

UniS

University of Surrey

Statement of
Accounts
2001-2002



Guildford

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Consolidated Financial Highlights for Financial Year 2001/2002

	2001/2002	2000/2001	% Increase (Decrease)
	£000	£000	
Income and Expenditure			
Income			
HEFCE Teaching Grant	16,949	16,795	0.9
Research, deferred and other specific grants	14,210	12,683	12.0
	<u>31,159</u>	<u>29,478</u>	5.7
Home Tuition Fees (i)	13,189	12,511	5.4
Total grant plus home fees	<u>44,348</u>	<u>41,989</u>	5.6
Other Income	87,105	74,535	16.9
Total Income	<u>131,453</u>	<u>116,524</u>	12.8
Total Expenditure	128,208	115,668	10.8
including taxation £213k and minority interest £4k, 2000/2001 taxation £6k and minority interest £7k			
Consolidated surplus for the year	<u>3,245</u>	<u>856</u>	
HEFCE Grants plus Home Tuition Fees as percentage of total Income	<u>33.7%</u>	<u>36.0%</u>	
Note			
(i) Home Tuition Fees are derived from UK and other EU students.			
	2001/2002	2000/2001	
	£000	£000	
Assets			
Capital Assets purchased or donated in year	<u>17,780</u>	<u>8,234</u>	115.9
Total Net Assets	<u>122,954</u>	<u>112,517</u>	9.3

Report of the Chairman of Council

Financial Environment

In my last report I referred to the preparations that were in train for the submission of our evidence and achievements for the Research Assessment Exercise (RAE). I am pleased to say that the outcome of the RAE has been favourable for the University with much improved research gradings. However, we were disappointed that the Government failed to match this improvement in gradings with the necessary proportional increases in the research element of our grant. An initial analysis of the financial results of the Comprehensive Spending Review (CSR) indicates that further research funding will be made available for 2003/4 but the amount and phasing of this is as yet unknown. I would draw your attention to the financial highlights on page 2 where it can be seen that the proportion of income from HEFCE grants and home tuition fees has fallen yet again to its lowest level at this University and is now only 33.7%. Whilst the various funded initiatives that the government have introduced provide additional funds towards directed schemes, often major capital projects, these are no substitute for increasing core funding to underpin basic teaching and research activities.

Major Financial Results

I am extremely pleased to report that the University's Consolidated Accounts for 2001/2002 show a surplus for the year of £3,245,000 (2000/2001: £856,000). Total income increased by 12.8% to £131,453,000 whilst total expenditure increased by 10.8% to £128,208,000. The University's investment in new capital assets in 2001/2002 was £17,780,000 (2000/2001: £8,234,000) which is equivalent to just over 13% of total income.

Looking at individual income sources, academic fees and support grants show an increase of 11%, up from £31,218,000 to £34,649,000 principally due to increases in postgraduate students. Funding Council grants relating to teaching and research show an increase of 2.1%. This does not reflect the improved funding as a result of the RAE as this is not received until 2002/2003. Research grant and contract income has achieved a 13.4% increase on a consolidated basis and is another excellent result. Academic Schools have generally performed well by managing close to budget. Improvements in our planning and budgeting processes, which operate in a devolved environment, have also helped to achieve this good result.

Scope of the Financial Statements

The Financial Statements presented to Council comprise the consolidated results of the University (including the University's Foundation Fund) and its subsidiary companies and trusts and should be read in conjunction with the University's Annual Report for 2001/2002. The main financial highlights are shown on page 2 of the Financial Statements. It is worth noting that this is the first year of operation of the University's new integrated accounting system. Whilst there have been a number of challenges and further improvements are still to come, the year-end timetable was achieved with only slight delays. We shall look to further improve the programme for next year.

Resource Allocation Methodology

The University has continued to evolve its Resource Allocation Methodology (RAM) which is an extremely important accountability tool in the University's strategic planning processes. The University aims to be transparent in its allocation of resources and the accountability for their use.

Long Term Borrowing

During the year there was a reduction in long term loans of £2,420,000 despite a gross capital spend of £17,780,000. The University has a policy of borrowing only against activities which generate strong income streams to support debt servicing costs. The University also seeks to minimise its borrowings in the short term by using its own cashflow as much as is feasible. In some cases Foundation Fund surpluses are used to underwrite debt servicing costs on some projects where commercial rates of return are not properly achievable. The loan debt and finance lease obligations outstanding at the end of 2001/2002 were £45,351,000 (2000/2001: £47,088,000).

Report of the Chairman of Council (continued)

Cash Flow and Net Current Assets

The cash flow statement shows that there has been a net decrease in cash of £839,000 over the year. Net current assets are shown as negative to the extent of £9,053,000 but this arises, as explained above, because the University is using cash reserves to fund capital expenditure rather than resorting to external borrowing.

Investment Performance and Cashflow

The total return on long term investments was 2.9% (2000/2001: 1.5%) whilst the rate of return on short term investments was 4.03% (2000/2001: 4.9%). The return on long term investments has improved because although dividend income has decreased on the year before, so has the value of the portfolio.

Foundation Fund

The financial performance of the Research Park, which is the main financial component of the Foundation Fund, has continued to be outstanding, especially in view of current market conditions. The surpluses generated by the Research Park represent an important independent source of income for the University to support strategic academic initiatives and finance capital projects. In 2001/2002 a total of £4,557,000 (2000/2001: £4,339,000) was transferred from the Foundation Fund to the University for these purposes. This was better than planned.

University Companies

Operationally the University's major company Surrey Satellite Technology Ltd (SSTL) had another successful year in terms of the number of new contracts gained and achieved a surplus of £602,705. The company is well set to achieve further controlled growth but operates in a challenging and still emerging market.

