday Times. Enrolments (excluding clearing students) rose from 3,008 for 2015/16 entry to 3,466 for 2016/17 entry. Total student headcount (undergraduate and postgraduate students) increased to 15,719, a 3% rise on the previous year's figure of 15,280, which was itself a record for the University.

The value of research awards (the order book for future research activity) increased significantly in 2016/17 with the award of a £10m grant from the Department for Digital, Culture, Media and Sport (DCMS) marking another major success for our 5G Innovation Centre.

Recognising the pivotal role that postgraduate research students and early career researchers have to play in enabling us to realise our research ambitions, during 2016/17 we established a new doctoral college to support these groups.

Work continues to develop the campus infrastructure in line with the growth in student numbers. The pace of capital investment increased significantly in 2016/17 as we began construction of the next phase of student accommodation on our Manor Park campus. This £80m investment will provide an additional 480 student rooms from September 2018 and a further 670 rooms from September 2019.

2016/17 also saw completion of our new Innovation for Health building. This provides facilities to enable us to help change the delivery of healthcare in the UK by training the next generation of graduates who can work proficiently across the traditional boundaries of health and engineering sciences.

During 2016/17, my first full year of academic tenure, I have worked with colleagues to develop a new corporate strategy. The corporate strategy 2017-2022 builds on the University's proud heritage of working with the community and industry, and positions the University to take advantage of the changing environment and new possibilities offered. It sets out a clear direction for the future, highlighting the University's priorities and the ways in which it will ensure resilient, agile, and sustainable growth in order to become a prominent global university.

The strategic report on the following pages presents in more detail the progress made in 2016/17 towards our strategic goals. I would like to express my thanks to all members of the University Council, staff, students and supporters for making this such a successful year.

Professor G Q Max Lu
President and Vice-Chancellor

Strategic report

Introduction

During 2016/17 the University celebrated both the 125th anniversary of its foundation and the 50th anniversary of the granting of its Royal Charter. This strategic report seeks to set the 2016/17 financial results of the University and its subsidiary companies in the context of the University's strategy and operations, and describes the further progress which the University has made towards its ambition of being a leading national and international university.

University overview

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

Although founded as a science and engineering focussed institution, the University's educational, research and other activities now cover a broad range of disciplines. The University is organised into three academic faculties, each led by an Executive Dean:

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

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

Strategy

2016/17 marked the final year of the University's 2007–2017 strategy focussed on:

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

This strategy has guided the University well over the past ten years and further progress in the above areas is highlighted in the relevant sections of this report.

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

- staff engagement
- financial performance and sustainability
- customer opinions (as reflected in league tables and student surveys)
- strategic developments.

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

The final year of the 2007-2017 strategy was also the first full year of tenure for Professor Max Lu, the University's President and Vice-Chancellor. Under Professor Lu's leadership, the University worked during 2016/17 to define a new corporate strategy 2017-2022.

The corporate strategy 2017-2022 builds on the University's proud heritage of working with the community and industry, and positions the University to take advantage of the changing environment and new possibilities offered. It sets out a clear direction for the future, highlighting the University's priorities and the ways in which it will ensure resilient, agile, and sustainable growth in order to become a prominent global university.

Operating environment

The University continues to operate in a challenging environment, with increasing competition for students, and uncertainties around Brexit, immigration numbers, research funding and fees high on the political agenda.

Universities UK continues to lobby government on a number of fronts regarding immigration policy, campaigning for students to be taken out of the net migration target and seeking to ensure that changes to immigration rules do not limit the ability of universities to attract and recruit world-leading academics. The conclusion of the August 2017 report from The Office for National Statistics that 'there is no evidence of a major issue of non-EU students overstaying their entitlement to stay' is a potentially positive sign, as is the subsequent announcement by the Migration Advisory Committee of a review of the economic impact of international students.

In the domestic market, the Labour Party's manifesto promise to abolish undergraduate tuition fees has reignited a national debate regarding fees, loans and, more broadly, whether students receive value for money. In response, the current government has reversed a decision to raise fees in line with inflation and has announced a review of the whole higher education funding model.

Strategic report (continued)

Review of operations

Senior appointments

2016/17 saw a number of new appointments to the Executive Board.

In November 2016 Professor Graham Miller was appointed on a permanent basis to the post of Executive Dean for the Faculty of Arts and Social Sciences. Professor Miller had previously held the position on an interim basis, prior to which he was Head of the University's School of Hospitality and Tourism Management. Professor Helen Griffiths joined from Aston University as Dean for the Faculty of Health and Medical Sciences in December 2016 and in January 2017 Professor Jane Powell, from Goldsmiths, University of London, took up the new post of Vice-Provost Education and Students. In August 2017 it was announced that Professor David Sampson, from the University of Western Australia, would be joining the University in January 2018 as Vice-Provost Research and Innovation.

Learning and teaching

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

Teaching quality

A strong year for teaching and learning culminated in the University receiving a prestigious gold award in the first Teaching Excellence Framework (TEF) exercise. This marked the University out as one of the UK's top performing higher education institutions (HEIs), with 43 (32%) of the 134 submitting HEIs awarded gold status.

Publication of the TEF results in June 2017 saw the University scoring highly on its metrics. The TEF panel also highlighted Surrey's university-wide commitment to developing pedagogical expertise, skills and knowledge, exemplified by nationally-funded projects. It also commended Surrey's practice of systematically embedding professional skills and employability throughout the curriculum, and the many ways in which Surrey's students are not only stretched but also supported to succeed.

Student satisfaction

The results of the 2017 National Student Survey (NSS) showed 87% of Surrey students expressing satisfaction with the quality of their course, placing the University 33rd out of 131 reported higher education institutions.

Direct comparison with previous years is difficult due to a change in methodology, which has included new questions focussing more on student engagement than student

satisfaction. Nevertheless, this is a disappointing result and the University continues to maintain a strong focus on improving all areas of the student experience.

Chart 1: National Student Survey (NSS)

	2012/13	2013/14	2014/15	2015/16	2016/17
Overall satisfaction	92%	91%	92%	90%	87%
Position	=9/136	=8/135	=5/139	=17/140	=33/131

Learning and teaching developments

The School of Veterinary Medicine admitted its third cohort, comprising 127 students, in September 2016. Student progression for the past two academic years is 98% and the School continues to have the highest module evaluation questionnaire (MEQ) scores in the University.

The University continues to explore opportunities to expand its academic offering in response to the changing needs of society and student demand.

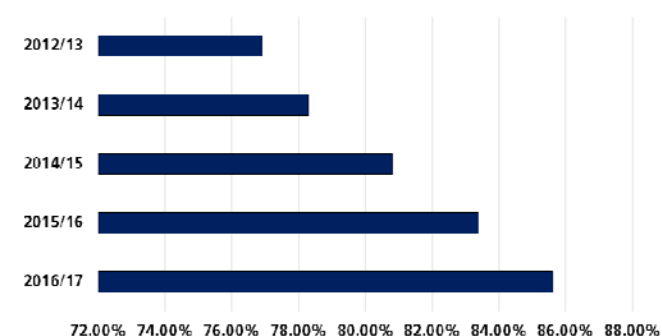
During 2016/17 the University continued to develop its business case for a new medical school. This followed the government's October 2016 announcement that it planned to make an additional 1,500 medical school places available and the University's subsequent submission of an expression of interest in establishing a new medical school. Following HEFCE's allocation of the first 500 places to existing medical schools, in October 2017 HEFCE and Health Education England formally announced the call for bids from existing or potential new providers for the remaining 1,000 places. The University is finalising its bid for submission by the deadline of 23 November 2017. Should it be successful, the first intake to the new undergraduate programme would be expected in 2019/20.

In the meantime, completion of the new £12.5m Innovation for Health building, described later in this report (page 9), has enabled the University to develop five new undergraduate courses, across the traditional boundaries of health and engineering, for delivery from 2017/18.

Good degrees

The percentage of students achieving good degrees (defined as first or upper 2nd class) has risen steadily in recent years, from 76.9% in 2012/13 to 85.6% in 2016/17.

Chart 2: Percentage of students achieving good degrees



Strategic report (continued)

Employability

The University continues to maintain its reputation as an institution focussed on supporting its students into graduate-level jobs and/or further study, as evidenced by the comments from the TEF panel above.

The Professional Training Year (PTY), which is available to almost all undergraduate students, remains a significant selling point for the University with students recognising its value in enhancing their prospects of obtaining graduate-level employment. 1,200 students undertook a placement year in 2016/17 compared with 1,075 in 2015/16.

A restructuring of the Directorate of Employability has enabled it to increase its student-facing presence, focussing on specialist support for postgraduate research students (PGRs) and early career researchers (ECRs) in collaboration with the new doctoral college, and partnering with the Widening Participation and Outreach team to develop tailored support for widening participation and black and minority ethnic students.

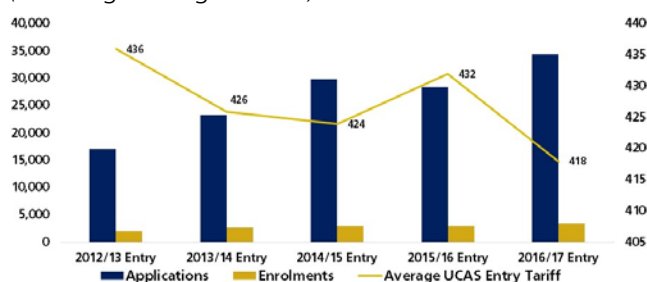
The results of HESA's 2016 'Destination of Leavers from Higher Education' (DLHE) survey, released in 2017, showed the percentage of leavers in work and/or further study six months after graduation at 93.0% (2016: 95.6%), with the number in graduate-level jobs at 76.9% (2016: 82.4%).

Student numbers

The University's much improved league table position over recent years has led to a significant increase in student demand for places. Applications for undergraduate entry have recovered strongly since a dip in 2012/13 when the impact of the University's decision to increase its entry tariff coincided with an overall reduction in student demand caused by the introduction of the £9,000 fee.

Applications for 2016/17 undergraduate entry were exceptionally high following Surrey's receipt of the 'University of the Year' award for 2016 by The Times and The Sunday Times. Undergraduate enrolments increased from 3,008 for 2015/16 entry to 3,466 for 2016/17 entry. The entry tariff relaxed back from 432 for 2015/16 entry to 418 for 2016/17 entry reflecting a year of consolidation as the University continues to grow its intake with more challenging market conditions.

Chart 3: UCAS undergraduate applications and enrolments (excluding clearing students)

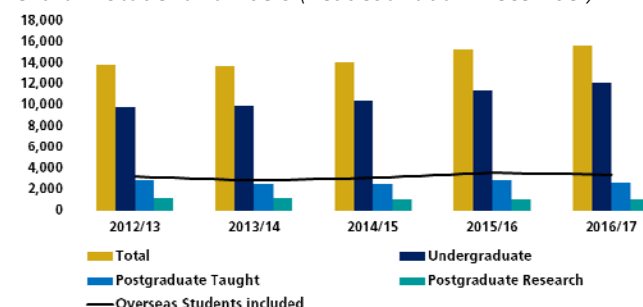


* The entry tariff for 2013/14 onwards follows the methodology used in the main league tables i.e. it includes students with any tariffable score. The entry tariff for 2012/13 excludes students with a combination of qualifications that includes a single A-level.

Postgraduate taught student numbers fell from 2,859 in 2015/16 to 2,600 in 2016/17. This still represented an increase on the 2014/15 figure of 2,521.

The total student headcount continues to rise. The 2016/17 total headcount of 15,719 represented an increase of almost 3% on the previous year's figure of 15,280, which was itself the highest ever achieved by the University.

Chart 4: Student numbers (headcount at 1 December)



Research

The University's research ambition is to be a top 20 university in the UK and a top 150 university in the world for international research.

Research strategy

As part of its strategy to realise ambitious objectives for research excellence and impact, the University has identified six cross-cutting research themes based on its research strengths and analysis of funder programmes:

- sustainability
- urban living
- digital innovation
- technology impacting life
- lifelong health and wellbeing
- space and aerospace.