Major Capital Projects and Long Term Maintenance Programme

Two major building projects were in progress during the year - the Management School and the Advanced Technology Institute (ATI). The ATI has been completed after the financial year end and was opened by Lord Sainsbury in early October 2002. The University also continues to invest significant sums in its capital programme and long term maintenance in order to maintain and enhance its existing estate infrastructure. This will be a continuing and a growing requirement for which there will need to be prioritisation of funding.

Manor Park Development

The University is still awaiting the final adoption of the Local Plan which will remove Metropolitan Green Belt status from 60 hectares of Manor Park land for development for University purposes. Development on Manor Park is vital for the continued growth of the University. Further delay could seriously affect our ability to recruit students.

Employee and Student Involvement

The University encourages the involvement of all staff and students and fosters good communication with them. The University publishes a newsletter which is distributed widely to all staff and separate supplements are published when a need arises. Staff and students are encouraged to participate in formal and informal consultation at University, School and Departmental level, often through the membership of formal Committees. The University's Training and Staff Development Unit provides technical and general training to all levels of staff. The University is committed to an Equal Opportunities Policy.

Employees are represented on the University Council and on internal committees. Members of senior management meet regularly with representatives of trade unions who represent the interests of academics, research and support staff through consultative committees. When matters affect their employment directly, staff are advised in accordance with the University's agreed employment policies.

I am pleased to report that during the year the University has agreed a revised Student Union subvention which has enabled the Union to expand its student based services from 2002/2003 onwards.

Report of the Chairman of Council (continued)

Creditor Payment Policy

It is the University's policy to abide by the terms of payment agreed with suppliers. In most cases the University's conditions of purchase apply, namely that payment is made at the end of the calendar month following receipt and agreement of the invoice. However, in some cases, the terms of payment are determined by specific written or verbal agreement.

Current and Future Developments

The University's annual report for 2001/2002 outlines a number of important initiatives and achievements for the past financial year which include, inter alia;

- The successful outcome of our submission for the Research Assessment Exercise
- Progress being made by the University in taking forward its knowledge transfer activities
- The outcome of the senior management review including key appointments
- Developments within the Federal University
- The economic and cultural contribution that the University makes to Surrey and Guildford.

Conclusion

The University started the 2001/2002 financial year facing some significant financial challenges but has responded and managed the situation well. This has been achieved partly as a result of improved planning, budget setting and monitoring systems but mainly because of the skill and hard work of all the University's staff. I should personally like to record my thanks to all the staff for their help in achieving this surplus. This was an excellent team effort involving a wide range of staff, particularly in the Schools and the Finance Department. I want to stress that the University does not generate surpluses for their own sake but to provide resources for future investment. If we can continue to do this, and I have confidence that we can, it will provide us with the necessary flexibility to continue to improve and refine what the University offers and also to take advantage of opportunities as they arise.

External Auditors

Ernst & Young LLP were appointed as auditors to the University in 2001 and have now completed the second year of their appointment.

5 December 2002

Sir William Wells FRICS
Chairman of Council

Corporate Governance

The University is working towards exhibiting best practice in all aspects of corporate governance including compliance with all of the code provisions set out in Section 1 of the Combined Code on Corporate Governance insofar as they relate to universities. The University Council, as governing body, is responsible for the University's system of internal control and for reviewing its effectiveness. The University has an agreed Risk Management Policy which has been approved by Council. During the financial year a high level risk assessment was undertaken involving all the senior managers of the University. A risk register has been prepared and is being regularly reviewed and updated. A Risk Management Implementation Group has been established, with senior lay membership, to oversee this process. The University is currently undertaking a positive assurance exercise to ensure that current risks are appropriately managed, any significant changes in earlier risk assessments are scrutinised and any new risks are identified. It is intended that these processes will be reviewed regularly by the University's Council and will accord with internal control guidance.

Summary of the University's Structure of Corporate Governance

In accordance with the requirements of its Charter and Statutes, the University's Council comprises a number of *ex officio*, appointed, elected and co-opted lay and academic persons, the majority of whom are non-executive. The role of the Chairman of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The powers of the Council are set out in the Statutes of the University; and under the Financial Memorandum with the Higher Education Funding Council for England, the Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from its committees on the day to day operations of its business and of its subsidiary companies. The Council meets four times a year; and has several Committees, including a Planning and Resources Committee, a Finance and General Purposes Committee, a Buildings and Estates Committee and an Audit Committee. All of these Committees are formally constituted with appropriate terms of reference. With the exception of Planning and Resources Committee, which is comprised of senior officers of the University under the Chairmanship of the Vice-Chancellor as Chief Executive, all of them have substantial lay membership and have lay Chairmen.

The Finance and General Purposes Committee, *inter alia*, recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also monitors the financial performance of the University's companies and trading areas, as well as ensuring that the University's assets are well managed and that a reasonable return is achieved from them. The Committee has powers delegated by Council to authorise borrowing and investment of money on behalf of the University and to set fees. The Committee also has other non-financial powers relating to the appointment, promotion and dismissal of University employees as well as acting as the University's emergency committee. The committee meets six times a year.

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

Responsibilities of the Council of the University of Surrey

In accordance with the University's Charter and Statutes, the Council of the University is responsible for the administration and management of the affairs of the University and of the Group, including ensuring an effective system of financial control, 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 the Group and which enable it to ensure that the financial statements are prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the Group comprising the University and its subsidiaries and of their surplus or deficit and cash flows for that year.

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

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

The Council has taken reasonable steps to :

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

The key elements of the University's system of internal control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools 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;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Council; and
- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal financial control in existence for the University for the year ended 31 July 2002. This review has been based on the risks identified and the work carried out by the Internal Audit Department taking into account matters arising from the external audit. The Committee considers that there were no weaknesses in the framework that led during the year to any material losses or contingencies. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Independent Auditors' Report to the Council of the University of Surrey

We have audited the Financial Statements for the year ended 31 July 2002 which comprise the Consolidated and University Income and Expenditure accounts, Statement of Total Recognised Gains and Losses, Consolidated and University Balance Sheets, Consolidated Cash Flow Statement and related notes 1 to 35. These Financial Statements have been prepared on the basis of the accounting policies set out in the Statement of Principal Accounting Policies.

Respective responsibilities of the Council of the University and auditors

As described in the Responsibilities of the Council of the University of Surrey, the Council is responsible for the preparation of the Financial Statements in accordance with the Statements of Recommended Practice: Accounting for Further and Higher Education Institutions and other applicable United Kingdom law and accounting standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council.

We also report to you if, in our opinion, the Report of the Chairman of Council is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the report of the Chairman of Council and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the University Council in the preparation of the Financial Statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:-

- the Financial Statements give a true and fair view of the state of affairs of the University and of the group at 31 July 2002, and of the surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions;
- funds from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- income has been applied in accordance with the University's Statutes and, where appropriate, with the Financial Memorandum dated July 2000 with the Higher Education Funding Council for England.

Ernst and Young LLP

Registered Auditor
Southampton

5 December 2002

Statement of principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the statement of recommended practice (SORP): *Accounting in Further and Higher Education Institutions* and in accordance with applicable Accounting Standards. They conform to guidance published by the funding council.

Basis of accounting

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments.

Basis of consolidation

The consolidated financial statements include the University and Foundation Fund (the University's general endowment fund), the University's companies and trusts which have all been made up to 31 July. Intra-group sales and profits are eliminated fully on consolidation.

The financial statements of the University include the Foundation Fund which is separately operated and managed. The Foundation Fund was set up from the original national appeal for funds to establish the new University when it was founded in 1967. The University Council acts as trustees to the Foundation Fund with the power to act as trustees defined in the provision of the Royal Charter (Article 3 (19)). The Trustees do not make their funds available to subsidise ongoing University operation. They are used to support specific new academic initiatives and projects.

In accordance with FRS2, the activities of the students' union have not been consolidated because the University does not control those activities.

Recognition of income

Income from research grants, contracts and other services rendered is included to the extent of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs.

Recurrent grants from the Funding Council are recognised in the period in which they are receivable.

Non-recurrent grants from Funding Councils or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Maintenance of premises

The University has a five year rolling long-term maintenance plan, which forms the basis of the ongoing maintenance of the estate. The cost of long term and routine corrective maintenance is charged to the income and expenditure account as incurred.

Statement of principal accounting policies (continued)

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are 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.

Pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme and the Surrey County Council Superannuation Fund, both of which are multi-employer schemes. The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme. The funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services. A small number of staff remain in other pension schemes.

Tangible fixed assets

a. Land and buildings

Land and buildings are stated at cost. Expenditure on current capital projects is capitalised as it is incurred. Buildings are depreciated over their expected useful lives of 50 years.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

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.

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

Developed land and buildings held by the Foundation Fund are treated as investment property.

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, computer networks and other equipment	-	5 years
Computing equipment	-	3 years
Equipment acquired for specific research projects	-	project life
Furniture	-	10 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a grant received in advance and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

Statement of principal accounting policies (continued)

Donated assets

Where assets are received by way of donation these are capitalised and depreciated as set out above. The equipment is revalued on receipt based on its nil cost to the University and the associated revaluation is realised as income over the expected useful life of the asset.

Leased assets

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

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

Assets which are held under hire purchase contracts which have the characteristics of finance leases are depreciated over their useful lives.

Lease and leaseback scheme

The lease and leaseback scheme is being accounted for in accordance with the substance of the transaction in compliance with FRS5. As the sub lease and lease payment were connected transactions the net premium is treated as a capitalised lease premium and is being depreciated over the life of the lease.

Investments

Listed investment securities are included in the balance sheet at market value. Current asset investments are included at the lower of cost and net realisable value.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve. No depreciation is provided in respect of these properties.

Stocks

Catering, trading and centrally held stocks are stated at the lower of cost and net realisable value. Stocks held by teaching and research departments are generally excluded from the balance sheet, this expenditure being charged to the income and expenditure account when incurred.

Cash flows and liquid resources

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

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

Statement of principal accounting policies (continued)

Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation and Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax. Tax, including deferred tax, in respect of the trading activities of the University and its subsidiary operations, is provided for at current rates.

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

Research and development

Expenditure on general research and development is written off against profits in the year in which it is incurred. Expenditure on new product development within University companies is capitalised as and when the company is confident that the investment will result in a viable marketable product. Capitalised new product research and development costs are transferred to fixed assets.

Income and expenditure accounts for the year ended 31 July 2002

	Note	Consolidated		University	
		2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Income					
Funding Council grants	1	31,159	29,478	31,159	29,478
Academic fees and support grants	2	34,649	31,218	34,649	31,218
Research grants and contracts	3	22,511	19,845	20,729	18,049
Other operating income	4	33,871	27,171	22,626	17,890
Endowment and trust income and interest receivable	5	9,263	8,812	9,169	8,931
Total income		131,453	116,524	118,332	105,566
Expenditure					
Staff costs	6 & 10	69,028	65,142	63,851	60,885
Other operating expenses	8 & 10	48,409	40,667	41,823	34,772
Depreciation	10 & 13	6,442	5,790	5,590	4,972
Interest payable	9 & 10	4,120	4,070	4,145	4,153
Total expenditure		127,999	115,669	115,409	104,782
Surplus on continuing operations after depreciation of assets and before tax and minority interests		3,454	855	2,923	784
Taxation	11	(213)	(6)	-	-
Surplus on continuing operations after depreciation of assets and tax and before minority interests		3,241	849	2,923	784
Minority interests		4	7	-	-
Surplus for the year	12	3,245	856	2,923	784
Income and expenditure and restricted reserves					
brought forward		41,178	40,292	42,189	41,375
Transfer from revaluation reserve	25	27	30	27	30
Income and expenditure and restricted reserves carried forward		44,450	41,178	45,139	42,189