The first two themes are now active and the remaining themes will be established in the near future.

At the core of the sustainability theme is research that enables society to undertake activities and developments which meet the needs of the present, without compromising the ability of future generations to meet their own needs.

The urban living theme focusses on research and innovation to address the challenges faced by urban areas and to help them realise visions for future urban living, transforming them into safer, smarter, more

Strategic report (continued)

sustainable and healthier environments that better serve the population and society.

Research income, awards and bids

The financial statements show total research income for 2016/17 of £40.3m (2015/16: £38.9m).

Chart 5: Research income

	2016/17	2015/16
	£m	£m
Operational research income	33.9	31.1
5GIC programme contributions in kind	6.4	7.6
Research & development expenditure tax credits	0.0	0.2
Total	40.3	38.9

In addition to growth in the core operational research income, the 5G Innovation Centre (5GIC) programme continues to attract significant in-kind contributions from industrial partners for the development of research services and capacity. These contributions (valued at £6.4m in 2016/17) have no impact on the financial surplus for the year as income and expenditure are reported at the same values.

The value of new research awards (i.e. the order book for future research activity) announced during 2016/17 was £45.0m. This was £7.1m higher than the three-year average and £6.8m (18%) higher than the previous financial year.

The key growth area for research awards was UK government funding with a £10m grant from the Department for Digital, Culture, Media and Sport (DCMS) for 5G research included in the 2016/17 total of £45.0m. This award marked another major success for the University's 5G Innovation Centre (5GIC), with Surrey taking the lead in the £16m DCMS funded programme to deliver the year one recommendations from the government's January 2017 Future Communication Challenge Group (FCCG) report. This HUB 1 project will include delivery of an end to end 5G trial across the three collaborating university sites (Surrey, Bristol and Kings College, London) by Q1 2018 and delivery of the foundation for the longer term (£185m) expansion to further hubs and spokes to provide a national asset to implement a globally leading 5G strategy for the UK.

2016/17 also saw the University being awarded three Distributed Ledger Technology (DLT) grants (total value £1.1m) by the Engineering and Physical Sciences Research Council (EPSRC). The three uniquely interdisciplinary projects, covering eVoting, digital archives and the use of healthcare technology, position Surrey as a UK leader in blockchain technology, contributing to the EPSRC's delivery plan outcomes to support a more prosperous UK by working towards a more connected and healthy nation.

The total value of research bids in 2016/17 was £166.8m. This was £21.5m higher than the three-year average and £36.7m higher than the previous financial year.

Improving success rates is a major component of the research strategy and the University was particularly encouraged by 2016/17's 29% success rate for EU bids. This compared with a 17% success rate for 2015/16, a figure in line with EU averages. Following a 4% improvement in the success rate for UK Research Council bids in 2015/16 to 27%, the success rate fell back slightly to 25% in 2016/17.

Chart 6: Research bids, awards & extensions

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Research awards and extensions	31.3	32.5	43.0	38.2	45.0
Research bids	162.4	140.8	164.9	130.1	166.8

Doctoral college

The research strategy recognises that postgraduate research students (PGRs) and early career researchers (ECRs) have a pivotal role to play in enabling the University to realise its research ambitions.

To support these groups, 2016/17 saw establishment of a new doctoral college. Having both physical and virtual form, the college brings strategic oversight and structural coherence to the support of both PGRs and ECRs by focussing on:

- building a strong research culture and community of scholars
- developing highly skilled and employable PGRs and ECRs
- providing first class training and supervision
- ensuring the University is an excellent recruiter of excellent PGRs and ECRs
- ensuring the University is an attractive proposition to funders of PGR and ECR activity.

Strategic partnerships

Collaboration is one of the University of Surrey's major strengths and values. The University has become a key driver of economic growth with strong collaborative links with entities such as other academic institutions, public sector establishments and major industry partners.

National Physical Laboratory (NPL)

The University of Surrey has a strong and long-standing relationship with the National Physical Laboratory (NPL).

In March 2015 a formal partnering agreement was signed between Surrey, NPL, The Department for Business Energy and Industrial Strategy (BEIS), and the University of

Strategic report (continued)

Strathclyde. Achievements in the first two years of the partnership have included:

- development of a network of regional hubs, including NPL South of England based at Surrey
- establishment of the Post-Graduate Institute of Measurement Science
- opening of two joint NPL/Surrey science facilities
- establishment of several joint appointments.

5G Innovation Centre (5GIC)

5GIC now has 26 corporate members and a total of c. 300 SMEs in its wider network, many of which are high growth scale-up companies, a UK government priority. Since May 2017 5GIC has also signed formal memoranda of understanding (MoUs) with a number of prestigious regional partners in order to maximise the potential for collaborative partnerships across the UK in many different industry sectors. These include MoUs with North East Local Economic Partnership (LEP), Worcestershire LEP, Digital Greenwich in London and the University of Warwick.

The 5GIC programme incorporates strong strategic links with NPL and plays a key role in the regional strategic economic plan as identified in the report from Innovation South's Science and Innovation Audit (SIA) published in September 2017. This places the University in a strong position to capitalise on future funding from the government's new Industrial Strategy Challenge Fund.

Internationalisation

In November 2016 the University welcomed His Excellency Ma Kai, Vice Premier of the People's Republic of China, to Guildford as part of a four day visit to the UK. This was followed, in May 2017, by a high-profile visit by the University's President and Vice-Chancellor and other senior University staff to China. The visit included a press briefing with 16 tier-one journalists. Led by the Vice-Chancellor together with Professor Rahim Tafazolli (Director of the 5GIC), this highlighted the University's key collaborations with China, and Surrey's vision for 5G. The visit also included, as part of the University's 50th anniversary celebrations, its first ever overseas graduation ceremonies.

Led by the Senior Vice-President (Global Strategy and Engagement), the University has continued to consolidate and expand its research partnership networks, enhancing its international brand awareness leading to improvements in global league table positioning and increasing the number of students undertaking an international learning or work experience.

The University Global Partnership Network (the UGPN) - comprising the Universities of Surrey; São Paulo, Brazil; Wollongong, Australia; and North Carolina State University, USA - continues to mature resulting in over 100 joint publications since its formation in 2011.

In 2017 alone the University of Surrey, as part of the UGPN research fund, has translated pump prime investment of some £40,000 in a range of joint research projects into the creation of the Global Centre for Clean Air Research led by Professor Prashant Kumar who has secured a further £1.2 million support for his ground breaking pollution research.

Looking forward, the UGPN is seeking to expand its membership, especially in Asia, to continue to contribute to the Global Research Challenges and respond to UK government investment in the Global Challenges Research Fund. Strategic partnerships in Asia are an important contributor to the University's profile and research capability and in the last year the University has signed a number of MoUs with universities in mainland China including the Southern University of Science and Technology (SUSTech) based in Shenzhen with which Surrey is developing a collaborative PhD programme. These activities complement those of the University's joint venture with Dongbei University of Finance and Economics in China, which celebrates its 10th anniversary in 2017.

The University has seen continued success in staff and student mobility through Erasmus and non-Erasmus funding mechanisms. In 2016/17 student international mobility grew by 23% and the University received its largest ever Erasmus funding grant of €554,000.

Student engagement

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

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

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

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

Strategic report (continued)

Staff engagement

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

The 2017 survey saw an increase in the staff engagement score to 74% (2016: 70%), the best in the seven years that the University has been working with the current survey provider (OCRI). The response rate was maintained at the 2016 level of 75%. When comparing feedback, in comparable questions, with the 30 other universities which work with OCRI, 21 of the University's questions scored 5 or more percentage points above the benchmark, 10 scored within 5 percentage points of the benchmark and no questions scored 5 percentage points or more below the benchmark.

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

Financial review

Introduction

2016/17 was the University's second year of reporting under the new UK accounting standard 'FRS 102' and the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP 2015).

In order to reduce the volatility created by FRS 102, the University took the decision, on transition, to adopt:

- the accrual model for accounting for government capital and revenue grants
- hedge accounting for qualifying interest rate swaps.

The University remains exposed to volatility in respect of the following, which were not previously accounted for through the income and expenditure account and over which the University has little, if any, control:

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

The University cannot budget for these items, which may be subject to significant volatility as a result of changes in market conditions. It therefore considers it appropriate to monitor performance against an underlying operating surplus which excludes these items.

Income and expenditure

The statement of comprehensive income and expenditure on page 20 of the financial statements shows a consolidated surplus for 2016/17 of £4.2m. This compares with the 2015/16 surplus of £0.9m.

The 2016/17 underlying operating surplus was £4.7m. Although lower than the previous year's figure of £11.1m, this was better than plan.

Chart 7: Reconciliation to underlying operating surplus

	2016/17	2015/16
	£m	£m
Consolidated surplus for the year	4.2	0.9
Movement on USS provision	0.8	4.7
(Decrease) / increase in interest rate swaps liability	(1.2)	3.8
Loss on Surrey Research Park revaluation	1.1	1.3
Other investment (gains) / losses	(0.2)	0.4
Underlying consolidated operating surplus	4.7	11.1

Consolidated income rose in 2016/17 by £12.3m (5%) to £271.8m, with tuition fee income rising by £7.5m (6%) to £137.3m. As described earlier in this report, research income increased by £1.4m to £40.3m.

2016/17 expenditure of £266.6m was £9.9m higher than the previous financial year. The main change was in operational staff costs which increased by £11.4m (9%) to £141.0m. This rise included the full year impact of the additional academic staff appointed in response to 2015/16's very successful student recruitment round, together with the full year effect of the April 2016 national insurance and USS pension changes. Interest and other finance costs fell from £12.8m in 2015/16 to £8.1m in 2016/17, reflecting a decrease in the fair value of interest rate swaps.

The underlying operating surplus can be further analysed between the University's core activities and Surrey Research Park as shown below:

Chart 8: Analysis of underlying operating surplus

	2016/17	2015/16
	£m	£m
Core activities:		
University	(0.3)	6.0
Surrey Sports Park Limited	0.0	(0.3)
Surrey Research Park	5.0	5.4
Underlying consolidated operating surplus	4.7	11.1

Strategic report (continued)

Surrey Research Park

As shown above, Surrey Research Park generated a surplus for 2016/17 of £5.0m (2015/16: £5.4m). 2016/17 income of £10.1m was slightly lower than the previous year's figure of £10.5m. This reflected lower income from both dilapidation settlements (following successful negotiation of a new lease with an existing tenant) and tenants fit-out works. The lower income from tenants fit-out works was matched by a corresponding reduction in costs.

Net assets

Consolidated net assets increased by £21.9m in 2016/17 to £476.3m. The main contributory factors, apart from the underlying operating surplus of £4.7m, were:

- local government pension scheme actuarial gains (primarily experience gains)
- a decrease in the interest rate swaps liability (reflecting a part-reversal of the previous year's fall in long term interest rates)

Chart 9: Movement in consolidated net assets 2016/17

	£m
Consolidated net assets at 31 July 2016	454.4
Underlying operating surplus	4.7
Local Government Pension Scheme (LGPS) actuarial gains	10.8
Movement on USS provision	(0.8)
Decrease in interest rate swaps liability	8.1
Surrey Research Park revaluation	(1.1)
Other investment gains	0.2
Consolidated net assets at 31 July 2017	476.3

The recent trend in pension provisions (USS and LGPS) is shown below.

Chart 10: Pension provisions at 31 July

	2013	2014	2015	2016	2017
	£m	£m	£m	£m	£m
Obligation to fund USS pension deficit	N/A	13.7	30.1	34.3	33.8
LGPS pension liability – funded	27.4	35.4	38.0	45.6	35.3
LGPS pension liability - unfunded	1.4	1.5	1.4	1.4	1.4
Total	N/A	50.6	69.5	81.3	70.5

Surrey Research Park is included on the balance sheet as an investment property asset. The recent trend in the Park's value, taking into account development expenditure on new and existing buildings, is shown below. Completed investment properties and development land are shown at valuation, properties under development are shown at cost.