The difference between the result reported above and the result on an unmodified historical cost basis is a decrease to the surplus of £704,000 (2000/2001: £701,000). This arises because some properties which are accounted for as investment properties at valuation on the Research Park are used as University buildings and would otherwise be liable to depreciation for the year of £731,000. This would be offset to some extent because donated assets which had no cost to the University have been subject to a depreciation charge of £27,000 (2000/2001: £30,000) during the year.

All income and expenditure of the year relates to continuing activities.

Statement of consolidated total recognised gains and losses
for the year ended 31 July 2002

	Note	Consolidated	
		2001/2002 £000	2000/2001 £000
Surplus for the year after tax		3,241	849
Specific endowment income received during year	22	296	370
Specific endowment income released during year	22	(281)	(352)
Revaluation of general endowment	23	2,564	(2,660)
Unrealised (deficit)/surplus on revaluation of investments	25	(792)	121
Realised deficit on disposal of revalued investments	25	-	(21)
Total recognised gains relating to the year		<u>5,028</u>	<u>(1,693)</u>
Reconciliation			
Opening reserves and endowments		101,865	
Total recognised gains and losses for the year		5,028	
Closing reserves and endowments		<u>106,893</u>	

Balance sheets as at 31 July 2002

	Note	Consolidated		University	
		2002 £000	2001 £000	2002 £000	2001 £000
Fixed assets					
Tangible assets	13	92,990	82,073	92,062	80,420
Investments	14	25,087	26,144	28,007	27,768
		<u>118,077</u>	<u>108,217</u>	<u>120,069</u>	<u>108,188</u>
Endowment asset investments	14	<u>61,487</u>	<u>58,908</u>	<u>61,487</u>	<u>58,908</u>
Current assets					
Stocks and stores in hand		1,318	1,099	497	506
Debtors	15	21,116	15,432	13,741	14,428
Investments	16	4,423	2,980	4,423	2,980
Cash at bank and in hand		4,416	5,255	61	1,241
		<u>31,273</u>	<u>24,766</u>	<u>18,722</u>	<u>19,155</u>
Creditors : Amounts falling due within one year	17	<u>(40,326)</u>	<u>(29,463)</u>	<u>(29,279)</u>	<u>(23,005)</u>
Net current liabilities		<u>(9,053)</u>	<u>(4,697)</u>	<u>(10,557)</u>	<u>(3,850)</u>
Total assets less current liabilities		170,511	162,428	170,999	163,246
Creditors : Amounts falling due after more than one year	18	(46,363)	(48,783)	(46,232)	(48,671)
Provisions for liabilities and charges	20	<u>(1,194)</u>	<u>(1,128)</u>	<u>(1,194)</u>	<u>(1,128)</u>
Total net assets		<u>122,954</u>	<u>112,517</u>	<u>123,573</u>	<u>113,447</u>
Deferred capital grants	21	<u>16,061</u>	<u>10,652</u>	<u>16,001</u>	<u>10,585</u>
Endowments					
Specific	22	1,891	1,376	1,891	1,376
General	22	59,596	57,532	59,596	57,532
		<u>61,487</u>	<u>58,908</u>	<u>61,487</u>	<u>58,908</u>
Reserves					
Restricted reserves	24	1,166	1,183	989	979
Revaluation reserve	25	946	1,765	946	1,765
Income and expenditure account	26	43,284	39,995	44,150	41,210
		<u>45,396</u>	<u>42,943</u>	<u>46,085</u>	<u>43,954</u>
Total funds before minority interests		122,944	112,503	123,573	113,447
Minority interests		10	14	-	-
Total funds		<u>122,954</u>	<u>112,517</u>	<u>123,573</u>	<u>113,447</u>

The financial statements on pages 9 to 34 were approved by the governing body on 5 December 2002 and were signed on its behalf by:

Professor PJ Dowling CBE DL FEng FRS
Vice-Chancellor

Sir William Wells FRICS
Chairman of Council

Consolidated cash flow statement for the year ended 31 July 2002

	Note	Consolidated	
		2001/2002 £000	2000/2001 £000
Cash flow from operating activities	27	8,643	6,823
Returns on investments and servicing of finance	28	4,663	4,094
Taxation		(5)	(18)
Capital expenditure and financial investment	28	(10,762)	(5,693)
Cash inflow before use of liquid resources and financing		<u>2,539</u>	<u>5,206</u>
Management of liquid resources	28	(1,444)	(2,185)
Financing	28	(1,934)	465
(Decrease)/increase in cash in the period		<u>(839)</u>	<u>3,486</u>

		2001/2002 £000	2000/2001 £000
Reconciliation of net cash flow to movement in net debt	29		
(Decrease)/increase in cash in the period		(839)	3,486
Cash outflow/(inflow) from decrease/increase in debt financing		1,934	(465)
Cash outflow from decrease in liquid resources		<u>1,444</u>	<u>2,185</u>
Change in net debt resulting from cash flows		2,539	5,206
Increase in SAGE liabilities		(201)	(182)
New finance leases		<u>(188)</u>	<u>(420)</u>
Movement in net debt in the period		2,150	4,604
Net debt at 1 August		<u>(41,632)</u>	<u>(46,236)</u>
Net debt at 31 July		<u>(39,482)</u>	<u>(41,632)</u>