Chart 11: Surrey Research Park valuation at 31 July *

	2013	2014	2015	2016	2017*
	£m	£m	£m	£m	£m
Completed investment properties	79.2	91.2	105.9	110.0	111.7
Properties under development	0.8	1.0	4.1	1.3	0.1
Development land	1.1	6.2	9.9	8.1	7.5
Total	81.1	98.4	119.9	119.4	119.3

* Excludes 30 Priestley Road which is held as a fixed asset

Cash flow

The consolidated cash flow statement on page 23 shows a decrease in cash and cash equivalents in the year of £19.1m. Taking into account the drawdown of £120m of private placement funds in the year, there was an increase in available cash (defined as cash and cash equivalents plus short term deposits) of £92.9m, to £161.9m, as shown below.

Chart 12: Movement in consolidated available cash

	2016/17	2015/16
	£m	£m
Opening consolidated available cash	69.0	59.7
Net cash inflow from operating activities	27.4	39.6
Net income from Surrey Research Park	5.1	5.4
Capital expenditure – University	(49.9)	(34.3)
Capital expenditure – Surrey Research Park	(1.2)	(1.1)
Capital grants received	4.4	9.0
Loan drawdowns	120.0	0.5
Financing (net interest and capital repayments)	(13.5)	(13.7)
Other movements	0.6	3.9
Closing consolidated available cash	161.9	69.0
<i>Increase</i>	<i>+92.9</i>	<i>+9.3</i>

Of the £120m private placement funds received in the year, only £12.5m were spent by 31 July 2017. The balance of £107.5m is earmarked for transformational and strategic projects, giving an underlying available cash balance at 31 July 2017 of £54.4m.

Net cash inflow from operating activities fell from £39.6m in 2015/16 to £27.4m in 2016/17. This was partly due to a fall in the underlying operating surplus (from £11.1m to £4.7m), with an increase in debtors also a contributory factor. With significant debt servicing commitments as well as the need to fund core capital requirements from operating cash, the University is focussed on increasing this figure in future years.

Offset against the 31 July 2017 available cash balance of £161.9m were borrowings of £293.8m, giving net debt at

Strategic report (continued)

31 July 2017 of £131.9m. This reflected a £19.8m increase in net debt in the year.

Capital investment

The University has invested heavily in its estate in recent years in order to increase capacity for academic work and improve the student experience.

The consolidated cash flow statement on page 23 shows total capital investment for 2016/17 of £49.9m (2016: £34.3m).

The pace of capital investment increased significantly in 2016/17 as the University began construction of the next phase of student accommodation on its Manor Park campus. 480 student rooms will be available from September 2018 with a further 670 rooms due to come on stream in September 2019. This will increase the total number of student rooms on the Manor Park campus to circa 3,000 and the total across the two campuses (Manor Park and Stag Hill) to circa 6,000.

The major capital project completed in the year was the £12.5m Innovation for Health building. This was officially opened in February 2017 by Sir Mark Walport, Chief Scientific Advisor to the UK government. Providing laboratory and other facilities, the Innovation for Health building will enable the University to help change the delivery of healthcare in the UK, by combining teaching and research into an academic programme aimed at training the next generation of graduates who can work proficiently across the traditional boundaries of health and engineering sciences.

The University has traditionally met its requirements for additional academic and other space through construction of new buildings on its own land. However, in October 2016, the University took advantage of an opportunity to purchase, for £7.4m, a 51,000 square feet office building on Surrey Research Park which the University had sold on a long lease in 1984. It was agreed that this building (30 Priestley Road) should become the new home for the School of Health Sciences.

The decision to make 30 Priestley Road the new home for the School of Health Sciences marks a major step forward in achieving a 'One Health' campus at Manor Park by bringing the School of Health Sciences near to the School of Veterinary Medicine, Royal Surrey County Hospital and the proposed medical school. Following refurbishment, it is anticipated that the School of Health Sciences will relocate to 30 Priestley Road in Spring 2019. This will release significant space on the Stag Hill campus to allow for further moves, thereby driving a more efficient overall allocation to support the University's strategic growth plans.

Other capital projects were undertaken in the year to address some of the infrastructure challenges faced by the University as it grows its student population.

Treasury management

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

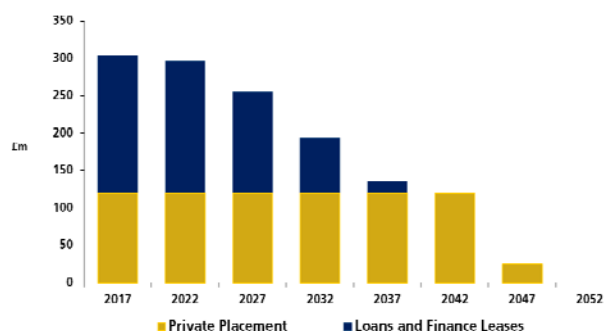
As mentioned above, during 2016/17 the University drew down the £120m of private placement funds it had secured in 2015/16. This gave outstanding borrowings and finance lease obligations on the 31 July 2017 balance sheet of £293.8m, compared with £181.1m at 31 July 2016. Both figures exclude undrawn bank loan facilities of £10.0m.

The University recognises that it has a relatively high gearing ratio. However, the University has borrowed to fund assets which produce a strong income stream and contribute to the strategic ambitions of the University. The University benefits from competitive margins and relatively light financial covenants. It manages the risk of interest rate rises on its bank borrowings through standalone hedging instruments and a fixed rate of interest on £30m of loan finance. The University's policy is to fix the interest rate on at least 70% of its total bank term debt, allowing cash balances to act as a natural hedge against a portion of the debt.

The weighted average cost of capital on all drawn funds (bank debt plus private placement funds) at 31 July 2017 was 3.59%. This compared with the weighted average at 31 July 2016 (bank debt only) of 3.76%.

Approximately two thirds of the £120m private placement funds are being applied to the Manor Park student residences project (1,150 student rooms). The balance of the private placement monies is to be spent on transformational and strategic projects. These would include a medical school should the University be successful in its bid for publicly funded medical school places.

Chart 13: Debt profile at 31 July (including undrawn funds)



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

Strategic report (continued)

The weighted average return on short term deposits fell from 0.74% in 2015/16 to 0.58% in 2016/17 reflecting further downward pressure on short term interest rates.

Risks and uncertainties

The University's approach to risk management is described in the corporate governance statement on pages 15 to 16.

The following are considered the most significant areas of risk:

- generating sufficient cash to support the University's strategic goals
- ability of the infrastructure to support growth
- student experience and outcomes
- student numbers and quality of students (post Brexit)
- research income and quality (including the impact of Brexit on research income)

Cash generation

As is the case across the sector, the University's cost base is under increasing pressure from wage inflation, lower research overhead recovery and higher cost inflation across non-pay and capital-spend categories.

Prioritisation and phasing optimisation, notably around the capital programme, is underway. In addition, the University has established a structured efficiency, simplification and growth programme, drawing on both internal and external resources.

Campus infrastructure

Work continues to develop the campus infrastructure in line with the growth in student numbers. This includes the construction of new student residences and provision of additional study spaces.

The University provides proportionally more student accommodation on its campuses than other institutions. Nevertheless, there remains a large unsatisfied demand from Surrey students for good quality University residential accommodation, due to high prices and a significant shortage of purpose-built private sector student accommodation in Guildford.

Construction of the additional 1,150 student rooms on Manor Park will meet short-term needs. However, the University is exploring options with third party providers to support further growth, whereby the third party would construct additional student residential accommodation either on or off campus.

During 2016/17 the University engaged an international design practice, Hassell, to review the estate and create a single unified masterplan. This will enable capital

investment decisions to be made in the context of an agreed development framework and a set of agreed principles, ensuring that the inherent value of the University's estate is maintained and enhanced through informed decision making for years to come.

Student experience and outcomes

The University continues to prioritise the student experience as a core part of its strategy, ensuring it responds to students' growing expectations of enhanced academic quality, support services, facilities, accommodation and pathways to employment. In addition to measures already being taken to improve the physical infrastructure as described above, the University continues to develop the technology needed to support innovative approaches to teaching, learning and support.

At the same time it continues to invest in expanding and enhancing resources in areas such as student well-being and communications.

Student numbers and quality of students

The University has moderated its trajectory of student number growth in response to assessments of the impact of Brexit on the EU student market and to the need for investment in campus infrastructure.

2017/18 undergraduate recruitment has exceeded the revised target by c. 170 students with the entry tariff largely maintained. Overall fee income (undergraduate and postgraduate) for 2017/18 is forecast to be broadly in line with plan.

Research income and quality

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

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

- develop and deliver thematic research priorities
- recruit and retain world-class academics and postgraduate researchers
- develop world-leading outputs
- deliver more systematic proposal submission
- create impact
- improve research culture and infrastructure.

At the same time the University continues to monitor the sector impacts of Brexit in terms of funding, collaboration,

Strategic report (continued)

and access to talent and resources. It has implemented a number of strategies to support its existing EU employees and will undertake further mitigating measures as appropriate.

Future outlook

Whilst the challenges facing the University and the wider UK higher education sector cannot be underestimated, the University looks ahead confidently, as it builds on its strengths to grow into a leading global institution renowned for producing sought-after graduates and outstanding research, both of which will help shape the world for a better future.

Public benefit statement

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

The University's charitable purposes are defined in its Royal Charter as the advancement of education, learning and teaching. The University brings a wide range of benefits to individual students and to society as a whole through the quality of the education it offers and the quality of the graduates and postgraduates it produces, as well as through the dissemination and practical application of its research. This narrative describes how the University has delivered the two aspects of public benefit, namely:

- benefit aspect – a purpose must be beneficial
- public aspect – the purpose must benefit the public in general, or a sufficient section of the public

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

League table performance

The delivery of public benefit is evidenced by the University's strong performance across all the main UK university league tables.

The 2017 league table rankings reflect the University's continuing strong standing in the top 20 of UK higher education institutions.

Chart 1: League table rankings

	Publication date				
	2013	2014	2015	2016	2017
The Guardian	8	6	4	4	10
The Times / The Sunday Times	12	11	8	14	19
The Complete University Guide	13	12	8	11	13
THE Table of Tables	11	9	7	10	14

Research

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

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

In addition to the University's cutting-edge work on 5G technology, 2016/17 highlights included world-leading collaboration on air pollution, led by Professor Prashant Kumar, Professor and Chair in Air Quality and Health at the University of Surrey.

These included the results of studies showing how:

- car drivers in London are causing the most pollution per commuter, but are themselves the least exposed to that pollution when compared with those taking the underground or the bus. This study was carried out as part of a project jointly funded by ESRC (UK), FAPESP (Brazil) and NWO (Netherlands).
- low hedges reduce air pollution in cities more effectively than taller trees. This study, which was a collaborative effort by partners in the UK, Europe and the USA, was carried out as part of the iSCAPE (Improving Smart Control of Air Pollution in Europe) project, funded by the European Community's Horizon 2020 Programme.

During 2016/17 the University confirmed its place as one off the country's top universities for cyber security research when it was re-awarded its status as an 'Academic Centre of Excellence in Cyber Security Research' for a further five years. The status, which is held by just 14 UK universities, is given by The National Cyber Security Centre (NCSC) in partnership with Research Councils UK (RCUK) and the Department for Business, Energy and Industrial Strategy (BEIS).

Public engagement

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

During 2016/17 the University generated significant global coverage across online, print and broadcast. The majority of media coverage is gained through proactive release of research findings. Stories with strong human interest in areas such as health, travel and cyber security ensure a spread of coverage in national news, lifestyle and broadcast titles, as well as providing trade titles with key scientific and academic context.

The work of Professor Prashant Kumar has already been mentioned above. The results of the study led by Professor Kumar into how low hedges can reduce air pollution was featured on BBC World Service, BBC 4 and BBC News, as well as in daily newspapers including The Times and The Telegraph. Professor Kumar was also

Public benefit statement (continued)

interviewed by 10 BBC regional radio stations on this subject.

Professor Alan Woodward, a cyber security expert and visiting professor at the University of Surrey, was interviewed by the BBC and national press on a number of topics during 2016/17, including the cyber attacks on the NHS and the British Airways power blackout, with his comments on the NHS cyber attacks appearing in more than 1,000 news articles.

The University's academics were also at the heart of informed commentary on the 2017 UK General Election, with Dr Simon Usherwood and Dr Alia Middleton interviewed on both local and national radio as well as in overseas publications including Europe Online Magazine.

Community engagement

The University provides local residents with a range of opportunities to participate in its sporting, educational, cultural and social activities.

The major highlight of 2016/17 was the Festival of Wonder, which marked the close of the University's 50th anniversary celebrations. Held in May 2017, this attracted over 6,000 people to campus for an open day event featuring music, comedy and dance performances, talks, sports activities, hands-on workshops, and science and technology exhibits. Highlights across the different zones included actor Brian Blessed in conversation with Professor Jim Al-Khalili (the University's Professor of Public Engagement); a rare recital and interview with Grammy award-winning classical guitarist John Williams; and a talk by the Channel 4 'Supervet' Noel Fitzpatrick (an honorary professor at the University).

Surrey Sports Park continues to be a major asset to the local community as well as to the University, providing opportunities for the public both to participate in sport and to watch competitions of the highest level. In July 2017 Surrey Sports hosted the Lacrosse World Cup. This saw 18,000 spectators watching 25 teams from around the world competing in what has been described as the best world lacrosse event in sports history. Media coverage generated was significant, with 339,000 twitter impressions being achieved across the 12 days of competition, and every match after the quarter finals being broadcast live internationally. England went on to win the bronze medal.

As well as encouraging local residents to visit the University campus, staff also take the University out into the local community. The University had a significant presence at Guildford Borough Council's 'Innovate Guildford' – a science and arts festival attended by 7,000 local people in March 2017 – with demonstrations and displays on various subjects including space debris and the science of superheroes. It also took part again in the global 'Pint of Science' festival with 400 local people attending talks by the University's academics in three local pubs in May 2017.

The University actively encourages feedback from the local community and the results of the University's annual residents survey will inform the University's outreach and engagement activity over the coming year.

Widening participation and student support

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

The University monitors its performance against the main Higher Education Statistics Agency (HESA) widening participation benchmarks. The most recently published data (2015/16) shows the University exceeding the relevant benchmarks for measures of participation of lower-represented groups, with participation of state schools remaining significantly higher than its benchmark

Chart 2: Widening participation

Participation of under-represented groups (young full time 1 st degree)	2015/16		2014/15	
	Surrey	Location benchmark *	Surrey	Location benchmark *
	%	%	%	%
Lower socio-economic groups (NE_SEC classes 4-7)	30.1	N/A	28.6	28.0
State schools	92.1	85.4	91.9	84.8
Low participation neighbourhoods	8.0	7.5	7.3	7.3

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

The University has a strong record in providing targeted undergraduate bursaries for students from lower income households. The number of students benefiting from support increased from 1,923 in 2015/16 to 2,306 in 2016/17. Total spend fell from £4.1m in 2015/16 to £3.7m in 2016/17. The University continues to take steps to gain further insight into the impact of its financial support to ensure its bursaries are appropriately targeted.

The fall in spend on undergraduate bursaries was in line with guidance from the Office for Fair Access (OFFA) which recommends that universities focus expenditure on outreach and retention instead. The University is committed to increasing its expenditure on access activities from £0.4m in 2014/15 to £2.5m in 2021/22 and on measures to improve student success and

Public benefit statement (continued)

progression from £0.4m in 2014/15 to £3.0m in 2021/22.

As part of its increased investment in access activities, in February 2017 the University placed a WP outreach coordinator, four days a week, in Kings College, Guildford (a non-selective academy school). This is part of a two-year commitment to raising attainment and aspiration of the pupils towards further study through consistent and targeted WP support. It marks a significant increase in the support the University was already providing through its existing access activities and through having senior University staff representation on the school's governing body.

In addition to its access activities, the University provides a range of resources to support students whilst they are at University. The dedicated student money team provides specific advice and support to those students who experience financial difficulties. This includes the provision of hardship loans and grants. The University also offers a wide range of support to students with disabilities or specific learning difficulties to enable them to participate fully in University life.

Other examples of public benefit

The strategic report on pages 2 to 11 gives further examples of how the University is benefiting society and the economy through the advancement of its educational activities, high graduate employability rates, and engagement with business.

Further examples of how the University's research activities are delivering public benefit can be found in the 2017 Annual Review at www.surrey.ac.uk/annual-review and on the University's dedicated research webpages at www.surrey.ac.uk/research.

Corporate governance statement

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

The University is committed to exhibiting best practice in all aspects of corporate governance. It endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the Higher Education Code of Governance published by the Committee of University Chairs (CUC) in December 2014.

Summary of the University's structure of corporate governance

The University's objects, powers and framework of governance are set out in the Charter and its supporting Statutes and Ordinances (the 'governing documents').

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

The powers of the Council are set out in the Statutes and Ordinances of the University. Under the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England (HEFCE), the Council is collectively responsible for overseeing the University's activities, determining its future direction and fostering an environment in which its mission is achieved and the potential of all students is realised.

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

The primary responsibilities of the Council are:

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

In addition, the Council cannot delegate responsibility for:

- varying the governing documents
- approving the annual audited accounts
- appointing the external auditor of the University.

The Council continually assesses its mix of skills, experience and diversity to ensure its appropriateness. New members receive an induction programme tailored to their specific needs. The effectiveness of the Council is reviewed regularly, with the most recent full effectiveness review having taken place in October 2017. This took the form of a half day, interactive session, facilitated by external consultants.

The Council is increasing the number of formal meetings from four to five a year from 2017/18. In addition, it holds a strategic away-day jointly with the Executive Board once a year. It has a number of committees, all of which are formally constituted with appropriate external membership and terms of reference. These include a Finance Committee, an Audit and Assurance Committee, a Nominations Committee and a Remuneration Committee.

The Finance Committee, which comprises a majority of external members, meets at least five times a year. It advises the Council on financial policy and strategy, reviews and recommends to the Council the University's financial forecasts, and keeps the University's financial position under review.

The Audit and Assurance Committee meets three times a year with the external and internal auditors in attendance. It oversees the risk management process and considers detailed reports from the auditors, which include recommendations for the improvement of the University's systems of internal control together with management's responses and implementation plans. It also receives and considers reports from HEFCE and other organisations and ensures that processes are in place to ensure compliance with statutory regulations. It considers the draft annual financial statements from the point of view of factual presentation, compliance with general and University accounting policies, controls assurance and any identified control deficiencies.

Whilst senior executives attend meetings of the Audit and Assurance Committee as necessary, they are not members of the Committee, and the Committee may meet with the external and internal auditors on their own for independent discussions. The Chair of the Committee has direct access to the Chair of Council.

The Nominations Committee, under the chairmanship of the Chair of Council, meets as required to consider and make recommendations to the Council on the appointment of external members to the Council and on the appointment of external co-opted members to Council sub-committees. It also makes recommendations to the Council regarding the appointment of the Vice-Chancellor and the appointment of Pro-Chancellors.

Corporate governance statement (continued)

The Remuneration Committee, under the chairmanship of the Vice-Chair of Council, meets twice annually with additional meetings at the discretion of the Chair. It monitors the performance of the Vice-Chancellor, and determines the salary and conditions of service of the Vice-Chancellor and members of the Executive Board. It ensures an effective succession plan is in place for Executive Board level posts and approves any severance payments made to staff earning over £100,000 per annum. The Vice-Chancellor is not a member of the Committee, but is in attendance at meetings except when the Committee is discussing his own salary and conditions of service.

The University has a Senate which meets four times a year and has responsibility, under the control and approval of the Council, for oversight and assurance of the academic endeavour of the University.

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

In March 2017 the Council approved changes to the membership and terms of reference of certain of its sub-committees to streamline membership and attendance at meetings; and to ensure the terms of reference reflect the latest remit of the Committees. Changes in management roles, in anticipation of the new corporate strategy 2017-2022, also prompted a review of the roles of the Senate and its primary sub-committees and the primary sub-committees of the Executive Board. This review provided the opportunity to provide greater accountability and transparency. The relevant changes were approved by the Council in March 2017.

Statement of internal control

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

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

- a comprehensive Scheme of Delegation, approved by the Council, which records the reserved powers of the Council and the delegation of the Council's powers to its sub-committees; to the Vice-Chancellor; and to the Senate and its sub-committees
- clear definitions of the responsibilities of, and the authority delegated to, heads of academic faculties and administrative departments

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

In March 2017 the Council approved a new Risk Management Strategy and a revised Risk Management Policy. The Risk Management Strategy describes the University's strategy on, and approach to, risk management. It provides clarity as to why risk management should be undertaken and describes the nature and extent of risks the organisation is willing to take in achieving its strategic objectives. It aims to provide uniformity across risk management procedures, describing when and how to record and escalate risks and the format and timing of reports. The Risk Management Strategy sets out the roles and responsibilities of the University Council, key committees and individuals. In accordance with the Risk Management Strategy:-

- the Audit & Assurance Committee is charged by Council with keeping the integrity and effectiveness of the organisation's risk management under review
- the Vice-Chancellor has responsibility for implementing the policies and strategies on risk management and internal control
- the Executive Board supports the Vice-Chancellor in discharging the responsibility for the implementation of the Policy and Strategy as well as ensuring that risk management is embedded within the strategic decision-making process. It also ensures ownership of risk management throughout the organisation (including the identification and management of risks) and regularly reviews the strategic risk register.

The strategic risk register forms the basis of the internal audit programme.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the principal risks to achievement of the University's objectives; that it has been in place for the year ended 31 July 2017 and up to the date of approval of the financial statements; and that it accords with HEFCE guidance.

Responsibilities of the Council of the University of Surrey

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

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

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

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

The Council has taken reasonable steps:

- to ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Memorandum of Assurance and Accountability and any other conditions which HEFCE 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 to prevent and detect fraud and other irregularities
- to secure the economical, efficient and effective management of the University's resources and expenditure.

The Council recognises its responsibility for the maintenance and integrity of the corporate and financial information included on the University's website and notes that 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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the University of Surrey ("the University") for the year ended 31 July 2017 which comprise the Group and University statement of comprehensive income and expenditure, the Group and University statement of changes in reserves, the Group and University balance sheet and the Group cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2017, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- meet the requirements of HEFCE's Accounts Direction to higher education institutions for 2016/17 financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Council is responsible for the other information, which comprises the strategic report, the public benefit

statement and the corporate governance statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Council responsibilities

As explained more fully in their statement set out on page 17, the Council is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:

www.frc.org.uk/auditorsresponsibilities.

Report on other legal and regulatory requirements

We are required to report on the following matters under the HEFCE Audit Code of Practice (effective

Independent auditor's report to the Council of the University of Surrey (continued)

1 August 2016) issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation; and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Council, in accordance with the University's Charter, Statutes and Ordinances 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 them 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 University and the Council for our audit work, for this report, or for the opinions we have formed.