Notes to the financial statements

1 Funding Council Grants

	Consolidated & University	
	2001/2002	2000/2001
	£000	£000
Recurrent Grant		
Teaching	16,949	16,795
Research	11,667	11,226
	<u>28,616</u>	<u>28,021</u>
Specific Grants		
Rewarding and developing staff	596	0
Higher Education Innovations Fund	356	0
Higher Education Reach Out to Business	358	0
Management Development Fund	108	0
Graduate apprenticeships	41	0
Joint Information Systems Committee	38	294
Special needs	36	0
Widening participation	26	120
Teaching and Learning Technology Programme	16	134
Joint Research Equipment Initiative	16	5
Learning and teaching support network	16	5
Learning and teaching development	14	70
National Teaching Fellowship	14	0
Other	56	73
Deferred Capital Grants released in year (note 21)		
Building	241	241
Equipment	611	515
Total Grants from HEFCE	<u>31,159</u>	<u>29,478</u>

2 Academic Fees and Support Grants

	Consolidated & University	
	2001/2002	2000/2001
	£000	£000
UK HE students	10,760 ¹	12,511
EU (non UK) students	2,429	-
Non-EU students	12,170	10,220
Health Authority contract	8,939	8,354
Research Council support grants and bench fees	351	133
	<u>34,649</u>	<u>31,218</u>

¹ the prior year figure combines UK and non-UK students from the EU

3 Research Grants and Contracts

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
Research councils	8,652	7,825	8,652	7,825
UK based charities	2,509	746	631	746
European commission	3,161	1,946	3,082	1,946
Other grants and contracts	7,236	8,676	7,411	6,880
Releases from deferred capital grants	953	652	953	652
	<u>22,511</u>	<u>19,845</u>	<u>20,729</u>	<u>18,049</u>

Notes to the financial statements (continued)

4 Other Operating Income

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
Residences, catering and conferences	10,200	8,681	10,200	8,681
Other Services Rendered	15,818	14,352	3,782	4,299
Donations from subsidiary companies	-	-	203	317
Departmental income	2,757	1,400	2,776	1,400
Released from deferred capital grants	19	18	19	18
Use of University facilities & rental income	2,885	1,848	3,486	2,317
VAT recovered	2,065	783	2,065	783
Other income	127	89	95	75
	<u>33,871</u>	<u>27,171</u>	<u>22,626</u>	<u>17,890</u>

5 Endowment and Trust Income and Interest Receivable

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
Income from endowments (see note 22)	8,504	8,391	8,504	8,391
Income from trusts	100	129	51	120
Income from short term investments	659	292	614	420
	<u>9,263</u>	<u>8,812</u>	<u>9,169</u>	<u>8,931</u>

The endowment income includes general endowment income of £8,223,000 (2000/2001: £8,039,000) and specific endowment income of £281,000 (2000/2001: £352,000). Trust income of £65,000 (2000/2001: £68,000) is included as rental income within consolidated other operating income (note 4).

6 Staff

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
Staff costs :				
Wages and salaries	58,144	55,231	53,605	51,498
Social security costs	4,461	4,196	4,007	3,830
Other pension costs	6,423	5,715	6,239	5,557
	<u>69,028</u>	<u>65,142</u>	<u>63,851</u>	<u>60,885</u>

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	Number	Number	Number	Number
FTE staff numbers by major category				
Academic and related	974	862	883	841
Clerical	464	452	425	421
Technicians	118	168	118	139
Research	315	303	315	289
Manual	245	251	245	251
University staff seconded to subsidiary companies	-	-	(17)	(32)
	<u>2,116</u>	<u>2,036</u>	<u>1,969</u>	<u>1,909</u>

Notes to the financial statements (continued)

7 Emoluments of Higher Paid Staff

	2001/2002 £000	2000/2001 £000
Emoluments of the Vice-Chancellor	165	153
Pension contributions	19	17
Emoluments of the Vice-Chancellor including pension contributions	<u>184</u>	<u>170</u>

The emoluments of the Vice-Chancellor include all remuneration and benefits. The University's pension contributions to USS are paid at the same rates as for other academic staff. This is not included in the figure for emoluments.

The emoluments of other Higher Paid Staff including all remuneration, benefits and royalties, but excluding pension contributions :

Remuneration Band	2001/2002 Number of Employees	2000/2001 Number of Employees
£50,001 - £60,000	50	47
£60,001 - £70,000	24	23
£70,001 - £80,000	9	4
£80,001 - £90,000	3	2
£90,001 and over	7	6
	<u>93</u>	<u>82</u>

No early retirement costs were paid or payable in respect of Higher Paid Staff in 2001/2002 (2000/2001: £76,085 for two members of staff).

8 Other Operating Expenses

Consolidated	2001/2002 £000	2000/2001 £000
Residences, catering and conferences	5,812	3,141
Bursaries, scholarships and prizes	2,714	2,303
Repairs and general maintenance	2,142	1,704
Staff travel and subsistence	2,106	1,503
Consumables and laboratory expenditure	2,042	1,808
Course and conference costs for staff	1,684	1,704
Library services	1,646	1,576
Heat, light and power	1,146	1,240
Grants to University of Surrey Students' Union	660	626
Local authority rates	171	193
Auditors' remuneration (external audit)	55	54
Auditors' remuneration (for services other than external audit)	10	0
University companies (other than heat, light and power costs shown above)	6,586	4,945
Other expenses	21,635	19,870
	<u>48,409</u>	<u>40,667</u>

Notes to the financial statements (continued)

9 Interest Payable

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
On bank loans and other loans:				
Loans wholly repayable within five years	9	-	10	89
Loans not wholly repayable within five years	3,308	3,318	3,351	3,327
Other loans	189	172	189	172
	<u>3,506</u>	<u>3,490</u>	<u>3,550</u>	<u>3,588</u>
On finance leases	614	580	595	565
Total	<u>4,120</u>	<u>4,070</u>	<u>4,145</u>	<u>4,153</u>

The interest payable on other loans shown above relates to the SAGE scheme (note 32).