Joanne Lees

**for and on behalf of KPMG LLP,
Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL

Statement of comprehensive income and expenditure for the year ended 31 July 2017

	Note	Consolidated		University	
		2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Income					
Funding council grants	2	30,674	29,386	30,674	29,386
Tuition fees and education grants	3	137,292	129,749	137,292	129,749
Research grants and contracts	4	40,313	38,946	40,313	38,946
Other income	5	52,261	49,641	47,582	44,973
Investment income	6	10,695	11,066	10,890	11,279
Donations and endowments	7	553	702	553	702
Total income		271,788	259,490	267,304	255,035
Expenditure					
Staff costs - operational	8	141,023	129,608	138,108	126,737
Staff costs - movement on USS provision	8	761	4,670	761	4,670
Staff costs - restructuring	8	128	468	116	468
Other operating expenses	10	91,247	85,176	88,557	82,929
Depreciation		25,320	23,985	25,306	23,980
Interest and other finance costs	11	8,091	12,786	8,064	12,786
Total expenditure		266,570	256,693	260,912	251,570
Surplus before other gains and losses		5,218	2,797	6,392	3,465
Loss on disposal of fixed assets		(97)	(36)	(97)	(36)
Loss on investments	12	(882)	(1,660)	(1,053)	(1,904)
Surplus before taxation		4,239	1,101	5,242	1,525
Taxation	13a	(13)	(161)	(57)	(98)
Surplus for the year		4,226	940	5,185	1,427
Actuarial gain/(loss) in respect of pension schemes		10,790	(7,152)	10,415	(6,898)
Change in fair value of hedging financial instruments		6,861	(7,337)	6,861	(7,337)
Total comprehensive income for the year		21,877	(13,549)	22,461	(12,808)
Represented by:					
Endowment comprehensive income for the year		(114)	111	(114)	111
Restricted comprehensive income for the year		-	20	-	20
Unrestricted comprehensive income for the year		21,991	(13,680)	22,575	(12,939)
		21,877	(13,549)	22,461	(12,808)

All income and expenditure relates to continuing operations.

Statement of changes in reserves for the year ended 31 July 2017

Consolidated

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2015	2,561	175	481,452	(16,254)	467,934
Surplus from the income and expenditure statement	355	181	404	-	940
Other comprehensive income	-	-	(7,152)	(7,337)	(14,489)
Release of restricted funds spent in year	(244)	(161)	405	-	-
	<u>111</u>	<u>20</u>	<u>(6,343)</u>	<u>(7,337)</u>	<u>(13,549)</u>
Balance at 1 August 2016	2,672	195	475,109	(23,591)	454,385
Surplus from the income and expenditure statement	273	223	3,730	-	4,226
Other comprehensive income	-	-	10,790	6,861	17,651
Release of restricted funds spent in year	(387)	(223)	610	-	-
Total comprehensive income for the year	<u>(114)</u>	<u>-</u>	<u>15,130</u>	<u>6,861</u>	<u>21,877</u>
Balance at 31 July 2017	2,558	195	490,239	(16,730)	476,262

University

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2015	2,561	175	488,386	(16,254)	474,868
Surplus from the income and expenditure statement	355	181	891	-	1,427
Other comprehensive income	-	-	(6,898)	(7,337)	(14,235)
Release of restricted funds spent in year	(244)	(161)	405	-	-
	<u>111</u>	<u>20</u>	<u>(5,602)</u>	<u>(7,337)</u>	<u>(12,808)</u>
Balance at 1 August 2016	2,672	195	482,784	(23,591)	462,060
Surplus from the income and expenditure statement	273	223	4,689	-	5,185
Other comprehensive income	-	-	10,415	6,861	17,276
Release of restricted funds spent in year	(387)	(223)	610	-	-
Total comprehensive income for the year	<u>(114)</u>	<u>-</u>	<u>15,714</u>	<u>6,861</u>	<u>22,461</u>
Balance at 31 July 2017	2,558	195	498,498	(16,730)	484,521

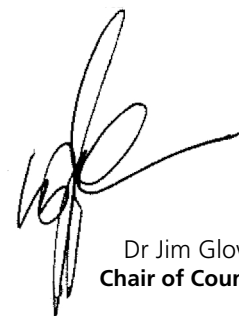
Balance sheets as at 31 July 2017

	Note	Consolidated		University	
		2017 £000	2016 £000	2017 £000	2016 £000
Non-current assets					
Intangible assets	14	1,910	587	1,910	587
Fixed assets	15	720,398	695,818	720,186	695,682
Investment properties	16	119,648	119,784	119,348	119,384
Other investments	17	1,850	1,753	6,055	4,457
		843,806	817,942	847,499	820,110
Current assets					
Stocks		3,951	4,385	427	455
Trade and other receivables	18	29,399	24,762	38,380	33,703
Investments	20	127,467	15,267	127,467	15,267
Cash and cash equivalents		34,896	53,992	32,464	52,562
		195,713	98,406	198,738	101,987
Creditors : amounts falling due within one year	21	(113,184)	(106,236)	(112,322)	(105,455)
Net current assets/(liabilities)		82,529	(7,830)	86,416	(3,468)
Total assets less current assets/(liabilities)		926,335	810,112	933,915	816,642
Creditors : amounts falling due after more than one year	22	(379,621)	(274,428)	(379,592)	(274,375)
Provisions					
Pension provisions	24	(70,452)	(81,299)	(69,802)	(80,207)
Total net assets		476,262	454,385	484,521	462,060
Restricted reserves					
Income and expenditure reserve - endowment reserve	25	2,558	2,672	2,558	2,672
Income and expenditure reserve - restricted reserve	27	195	195	195	195
Unrestricted reserves					
Income and expenditure reserve - unrestricted		490,239	475,109	498,498	482,784
Cash flow hedge reserve	28	(16,730)	(23,591)	(16,730)	(23,591)
		476,262	454,385	484,521	462,060

The financial statements and notes on pages 20 to 52 were approved by the Council on 23 November 2017 and signed on its behalf by:



Professor G Q Max Lu
President and Vice-Chancellor



Dr Jim Glover
Chair of Council

Consolidated cash flow statement for the year ended 31 July 2017

	Note	2016/17 £000	2015/16 £000
Cash inflow from operating activities			
Surplus for the year		4,226	940
Add: taxation		13	161
Adjustments for non-cash items			
Depreciation	15	24,400	23,417
Amortisation of intangibles	14	920	568
Loss on investments	12	882	1,660
Impairment of fixed assets		97	136
Decrease/(increase) in stocks		434	(338)
Increase in receivables		(4,914)	(236)
Increase in creditors		5,164	7,866
(Decrease)/increase in pension provision		(1,696)	2,632
Receipt of donated equipment		(501)	-
Adjustment for investing or financing activities			
Net income from Surrey Research Park		(5,113)	(5,403)
Other investment income		(623)	(606)
Interest payable	11	8,091	12,786
Endowment income	25	(109)	(355)
Loss on sale of fixed assets		-	293
Capital grant income		(3,711)	(3,603)
Adjustment for taxation			
Tax paid		(126)	(403)
Net cash inflow from operating activities		27,434	39,515
Cashflows from investing activities			
Proceeds from sale of fixed assets		-	7
Capital grant receipts		4,392	9,052
Disposal of non-current asset investments		-	3,044
(Investment in)/withdrawal of deposits		(111,959)	472
Surrey Research Park net income		5,309	5,403
Investment income		264	666
Payments made to acquire fixed assets		(47,692)	(34,080)
Payments made to acquire intangible assets		(2,255)	(259)
New non-current asset investments		(1,172)	(1,076)
		(153,113)	(16,771)
Net cash inflow from financing activities			
Interest paid		(5,572)	(6,153)
Interest element of finance lease payments		(672)	(672)
Endowment cash received		109	355
New unsecured loans		120,000	453
Repayments of amounts borrowed		(6,618)	(6,239)
Capital element of finance lease payments	29	(664)	(654)
		106,583	(12,910)
(Decrease)/increase in cash and cash equivalents in the year	29	(19,096)	9,834
Cash and cash equivalents at beginning of the year		53,992	44,158
Cash and cash equivalents at end of the year		34,896	53,992

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education 2015 (2015 SORP)* and in accordance with Financial Reporting Standard FRS 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of fixed assets and derivative financial instruments).

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

Basis of consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2017. Intra group transactions are eliminated on consolidation.

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

Recognition of income

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

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

Grant funding

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

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

Donations and endowments

Non-exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income either when the charitable donation has been received, or before receipt, if there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Donations and endowments (continued)

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

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

Capital grants

Government capital grants are initially recorded in creditors and released to the statement of comprehensive income and expenditure over the expected useful lives of the related assets. Other capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Pension schemes

The two principal pension schemes are the Universities Superannuation Scheme (USS) and the Surrey County Council Local Government Pension Scheme (Surrey Pension Fund). The University also participates in the London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund). All are defined benefit schemes and were, until April 2016, contracted out of the State Second Pension (S2P), with assets held in separate trustee administered funds.

Because of the mutual nature of the USS, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive income and expenditure represents the contributions payable to the scheme in respect of the accounting period.

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

The group is able to identify its share of the underlying assets and liabilities of the Surrey Pension Fund and the LPFA Pension Fund and fully adopts Section 28 of FRS 102 in respect of these two schemes.

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

The group operates defined contribution pension schemes for temporary staff and certain employees of a subsidiary undertaking. Contributions are charged to the statement of comprehensive income and expenditure as they become payable in accordance with the scheme rules.

a. Defined contribution plan

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Pension schemes (continued)

b. Defined benefit plan

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

Employment benefits

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

Agency arrangements

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

Tangible fixed assets

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

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

a. Land and buildings

Under the transition rules of FRS 102, land and buildings were revalued on 1 August 2014 to fair value which is then used as its deemed cost at that date. Depreciation and impairment losses are subsequently charged on the revalued amount. Additions subsequent to this date are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

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

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

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

b. Equipment

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

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Finance costs

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

Intangible assets

Intangible assets are amortised over a period of up to 7 years representing the estimated economic life of the assets and are subject to periodic impairment reviews as appropriate.

Fixed asset impairments

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

Leased assets

a. Operating lease

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

b. Finance lease

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

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

Maintenance of premises

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

Investment properties

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

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

Investments

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Stocks

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if in practice they are available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments, with a maturity date of 3 months or less from the date of acquisition, that are readily convertible to known amounts of cash with insignificant risk of change in value.

Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly Schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1, Schedule 6 of the Finance Act 2010 and therefore meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471 and 478-489 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

The University's subsidiary undertakings are subject to corporation tax in the same way as any commercial organisation, although they may be able to take advantage of Section 471 CTA 2010 to mitigate the corporation tax liability through gift aid.

Deferred taxation

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

Financial instruments

The University has chosen to apply the provisions of sections 11 and 12 of FRS102 in full. Financial assets and financial liabilities are recognised in the balance sheet when the University becomes a party to the contractual provisions of the instrument. A financial asset and 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.

With the exception of derivatives, financial assets and liabilities all meet the criteria for basic financial instruments prescribed within FRS 102 section 11.8 and are initially recognised at the transaction price plus any additional directly attributable transaction costs.

a. Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income and expenditure in other operating expenses.

b. Derivatives

Derivatives are held on the balance sheet at fair value. The University has adopted and complied with the requirements of hedge accounting in respect of certain interest rate swaps. Movements in fair value are recorded in the surplus/deficit or within other comprehensive income, as appropriate.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

Foreign currency translation

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

Provisions, contingent liabilities and contingent assets

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

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

Contingent assets are disclosed by way of a note, where there is a possible rather than a present asset arising from a past event.

Reserves

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

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

Judgements and estimates

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

a. Pensions

The various assumptions and parameters used in the valuation of the pension liabilities are disclosed in note 34. Furthermore, the valuation of the liability in the balance sheet recording the University's share of the USS pension deficit required assumptions relating to growth in future staff pay rate and headcount.

b. Fixed assets

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

Judgements and estimates (continued)

b. Fixed assets (continued)

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

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

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

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

c. Investment property

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

d. Annual leave accrual

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

e. Financial instruments

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

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

	Consolidated & University	
	2016/17	2015/16
	£000	£000
Recurrent grant		
Higher Education Funding Council		
Teaching	8,969	8,077
Research	14,940	14,587
	23,909	22,664
Specific grants		
Higher Education Innovation Fund	3,069	2,958
Other	824	602
Deferred capital grants released in year		
Building	1,912	1,856
Equipment	960	1,306
	30,674	29,386

3 Tuition fees and education grants

	Consolidated & University	
	2016/17	2015/16
	£000	£000
UK & EU undergraduates	63,570	54,035
UK & EU postgraduates	6,046	5,888
Non-EU undergraduates	25,584	24,498
Non-EU postgraduates	20,893	23,241
Non-credit bearing courses	3,156	3,230
Nurse training contract	13,417	14,674
Research training support grants	4,626	4,183
	137,292	129,749

4 Research grants and contracts

	Consolidated & University	
	2016/17	2015/16
	£000	£000
Research councils	14,870	12,491
UK based charities	2,405	2,173
UK central government tax credits for R & D expenditure	-	222
Other UK government, health and hospital authorities	3,332	3,877
UK industry and commerce	7,380	7,910
EU government bodies	7,107	7,538
EU industry and commerce	4,460	3,779
Other grants and contracts	759	956
	40,313	38,946

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

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Residences, catering and conferences	31,026	30,772	29,768	29,442
Other services rendered	4,308	4,084	4,625	4,326
Income from use of University facilities	5,603	5,299	904	448
Other income	11,324	9,486	12,285	10,757
	52,261	49,641	47,582	44,973

6 Investment income

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Investment income on endowments (note 25)	32	43	32	43
Research Park income	10,071	10,469	10,071	10,469
Income from non-current investments	81	18	81	18
Income from cash deposits	511	536	509	530
Other interest receivable	-	-	197	219
	10,695	11,066	10,890	11,279

7 Donations and endowments

	Consolidated & University	
	2016/17 £000	2015/16 £000
New endowments (note 25)	109	355
Donations with restrictions	223	196
Unrestricted donations	221	151
	553	702

8 Staff

	Consolidated		University	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Staff costs - operational:				
Wages and salaries	112,680	105,019	110,118	102,451
Social security costs	11,064	8,903	10,858	8,716
Pension costs:	17,279	15,686	17,132	15,570
	141,023	129,608	138,108	126,737
Movement on USS provision	761	4,670	761	4,670
Staff costs - restructuring	128	468	116	468
	141,912	134,746	138,985	131,875

	Consolidated		University	
	2016/17 Number	2015/16 Number	2016/17 Number	2015/16 Number
Full time equivalent staff numbers:				
Research and teaching	1,095	1,030	1,095	1,030
Professional	1,073	1,006	1,045	976
Technical and experimental	140	121	140	121
Operational	372	357	308	301
Other	8	9	8	9
	2,688	2,523	2,596	2,437

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

		2016/17	2015/16
		£000	£000
Emoluments of President and Vice-Chancellor: (1 August 2015 to 30 September 2015)	Salary	-	52
	Allowance in lieu of pension contributions	-	8
		<u>-</u>	<u>60</u>
	Pension contributions	-	-
		<u>-</u>	<u>60</u>
Emoluments of Acting Vice-Chancellor: (1 October 2015 to 24 April 2016)	Salary	-	123
	Benefits in kind	-	2
	Allowance in lieu of pension contributions	-	2
		<u>-</u>	<u>127</u>
	Pension contributions	-	12
	<u>-</u>	<u>139</u>	
Emoluments of President and Vice-Chancellor: (from 25 April 2016)	Salary	310	83
	Bonus / performance related pay	5	-
	Benefits in kind	2	2
	Relocation allowance	-	7
	Allowance in lieu of pension contributions	49	4
		<u>366</u>	<u>96</u>
	Pension contributions	-	10
	<u>366</u>	<u>106</u>	

On 4 May 2015 Professor Michael Kearney was appointed Acting Vice-Chancellor due to an unplanned leave of absence for Professor Sir Christopher Snowden (President and Vice-Chancellor). Professor Kearney received an allowance for this position of £12,000 for the period 1 August 2015 to 30 September 2015, not included in the comparative figures above.

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

	Consolidated	
	2016/17	2015/16
	Number of employees	
Remuneration band		
£100,001- £110,000	18	18
£110,001- £120,000	14	8
£120,001- £130,000	12	8
£130,001- £140,000	6	7
£140,001- £150,000	5	4
£150,001- £160,000	3	2
£160,001- £170,000	1	1
£170,001- £180,000	-	1
£180,001- £190,000	-	-
£190,001- £200,000	-	-
£200,001- £210,000	3	-
£210,001- £220,000	-	-
£220,001- £230,000	-	1
	<u>62</u>	<u>50</u>

In accordance with HEFCE's Accounts Direction for 2016/17 financial statements, these bands exclude staff who joined or left part way through the year who would have received emoluments in these bands in a full year.

Compensation for loss of office of £nil was paid in respect of higher paid staff (2015/16: £nil).

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. The University of Surrey defines its "key management personnel" to be the Executive Board members.

Key management personnel compensation is included in staff costs. The full time equivalent key management personnel were 16 (2015/16: 13).

	2016/17	2015/16
	£000	£000
Salary, pension contributions and other emoluments	2,771	2,451

10 Other operating expenses

	Consolidated		University	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Other operating expenses (inclusive of irrecoverable VAT) include:				
External auditors remuneration in respect of the audit of these financial statements	63	83	63	83
External auditors remuneration in respect of other services:				
Audit of the University's subsidiaries	13	13	-	-
Audit related services	41	39	41	39
Consultancy	50	-	50	-
Operating lease rentals: land and buildings	1,592	1,642	1,592	1,554
other	1,650	1,590	1,551	1,492
Foreign exchange (gains)/losses	(66)	157	(66)	157

The total consolidated statutory audit fee paid directly to KPMG, net of VAT, was £65,000 (2015/16: £82,000).

Trustees

No trustee received payment for serving as a trustee during the year (2015/16: £nil).

One trustee received £5,000 for services provided to the University (2015/16: £nil).

The total expenses paid to or on behalf of one trustee were £486 (2015/16: £1,318 to three trustees).

11 Interest and other finance costs

	Consolidated		University	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
On bank loans and other loans:				
Loans wholly repayable within five years	8	-	8	-
Loans not wholly repayable within five years	6,931	6,405	6,931	6,405
	6,939	6,405	6,939	6,405
On finance leases	598	631	598	631
(Decrease)/increase in fair value of derivatives	(1,178)	3,834	(1,178)	3,834
Net charge on pension scheme	1,727	1,907	1,700	1,907
Other interest payable	5	9	5	9
	8,091	12,786	8,064	12,786

12 Loss on investments

	Consolidated		University	
	2016/17	2015/16	2016/17	2015/16
	£000	£000	£000	£000
Loss on revaluation of Research Park	1,077	1,334	1,077	1,334
Other investment property losses	154	-	144	-
(Gain)/loss on revaluation of other investments	(349)	326	(168)	570
	882	1,660	1,053	1,904

Notes to the financial statements (continued)**13a Taxation**

	Consolidated	
	2016/17	2015/16
	£000	£000
Recognised in the statement of comprehensive income and expenditure		
Corporation tax on RDEC claim	-	60
Tax on profits of subsidiary undertakings	(44)	63
Foreign tax	57	38
Current tax charge	<u>13</u>	<u>161</u>

13b Factors affecting current tax charge

	Consolidated	
	2016/17	2015/16
	£000	£000
Surplus before taxation	<u>4,239</u>	<u>1,101</u>
Surplus multiplied by standard rate of corporation tax in the UK of 19.67% (2015/16: 20%)	848	220
Factors affecting charge:		
University surplus exempt from tax	(1,031)	(305)
Balances eliminated on consolidation exempt from tax	4	4
Tax charged on RDEC claim	-	60
Tax charged on profits earned overseas	57	38
Write off deferred tax debtor in subsidiary	-	53
Corporation tax payment by subsidiary	-	9
Deferred tax net credit in subsidiaries	(45)	-
Losses carried forward in subsidiaries	79	21
Losses carried back against prior year profit in subsidiary	22	-
Expenses disallowable for tax in subsidiaries	32	36
Other	47	25
Total current tax charge (note 13a)	<u>13</u>	<u>161</u>

14 Intangible assets**Software**

	Consolidated & University £'000
Cost	
At 1 August 2016	7,486
Additions at cost	2,255
Disposals	(31)
At 31 July 2017	<u>9,710</u>
Amortisation	
At 1 August 2016	6,899
Charge for the year	920
Disposals	(19)
At 31 July 2017	<u>7,800</u>
Net book value	
At 31 July 2017	<u>1,910</u>
At 31 July 2016	<u>587</u>

Notes to the financial statements (continued)**15 Tangible fixed assets**

Consolidated	Land and buildings		Assets under construction	Plant and equipment	Total
	Freehold	Leasehold			
	£000	£000	£000	£000	£000
Cost					
At 1 August 2016	666,068	8,780	24,643	111,511	811,002
Additions at cost	13,630	-	28,576	6,922	49,128
Transfers	13,183	-	(13,583)	400	-
Disposals at cost	(158)	-	-	(31)	(189)
At 31 July 2017	692,723	8,780	39,636	118,802	859,941
Depreciation					
At 1 August 2016	29,791	492	-	84,901	115,184
Charge for the year	16,175	246	-	7,979	24,400
Disposals	(22)	-	-	(19)	(41)
At 31 July 2017	45,944	738	-	92,861	139,543
Net book value					
At 31 July 2017	646,779	8,042	39,636	25,941	720,398
At 31 July 2016	636,277	8,288	24,643	26,610	695,818
University					
	Freehold	Leasehold	Assets under construction	Plant and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 August 2016	666,051	8,780	24,643	111,511	810,985
Additions at cost	13,540	-	28,576	6,922	49,038
Transfers	13,183	-	(13,583)	400	-
Disposals at cost	(158)	-	-	(31)	(189)
At 31 July 2017	692,616	8,780	39,636	118,802	859,834
Depreciation					
At 1 August 2016	29,910	492	-	84,901	115,303
Charge for the year	16,161	246	-	7,979	24,386
Disposals	(22)	-	-	(19)	(41)
At 31 July 2017	46,049	738	-	92,861	139,648
Net book value					
At 31 July 2017	646,567	8,042	39,636	25,941	720,186
At 31 July 2016	636,141	8,288	24,643	26,610	695,682

At 31 July 2017 freehold land and buildings included £143,909,000 (2016: £143,909,000) in respect of freehold land which is not depreciated.

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

During the year £1,242,000 (2015/16: £110,000) of borrowing costs were capitalised in fixed assets, at a capitalisation rate of 3.36% (2015/16: 3.49%).

Notes to the financial statements (continued)**15 Tangible fixed assets (continued)**

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

	Consolidated & University	
	2017	2016
	£000	£000
Net book value		
Land & buildings	8,041	10,527
Equipment	194	304
	<u>8,235</u>	<u>10,831</u>
Depreciation charge for year		
Land & buildings	246	297
Equipment	110	61
	<u>356</u>	<u>358</u>

16 Investment properties

Consolidated	Research Park Buildings			Other	Total
	Undeveloped Land	Under Development	Completed Buildings	Buildings	
	£000	£000	£000	£000	£000
At 1 August 2016	8,050	1,286	110,048	400	119,784
Additions	-	1,172	-	-	1,172
Transfers	455	(2,393)	1,938	-	-
Disposals	-	-	(131)	-	(131)
Change in market value	(955)	-	(122)	(100)	(1,177)
At 31 July 2017	<u>7,550</u>	<u>65</u>	<u>111,733</u>	<u>300</u>	<u>119,648</u>
 University					
	Undeveloped Land	Under Development	Completed Buildings	Other Buildings	Total
	£000	£000	£000	£000	£000
At 1 August 2016	8,050	1,286	110,048	-	119,384
Additions	-	1,172	-	-	1,172
Transfers	455	(2,393)	1,938	-	-
Disposals	-	-	(131)	-	(131)
Change in market value	(955)	-	(122)	-	(1,077)
At 31 July 2017	<u>7,550</u>	<u>65</u>	<u>111,733</u>	<u>-</u>	<u>119,348</u>

The Research Park completed buildings, which have a historical cost of £55,472,000 (2016: £53,942,000), were valued as at 31 July 2017 by an external valuer, Deloitte LLP. The valuation of the property was in accordance with Valuation Practice Standard 3 of the RICS Valuation – Global Standards 2017 (revised July 2017) ('The Red Book').