10 Analysis of 2001/2002 Expenditure by Activity

Consolidated	Staff Costs £000	Dep'n £000	Other Operating Expenses £000	Interest Payable £000	Total £000
Academic departments	37,707	1,383	9,742	-	48,832
Academic services	3,714	169	2,294	-	6,177
Research grants and contracts	7,876	991	7,736	-	16,603
Residences, catering & conferences	2,558	117	5,812	1,487	9,974
Premises	3,086	2,393	4,514	4	9,997
Administration	7,806	441	7,842	-	16,089
Other expenses	6,281	948	10,469	2,629	20,327
Total per income and expenditure account	<u>69,028</u>	<u>6,442</u>	<u>48,409</u>	<u>4,120</u>	<u>127,999</u>

The depreciation charge has been funded by :-

	£000
Deferred capital grants released (see note 21)	1,913
Revaluation reserve released (see note 25)	27
General income	<u>4,502</u>
	<u>6,442</u>

11 Taxation

	Consolidated	
	2001/2002	2000/2001
	£000	£000
UK corporation tax at 30% (2001: 20%) payable on the profits of certain subsidiary companies	<u>213</u>	<u>6</u>

12 Surplus on Continuing Operations for the Period

The surplus on continuing operations for the period is made up as follows:	2001/2002	2000/2001
	£000	£000
University's surplus for the year	3,042	579
Surplus generated by subsidiary undertakings and transferred to the University under Gift Aid	<u>203</u>	<u>277</u>
	<u>3,245</u>	<u>856</u>

Notes to the financial statements (continued)

13 Tangible Fixed Assets

Consolidated	Land and Buildings £000	Assets under Construction £000	Equipment £000	Total £000
Cost				
At 1 August 2001	84,804	3,146	41,778	129,728
Additions at cost	7,252	5,822	4,706	17,780
Reclassification	2,181	(2,181)	-	-
Disposals at cost	(34)	-	(6,972)	(7,006)
At 31 July 2002	<u>94,203</u>	<u>6,787</u>	<u>39,512</u>	<u>140,502</u>
Depreciation				
At 1 August 2001	17,453	-	30,202	47,655
Charge for the year	1,807	-	4,635	6,442
Eliminated on disposal	(15)	-	(6,570)	(6,585)
At 31 July 2002	<u>19,245</u>	<u>-</u>	<u>28,267</u>	<u>47,512</u>
Net Book Value				
At 31 July 2002	<u>74,958</u>	<u>6,787</u>	<u>11,245</u>	<u>92,990</u>
At 31 July 2001	<u>67,351</u>	<u>3,146</u>	<u>11,576</u>	<u>82,073</u>
University				
	Land and Buildings £000	Assets under Construction £000	Equipment £000	Total £000
Cost				
At 1 August 2001	84,765	3,146	37,637	125,548
Additions at cost	7,252	5,822	4,371	17,445
Reclassification	2,181	(2,181)	-	-
Disposals at cost	(34)	-	(6,336)	(6,370)
At 31 July 2002	<u>94,164</u>	<u>6,787</u>	<u>35,672</u>	<u>136,623</u>
Depreciation				
At 1 August 2001	17,414	-	27,714	45,128
Charge for year	1,784	-	3,806	5,590
Eliminated on disposal	(16)	-	(6,141)	(6,157)
At 31 July 2002	<u>19,182</u>	<u>-</u>	<u>25,379</u>	<u>44,561</u>
Net Book Value				
At 31 July 2002	<u>74,982</u>	<u>6,787</u>	<u>10,293</u>	<u>92,062</u>
At 31 July 2001	<u>67,351</u>	<u>3,146</u>	<u>9,923</u>	<u>80,420</u>

Buildings with a net book value of £11,748,000 and a cost of £18,581,000 have been funded from Treasury sources. Should these particular buildings be sold the University would either have to surrender the proceeds to the Treasury or use them in accordance with the University's Financial Memorandum with HEFCE.

Included in both the Consolidated and University assets there is an amount of Freehold Land at a cost of £117,000 which is not subject to depreciation.

Notes to the financial statements (continued)

13 Tangible Fixed Assets (continued)

The University entered into a lease and leaseback arrangement with AF Trust in November 1996. Since the substance of the transaction is to reduce the construction cost of the assets, the net premium, i.e. sub lease payment less lease payment, has been treated as a capitalised lease premium and is being depreciated over the life of the lease.

Included within land and buildings are buildings with a net book value of £6,112,000 held under finance leases. The depreciation allocated for the year in respect of these assets was £129,000.

Included within the cost of land and buildings is £295,000 which were interest charges on loans taken out to fund the cost of buildings and incurred before the buildings came into use.

14 Fixed Asset Investments

(i) Shares in Group Companies

	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Investment at cost less provision	-	-	2,264	1,264

Shares in Subsidiaries

Principal subsidiaries are :-

Name	Nature of Business	Class of Share	% held
Surrey Satellite Technology Limited	Satellite engineering	Ordinary	95
Surrey Satellite Technology Limited	Satellite engineering	Preference	100
ClifMar Associates Limited	Biological research	Ordinary	60
Research Park Developments Limited	Property development	Ordinary	100
Surrey University Press Limited	Book shop and publishers	Ordinary	100
Surrey Combined Utilities and Power Limited	Energy trader	Ordinary	100
Surrey Social and Market Research Limited	Market research	Ordinary	100
Surrey Health and Medical Enterprises Limited	Medical teaching	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100
University of Surrey Environmental Body	Environmental research	Limited by guarantee	100
UniS (Cascade) Limited	Holding company	Ordinary	100
UniS (Cascade) LP Limited	Holding company	Ordinary	100

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

The University's shares in ClifMar were sold after the year end.