The valuation was prepared on the basis of fair value, defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Notes to the financial statements (continued)**17 Other non-current investments****Consolidated**

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2016	-	1,753	1,753
Additions	-	-	-
Disposals	-	(1)	(1)
Change in market value	-	98	98
At 31 July 2017	-	1,850	1,850

University

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2016	3,198	1,259	4,457
Additions	1,680	-	1,680
Disposals	-	-	-
Change in market value	(206)	124	(82)
At 31 July 2017	4,672	1,383	6,055

Significant shareholdings in subsidiaries

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

All subsidiaries are registered in England and Wales.

18 Trade and other receivables

	Consolidated		University	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	10,258	6,782	10,328	7,057
Amounts owed by subsidiary undertakings	-	-	9,169	9,023
Other receivables including taxation	140	174	104	139
Deferred tax (note 19)	196	241	-	-
Prepayments and accrued income	18,805	17,565	18,779	17,484
	29,399	24,762	38,380	33,703

Other receivables in the Consolidated and University balance sheets include £nil which is due after more than one year (2016: £nil).

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

Notes to the financial statements (continued)**19 Deferred tax asset**

	Consolidated		University	
	2017	2016	2017	2016
	£000	£000	£000	£000
The deferred tax asset comprises:				
Accelerated capital allowances	23	19	-	-
Short term timing differences	63	3	-	-
Pension	110	219	-	-
	196	241	-	-
Deferred tax asset excluding pension:				
Balance at 1 August	22	79	-	-
Credit/(charge) to the statement of comprehensive income and expenditure	64	(57)	-	-
Balance at 31 July	86	22	-	-
Deferred tax pension asset:				
Balance at 1 August	219	154	-	-
(Charge)/credit to the statement of comprehensive income and expenditure	(19)	2	-	-
(Charge)/credit to other comprehensive income	(90)	63	-	-
Balance at 31 July	110	219	-	-

20 Current asset investments

	Consolidated & University	
	2017	2016
	£000	£000
Short term deposits (maturing within 1 year)	127,000	15,028
Other investments	467	239
	127,467	15,267

Short term deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority with more than 3 months and less than 12 months maturity at inception.

21 Creditors : amounts falling due within one year

	Consolidated		University	
	2017	2016	2017	2016
	£000	£000	£000	£000
Unsecured loans (note 23a)	6,784	6,380	6,784	6,380
Obligations under finance leases (note 23b)	697	662	697	662
Other loans (note 23c)	232	238	232	238
Payments received on account	8,769	8,758	8,769	8,758
Trade creditors	4,086	3,087	3,980	3,162
Amounts owed to group undertakings	-	-	120	47
Other creditors including taxation and social security	14,690	14,858	14,590	14,958
Government deferred capital grants	3,517	4,044	3,517	4,044
Accruals and deferred income	74,409	68,209	73,633	67,206
	113,184	106,236	112,322	105,455

Deferred income

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

	Consolidated & University	
	2017	2016
	£000	£000
Research grants received on account	6,882	5,183
Other grant income	782	679
	7,664	5,862

Notes to the financial statements (continued)**22 Creditors : amounts falling due after more than one year**

	Consolidated		University	
	2017 £000	2016 £000	2017 £000	2016 £000
Unsecured loans (note 23a)	276,637	163,421	276,637	163,421
Obligations under finance leases (note 23b)	8,574	9,273	8,574	9,273
Government deferred capital grants	66,802	65,831	66,802	65,831
Derivatives	26,719	34,758	26,719	34,758
Other loans (note 23c)	860	1,092	860	1,092
Other creditors	29	53	-	-
	379,621	274,428	379,592	274,375

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

During 2016/17 a hedging gain of £1,178,000 (2015/16: loss of £3,834,000) was recognised in the statement of comprehensive income and expenditure for changes in fair value of interest rate swaps and £6,861,000 was reclassified from the statement of comprehensive income and expenditure to the cash flow hedge reserve (2015/16: £7,337,000 from the cash flow hedge reserve to the statement of comprehensive income and expenditure).

23 Borrowings**a. Unsecured loans**

	Consolidated & University	
	2017 £000	2016 £000
Unsecured loans are repayable as follows:		
Within one year or on demand	6,784	6,380
Between one and two years	11,041	6,784
Between two and five years	35,667	32,928
Over five years	229,929	123,709
	283,421	169,801
Due within one year or on demand	(6,784)	(6,380)
Due after more than one year	276,637	163,421
	283,421	169,801

Unsecured loans repayable by 2052

Unsecured loans at 31 July 2017 were as follows:

	£000	Interest rate %	Maturity	Borrower
Banks:				
Scottish Widows	18,163	variable	2031	University
Scottish Widows	25,560	variable	2022-2026	University
Lloyds	50,000	fixed / variable	2033	University
National Westminster	14,951	variable	2030	University
National Westminster	1,665	variable	2022	University
National Westminster	11,062	variable	2032	University
Santander	42,020	variable	2035	University
Private Placement:				
Legal & General	40,000	fixed	2046	University
Pricoa	55,000	fixed	2046	University
BAE Systems Pension Fund	25,000	fixed	2052	University
	283,421			

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

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

The weighted average interest rate at 31 July 2017, inclusive of lender margins and swap costs, was 3.59% (2016: 3.76%).

Notes to the financial statements (continued)**23 Borrowings (continued)****b. Finance leases**

Net finance lease obligations are repayable as follows:

Consolidated & University	2017		Total	2016		Total
	Land & buildings	Plant & equipment		Land & buildings	Plant & equipment	
	£000	£000	£000	£000	£000	£000
Within one year	597	100	697	562	100	662
Between two and five years	2,768	98	2,866	3,540	198	3,738
Over five years	5,708	-	5,708	5,535	-	5,535
	9,073	198	9,271	9,637	298	9,935

c. Other loans

Other loans are repayable as follows:

	Consolidated & University	
	2017	2016
	£000	£000
Within one year	232	238
Between two and five years	283	514
Over five years	577	578
Total other loans	1,092	1,330

24 Provisions

Consolidated	Obligation to fund deficit on USS pension	Defined benefit obligations	Pension enhancements on termination	Total
	£000	£000	£000	£000
At 1 August 2016	34,298	45,604	1,397	81,299
Utilised in year	(1,266)	(729)	(108)	(2,103)
Additions	761	(9,591)	86	(8,744)
At 31 July 2017	33,793	35,284	1,375	70,452
University	Obligation to fund deficit on USS pension	Defined benefit obligations	Pension enhancements on termination	Total
	£000	£000	£000	£000
At 1 August 2016	34,298	44,512	1,397	80,207
Utilised in year	(1,266)	(742)	(108)	(2,116)
Additions	761	(9,136)	86	(8,289)
At 31 July 2017	33,793	34,634	1,375	69,802

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

The defined benefit obligations comprise the deficits on the local government pension schemes (Surrey Pension Fund and LPFA Pension Fund). The University is currently making monthly payments to the Surrey Pension Fund of £144,000 to pay off the deficit by 2033 and an annual payment to the LPFA Pension Fund of £80,000, rising annually with CPI, to pay off the deficit by 2028. The obligations and payments are subject to revision following each triennial valuation.

For the assumptions on the discount rate and inflation used for calculating the provision for pension enhancements on termination see note 34b.

Notes to the financial statements (continued)**25 Endowment reserve****Consolidated & University**

	Restricted permanent £000	Restricted expendable £000	2017 Total £000	2016 Total £000
Balances at 1 August 2016				
Capital	253	1,979	2,232	2,432
Accumulated income	186	254	440	129
	439	2,233	2,672	2,561
New endowments	-	109	109	355
Investment income	10	22	32	43
Expenditure	(7)	(381)	(388)	(230)
Increase/(decrease) in market value of investments	51	82	133	(57)
	54	(168)	(114)	111
At 31 July 2017	493	2,065	2,558	2,672

Represented by:

Capital	325	1,882	2,207	2,232
Accumulated income	168	183	351	440
	493	2,065	2,558	2,672

Analysis by type of purpose:

Scholarships and bursaries	263	1,144	1,407	1,459
Prize funds	201	115	316	305
Hardship funds	29	22	51	154
General	-	781	781	748
Research support	-	3	3	6
	493	2,065	2,558	2,672

Analysis by asset:

Listed investments			1,207	1,042
Cash held as part of investment portfolio			63	104
Cash held at bank for endowment funds			1,288	1,526
			2,558	2,672

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 2016 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2017 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	569	12	(27)	64	618
Studentship (2 funds)	344	2	(69)	-	277
	913	14	(96)	64	895

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

Notes to the financial statements (continued)**27 Restricted reserves****Consolidated & University**

	Donations £000	2017 Total £000	2016 Total £000
At 1 August 2016	195	195	175
New donations	223	223	181
Expenditure	(223)	(223)	(161)
At 31 July 2017	195	195	195

Analysis of restricted reserves by type of purpose:

Scholarships and bursaries	74	68
Prize funds	4	6
Hardship fund	32	7
Other	73	98
Research support	12	16
	195	195

28 Cash flow hedge reserve**Consolidated & University**

	2017 Total £000	2016 Total £000
At 1 August 2016	(23,591)	(16,254)
Hedging gain/(loss)	6,861	(7,337)
At 31 July 2017	(16,730)	(23,591)

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

	At 1 August 2016 £000	Cash flows £000	Non-cash changes £000	At 31 July 2017 £000
Loans due within one year (note 21)	(6,618)	6,618	(7,016)	(7,016)
Loans due after one year (note 22)	(164,513)	(120,000)	7,016	(277,497)
Finance leases (note 23b)	(9,935)	664	-	(9,271)
Financing	(181,066)	(112,718)	-	(293,784)
Cash and cash equivalents	53,992	(19,096)	-	34,896
Short term deposits (note 20)	15,028	111,959	13	127,000
	(112,046)	(19,855)	13	(131,888)

30 Capital commitments**Consolidated & University**

	2017 £000	2016 £000
Commitments contracted at 31 July	75,277	10,639
Authorised but not contracted at 31 July	13,620	16,545
	88,897	27,184

Notes to the financial statements (continued)**31 Lease obligations**

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

Consolidated & University

	2017		2016	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	433	21	478	14
Between two and five years	-	1,180	-	1,554
Over five years	-	-	-	-
	<u>433</u>	<u>1,201</u>	<u>478</u>	<u>1,568</u>

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

Consolidated

	2017		2016	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	5,241	-	4,827	-
Between two and five years	14,654	-	15,134	-
Over five years	10,653	-	9,165	-
	<u>30,548</u>	<u>-</u>	<u>29,126</u>	<u>-</u>

University

	2017		2016	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Expiry date:				
Within one year	5,241	-	4,827	-
Between two and five years	14,654	-	15,134	-
Over five years	9,209	-	9,165	-
	<u>29,104</u>	<u>-</u>	<u>29,126</u>	<u>-</u>

32 Contingent assets and liabilities

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

There are no other known contingent assets or liabilities.

33 Financial commitments**Undrawn loan facilities**

On 4 June 2013 the University entered into an agreement with Lloyds TSB Bank plc to borrow £60,000,000. £35,000,000 of this balance was drawn down on 31 October 2013, £15,000,000 was drawn down on 31 October 2014 and the balance of £10,000,000 is due to be drawn down no later than 31 December 2018.

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

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

Notes to the financial statements (continued)

34 Pension schemes

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

	Consolidated	
	2016/17	2015/16
	Total £000	Total £000
USS	13,492	11,901
Local government pension scheme	3,443	3,443
Other pension schemes	344	342
Total pension cost	<u>17,279</u>	<u>15,686</u>

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

	Consolidated	
	2016/17	2015/16
	£000	£000
USS	-	28
Local Government Pension Scheme curtailments	-	49
	<u>-</u>	<u>77</u>

a. Universities Superannuation Scheme (USS)

USS is valued every three years by a professionally qualified independent actuary using the projected unit method. The actuary carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2017 are included in this note.

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

The latest triennial actuarial valuation of the scheme was as at 31 March 2014 ("the valuation date"). This was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings. FRS 102 valuations of these assets and liabilities at 31 July 2016 and 31 July 2017 were:

	2017	2016
	£000	£000
Scheme assets	60,000,000	49,800,000
Total scheme liabilities	<u>(77,500,000)</u>	<u>(58,300,000)</u>
FRS 102 total scheme deficit	<u>(17,500,000)</u>	<u>(8,500,000)</u>
FRS 102 total funding level	77%	85%

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

	2017	2016
Discount rate	2.6%	3.6%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.4%	2.2%

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

Notes to the financial statements (continued)**34 Pension schemes (continued)****a. Universities Superannuation Scheme (USS) (continued)**

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

Male members' mortality	98% of S1NA ["light"] YoB tables - no age rating
Female members' mortality	99% of S1NA ["light"] YoB tables - rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	2017	2016
Males/females currently aged 65	24.4/26.6 years	24.3/26.5 years
Males/females currently aged 45	26.5/29.0 years	26.4/28.8 years

As part of the 31 March 2014 valuation, the trustee determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2031.

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

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

At 31 March 2014 USS had over 167,000 active members and the University had 1,887 active members participating in the scheme.

The contribution rate payable by the University was increased from 16.0% of pensionable salaries to 18.0% from 1 April 2016.

Recovery plan

Following the 2014 actuarial valuation which valued the scheme deficit at £5.3 billion, employers contributing to the USS agreed a deficit recovery plan, aiming to eliminate the deficit over 17 years by 31 March 2031. In order to achieve this, the USS recovery plan estimates that the % of pensionable salaries payable required to eliminate the deficit are:

To 31 March 2016	0.70%
1 April 2016 to 30 September 2016	2.50%
1 October 2016 to 31 March 2031	2.10%

The University has used a financial model to estimate its liability to USS under the USS deficit recovery plan. The model was developed by the British Universities Finance Directors Group (BUFDG), with the support of the USS trustee company. The following assumptions were used in that model:

	2017	2016
Opening discount rate	1.78%	1.78%
Closing discount rate	1.91%	1.78%
Salary inflation	3.2% to 4.0%	2.6% to 4.0%
Staff changes	0.8% to 10.7%	0.5% to 12.4%

Notes to the financial statements (continued)

34 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. In the intervening years the actuary reviews the progress of the scheme.

The contribution payable by the employer, as a percentage of payroll, is 19.9%. This percentage reflects the future service contribution. The past service deficit will be met by the payment of monetary amounts. The amount payable in respect of the past service deficit in 2016/17 was £1,732,000 per annum (2015/16: £1,732,000).

Under the definitions set out in section 28 of FRS 102, "Employee benefits", the Surrey Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2017.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2017 on an FRS102 basis by a qualified independent actuary. The material assumptions used by the actuary were:

	Consolidated	
	2017	2016
Pension increase rate (CPI)	2.4%	1.9%
Salary increase rate	2.7%	3.4%
Discount rate	2.6%	2.4%

Life expectancy is based on Vita Curves with improvements in line with the CMI 2013 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25%. Based on these assumptions, the average future life expectancies at age 65 for males and females are summarised below:

	2017		2016	
	Males	Females	Males	Females
Current pensioners	22.5 years	24.6 years	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2016 is 45 years)	24.1 years	26.4 years	24.5 years	26.9 years

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

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

	Consolidated	
	2017	2016
	£000	£000
Equities	70,203	68,483
Bonds	13,464	14,417
Property	7,693	5,407
Cash	4,808	1,802
	96,168	90,109

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

Analysis of amounts shown in the balance sheet

	Consolidated	
	2017	2016
	£000	£000
Fair value of employer assets	96,168	90,109
Present value of funded liabilities	(131,287)	(134,920)
Net underfunding in funded plans	(35,119)	(44,811)
Present value of unfunded liabilities	(1,277)	(1,286)
Net liability	(36,396)	(46,097)

Notes to the financial statements (continued)**34 Pension schemes (continued)****b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)****Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure**

	Consolidated	
	2016/17	2015/16
	£000	£000
Current service cost	3,443	3,443
Net interest	1,101	1,374
Past service cost (including curtailments)	-	49
	<u>4,544</u>	<u>4,866</u>
Actual return on plan assets	<u>(5,929)</u>	<u>(7,272)</u>

Analysis of amounts recognised in other comprehensive income

	Consolidated	
	2016/17	2015/16
	£000	£000
Changes in financial assumptions	(2,571)	(13,115)
Other experience gains	9,625	1,743
Return on assets excluding amounts shown in net interest	3,351	4,320
Total measurements recognised in other comprehensive income	<u>10,405</u>	<u>(7,052)</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2016/17	2015/16
	£000	£000
Opening defined benefit obligation	136,207	119,673
Current service cost	3,443	3,443
Interest cost on defined benefit obligation	3,271	4,326
Contributions by members	671	789
Changes in financial assumptions	2,571	13,115
Other experience gains	(9,625)	(1,743)
Past service cost (including curtailments)	-	49
Estimated benefits paid	(3,887)	(3,358)
Unfunded benefits paid	(87)	(87)
Closing defined benefit obligation	<u>132,564</u>	<u>136,207</u>

Changes in the fair value of employer assets

	Consolidated	
	2016/17	2015/16
	£000	£000
Opening fair value of employer assets	90,109	81,048
Interest on assets	2,170	2,951
Contributions by members	671	789
Contributions by the employer	3,754	4,359
Contributions in respect of unfunded benefits	87	87
Return on assets less interest	3,351	4,320
Estimated benefits paid	(3,887)	(3,358)
Unfunded benefits paid	(87)	(87)
Closing fair value of employer assets	<u>96,168</u>	<u>90,109</u>

Notes to the financial statements (continued)

34 Pension schemes (continued)

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

The LPFA Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method. In the intervening years, the actuary reviews the progress of the scheme.

Under the definitions set out in Section 28 of FRS 102, "Employee benefits", the LPFA Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2017.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2017 on an FRS 102 basis by a qualified independent actuary. The relevant material assumptions used by the actuary at 31 July 2017 were:

	2017	2016
Pension increase rate (CPI)	2.0%	1.5%
Discount rate	1.5%	1.6%

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

	2017		2016	
	Males	Females	Males	Females
Retiring today	21.1 years	24.0 years	21.9 years	24.0 years

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

	2017	2016
	£000	£000
Cashflow matching	-	157
Equities	1,279	927
Cash	145	75
Target return portfolio	433	438
Other assets	230	204
	<u>2,087</u>	<u>1,801</u>

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

Analysis of amounts shown in the balance sheet

	2017	2016
	£000	£000
Fair value of employer assets	2,087	1,801
Present value of funded liabilities	<u>(2,252)</u>	<u>(2,594)</u>
Net underfunding in funded plans	(165)	(793)
Present value of unfunded liabilities	<u>(98)</u>	<u>(111)</u>
Net liability	<u>(263)</u>	<u>(904)</u>

Notes to the financial statements (continued)**34 Pension schemes (continued)****c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund) (continued)****Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure**

	2016/17	2015/16
	£000	£000
Net interest	14	22
Administration expenses	2	3
	16	25
Actual return on plan assets	(270)	(95)

Analysis of amounts recognised in other comprehensive income

	2016/17	2015/16
	£000	£000
Changes in financial assumptions	39	(202)
Other experience gains/(losses)	135	(4)
Return on assets excluding amounts shown in net interest	242	43
Other actuarial gains on assets	59	-
Total measurements recognised in other comprehensive income	475	(163)

Changes in the present value of the defined benefit obligation

	2017	2016
	£000	£000
Opening defined benefit obligation	2,705	2,659
Interest cost	42	74
Change in financial assumptions	99	202
Change in demographic assumptions	(138)	-
Other experience (gains)/losses	(135)	4
Estimated benefits paid	(210)	(221)
Unfunded benefits paid	(13)	(13)
Closing defined benefit obligation	2,350	2,705

Changes in the fair value of employer assets

	2017	2016
	£000	£000
Opening fair value of employer assets	1,801	1,854
Interest on assets	28	52
Return on assets less interest	242	43
Other actuarial gains	59	-
Contributions by the employer	169	76
Contributions in respect of unfunded benefits	13	13
Estimated benefits paid	(210)	(221)
Unfunded benefits paid	(13)	(13)
Administration expenses	(2)	(3)
Closing fair value of employer assets	2,087	1,801

Notes to the financial statements (continued)**35 Related party transactions**

All transactions involving entities in which a member of the Council or the Executive Board may have an interest, including those identified below, are conducted in accordance with the University's financial regulations and normal procurement procedures. The University has taken advantage of the exemption under FRS 102 not to disclose transactions with subsidiaries that are wholly owned. The table below shows transactions with related parties not covered by the exemption.

Related parties include Council and Executive Board members and entities in which the Council and Executive Board members have significant influence.

2016/17

	Recognised income	Recognised expenditure	Balance due to/(from) the University
	£000	£000	£000
Charterhouse School	2	-	-
Electrical Research Association Foundation	68	-	-
Guildford Education Partnership	1	-	-
Kent, Surrey & Sussex Air Ambulance Trust	2	-	-
Royal Surrey County Hospital Foundation NHS Trust	629	-	(102)
Surrey County Council	165	30	(22)
University of Surrey Students' Union	176	1,169	2

2015/16

	Recognised income	Recognised expenditure	Balance due to/(from) the University
	£000	£000	£000
Andrews and Partners Ltd	122	-	21
Electrical Research Association Foundation	75	-	-
Philips Electronics UK Ltd	30	20	28
Recycling Technologies Ltd	22	-	2
Surrey County Council	110	21	10
Universities UK	36	2	-
University of Surrey Students' Union	59	1,114	-

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

The carrying amounts of the financial assets include:

	2017	2016
	£000	£000
Assets measured at fair value through the statement of comprehensive income and expenditure	1,674	1,281
Liabilities measured at fair value through the statement of comprehensive income and expenditure	(26,719)	(34,758)

Assets

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

During the year income arising from assets measured at fair value of £25,000 (2015/16: £48,000) and net gains on changes in fair value of £388,000 (2015/16: £467,000 loss) were recognised in the statement of comprehensive income and expenditure.

Liabilities

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

Lender	Interest rate %	Maturity	Interest payment frequency	Fair value	
				2016	2016
				£000	£000
Barclays	5.09	2032	Quarterly	2,084	4,774
Barclays	5.38	2032	Quarterly	3,881	2,546
Lloyds	5.49	2022	Quarterly	1,176	1,605
Lloyds	4.00	2038	Quarterly	1,213	6,339
RBS	4.74	2024	Quarterly	1,286	1,649
RBS	4.52	2024	Quarterly	12,134	1,564
Barclays	4.33	2035	Quarterly	4,945	16,281
				<u>26,719</u>	<u>34,758</u>

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

During the year changes in the fair value of the interest rate swaps of £1,243,000 were credited to interest payable (2015/16: £3,834,000 charge to interest payable) and £6,947,000 credited to other comprehensive income (2015/16: £7,337,000 charge to other comprehensive income).

Council members (trustees)

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

Chair

Dr J Glover

Vice-Chair

Ms A Watts

Treasurer

Mr A Stuart

Ex officio members

President & Vice-Chancellor

Professor G Q M Lu

Provost & Executive Vice-President

Professor M Kearney

Chief Operating Officer

Mr D Sharkey (from December 2016)

Senior Vice-President (Advancement and Partnerships)

Mr G Melly (from December 2016)

Senior Vice-President (Global Strategy and Engagement)

Professor V Emery (from December 2016)

President, Students' Union

Ms A Mackenzie Smith (to July 2017)

Ms S Cochrane (from July 2017)

Elected by the Senate

Professor R Brooks

Dr R Woods (to August 2017)

Professor S Price (from September 2017)

Professor P Smith (from September 2017)

Lay members

Mr V Baxi (from January 2017)

Dr H Bowcock (to July 2017)

Dr A Bragg

Dr M Goodfellow

Mr A Herman (to December 2016)

Dr S Howes

Ms C Ighodaro

Mr P Maskell

Mr D McNulty (from January 2017)

Mr M Queen

Ms J Sawkins

Dato Dr Kim Tan (to March 2017)

Mr K Taylor (to December 2016)

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