Notes to the financial statements (continued)

14 Fixed Asset Investments (continued)

(ii) Other Investments	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Balance at 1 August	85,052	86,724	85,412	87,032
Additions	630	436	790	439
Disposals	(221)	(115)	(259)	(122)
Impairment in value	(281)	(55)	(107)	(1)
Provisions/revaluations	1,394	(1,938)	1,394	(1,936)
Balance at 31 July	<u>86,574</u>	<u>85,052</u>	<u>87,230</u>	<u>85,412</u>
Listed on London Stock Exchange:				
Government stocks	242	231	242	231
Fixed interest stocks	104	103	104	103
Equities	<u>1,616</u>	<u>2,446</u>	<u>1,616</u>	<u>2,446</u>
	1,962	2,780	1,962	2,780
Unlisted equities	484	455	267	264
Total fixed interest and equities	<u>2,446</u>	<u>3,235</u>	<u>2,229</u>	<u>3,044</u>
Fixed interest and equities	2,446	3,235	2,229	3,044
Art collection	452	448	452	448
General endowment assets: Research Park (2)	59,596	57,532	59,596	57,532
Investment: Research Park (2)	23,702	23,579	23,702	23,579
Loans to group companies	-	-	873	551
Other loans	378	258	378	258
Total other investments (1)	<u>86,574</u>	<u>85,052</u>	<u>87,230</u>	<u>85,412</u>
Land and property at cost	<u>36,949</u>	<u>36,935</u>	<u>36,949</u>	<u>36,935</u>
Fixed interest and equities at cost	<u>2,978</u>	<u>2,108</u>	<u>2,739</u>	<u>1,869</u>

(1) The above includes £1,891,000 (2001: £1,376,000) in respect of specific endowment assets and £59,596,000 (2001: £57,532,000) in respect of general endowment assets (see note 22).

(2) These balances relate to the Foundation Fund, the General Endowment of the University, which manages the Surrey Research Park. The Foundation Fund generated income of £8,223,000 (2001: £8,039,000), comprised principally of rental and service charge income (note 22). The balances primarily represent the tangible assets held by the Foundation Fund. These are comprised of freehold investment properties of £80,916,000 (2001: £78,338,000), freehold investment land & buildings of £3,312,000 (2001: £3,312,000) and furniture and equipment of £153,000 (2001: £209,000). £2,564,000 of the movement in the freehold investment properties balance represents the annual revaluation of the investment properties (note 22).

Shown in balance sheet as:

Fixed asset investments	25,087	26,144	28,007	27,768
Endowment asset investments	61,487	58,908	61,487	58,908
Total investments (i) and (ii)	<u>86,574</u>	<u>85,052</u>	<u>89,494</u>	<u>86,676</u>

Notes to the financial statements (continued)

15 Debtors	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Trade debtors	13,280	8,044	5,878	4,575
Amounts owed by subsidiary companies	-	-	1,464	3,819
Other debtors	986	500	795	446
Prepayments and accrued income	6,850	6,888	5,604	5,588
	<u>21,116</u>	<u>15,432</u>	<u>13,741</u>	<u>14,428</u>

16 Current Asset Investments	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Short term deposits	4,423	2,980	4,423	2,980
	<u>4,423</u>	<u>2,980</u>	<u>4,423</u>	<u>2,980</u>

17 Creditors : amounts falling due within one year	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Bank loans (see note 19)	1,574	768	1,574	768
Obligations under finance leases (note 19)	370	338	219	224
Other loans (note 29)	15	139	15	139
Payments received on account	10,475	6,951	1,939	1,468
Trade creditors	8,033	4,604	7,166	4,258
Amounts owed to group companies	-	-	1,158	1,741
Other creditors including taxation and social security	2,854	2,979	2,290	2,730
Accruals and deferred income	17,005	13,684	14,918	11,677
	<u>40,326</u>	<u>29,463</u>	<u>29,279</u>	<u>23,005</u>

18 Creditors : amounts falling due after more than One Year	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Bank loans (see note 19)	37,255	39,596	37,255	39,596
Obligations under finance leases (note 19)	6,151	6,386	6,020	6,274
Other loans (note 29)	2,957	2,642	2,957	2,642
Accruals and deferred income	-	159	-	159
	<u>46,363</u>	<u>48,783</u>	<u>46,232</u>	<u>48,671</u>

Notes to the financial statements (continued)

19 Borrowings

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
a. Bank loans and overdrafts	£000	£000	£000	£000
Bank loans and overdrafts are repayable as follows:				
In one year or less	1,574	768	1,574	768
Between one and two years	1,615	806	1,615	806
Between two and five years	5,119	2,793	5,119	2,793
In five years or more	30,521	35,997	30,521	35,997
Total	<u>38,829</u>	<u>40,364</u>	<u>38,829</u>	<u>40,364</u>
b. Finance leases				
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
The net finance lease obligations to which the University is committed are:				
In one year or less	370	338	219	224
Between one and five years	895	982	764	870
Over five years	5,256	5,404	5,256	5,404
Total	<u>6,521</u>	<u>6,724</u>	<u>6,239</u>	<u>6,498</u>

Bank Loan - Yorkshire Bank plc

The loan of £28,288,000 (2001: £28,864,000) (£616,000 falling due within one year and £27,672,000 falling due after one year) from the Yorkshire Bank relates to funding for student residences, new academic buildings and development on the Research Park. Interest is fixed on £20,070,000 of the loan for 10 years at 9.12%. The remainder of the loan is at a variable rate. The loan is secured by a charge on part of the land and buildings included within the Research Park.

Bank Loan - NatWest Bank plc

The loan of £10,542,000 (2001: £11,500,000) (£958,000 falling due within one year and £9,584,000 falling due after one year) from the NatWest Bank relates to funding for the new building for the European Institute of Health and Medical Sciences. The loan is unsecured and falls due over fifteen years with a variable rate of interest of 0.5% above LIBOR.

Finance leases

In 1998/99 and again in 1999/2000 the University entered into arrangements with housing associations whereby the housing associations constructed student residence blocks in return for which the housing associations receive the majority of the income stream arising over the next 30 years. The transactions are accounted for as finance leases. The assets have been capitalised (note 13) and the obligations under the finance leases is shown above.

20 Provisions for Liabilities and Charges

Consolidated & University	Pensions	Other	Total
	£000	£000	£000
At 1 August 2001	1,078	50	1,128
Utilised in year	(79)	-	(79)
Transfer from income and expenditure account	145	-	145
At 31 July 2002	<u>1,144</u>	<u>50</u>	<u>1,194</u>

Notes to the financial statements (continued)

21 Deferred Capital Grants

Consolidated	Funding Council £000	Other grants & benefactions £000	Total £000
At 1 August 2001			
Building	6,563	725	7,288
Equipment	1,442	1,922	3,364
Total	<u>8,005</u>	<u>2,647</u>	<u>10,652</u>
Cash and cash equivalents received			
Building	4,957	13	4,970
Equipment	2,380	10	2,390
Total	<u>7,337</u>	<u>23</u>	<u>7,360</u>
Released to Income and Expenditure account			
Building	241	32	273
Equipment	611	1,067	1,678
Total	<u>852</u>	<u>1,099</u>	<u>1,951</u>
At 31 July 2002			
Building	11,279	706	11,985
Equipment	3,211	865	4,076
Total	<u>14,490</u>	<u>1,571</u>	<u>16,061</u>
University	Funding Council £000	Other grants & benefactions £000	Total £000
At 1 August 2001			
Building	6,563	725	7,288
Equipment	1,442	1,855	3,297
Total	<u>8,005</u>	<u>2,580</u>	<u>10,585</u>
Cash and cash equivalents received			
Building	4,957	13	4,970
Equipment	2,380	10	2,390
Total	<u>7,337</u>	<u>23</u>	<u>7,360</u>
Released to Income and Expenditure account			
Building	241	32	273
Equipment	611	1,060	1,671
Total	<u>852</u>	<u>1,092</u>	<u>1,944</u>
At 31 July 2002			
Building	11,279	706	11,985
Equipment	3,211	805	4,016
Total	<u>14,490</u>	<u>1,511</u>	<u>16,001</u>

The amount of £1,951,000 released to the consolidated income and expenditure account comprises £1,913,000 due to depreciation, and £38,000 due to disposals.

Notes to the financial statements (continued)

22 Endowments	Consolidated & University		
	Specific	General	Total
	Endowments	Endowments	
	£000	£000	£000
At 1 August 2001	1,376	57,532	58,908
Additions	220	-	220
Income	76	8,223	8,299
Revaluation	-	2,564	2,564
Movement from general to specific endowment	500	(500)	-
Income transferred to Income & Expenditure account (note 5)	(281)	(8,223)	(8,504)
At 31 July 2002	<u>1,891</u>	<u>59,596</u>	<u>61,487</u>

23 Revaluation of General Endowment	Consolidated & University	
	2001/2002	2000/2001
	£000	£000
Revaluations		
At 1 August	44,715	47,375
Revaluation in Year	<u>2,564</u>	<u>(2,660)</u>
At 31 July	<u>47,279</u>	<u>44,715</u>

The revaluation shown above forms part of the general endowment of £59,596,000 (2000/2001: £57,532,000).

24 Restricted Reserves	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
Trust funds	<u>1,166</u>	<u>1,183</u>	<u>989</u>	<u>979</u>

These funds are held by the General Nursing Council Trust, the Midwife Teacher Training Council Trust, the Battersea Trust and the Guildford Institute. The University is trustee of all of these trusts, but the Guildford Institute is an independent trust which is included only in the consolidated figures.

Notes to the financial statements (continued)

25 Revaluation Reserve

	Consolidated & University			
	2001/2002		2000/2001	
	£000	£000	£000	£000
At 1 August		1,765		1,695
Revaluation of investments	(792)		121	
Realised on disposal of revalued assets	-		(21)	
Released on depreciation of donated assets	(27)		(30)	
		<u>(819)</u>	<u>(30)</u>	<u>70</u>
At 31 July		<u>946</u>		<u>1,765</u>

26 Movement on General Reserves

	Consolidated		University	
	2001/2002	2000/2001	2001/2002	2000/2001
	£000	£000	£000	£000
At 1 August	39,995	39,085	41,210	40,363
Transfer from revaluation reserve	27	30	27	30
Surplus for the year	3,245	856	2,923	784
Decrease/(increase) in restricted reserves	17	24	(10)	33
At 31 July	<u>43,284</u>	<u>39,995</u>	<u>44,150</u>	<u>41,210</u>

27 Reconciliation of Consolidated Operating Surplus to Net Cash Flow From Operating Activities

	Consolidated	
	2001/2002	2000/2001
	£000	£000
Surplus before tax	3,454	855
Depreciation	6,442	5,790
Deferred grants released	(1,951)	(1,531)
Investment income	(659)	(292)
Interest payable	4,120	4,408
Increase in stocks	(219)	(102)
Increase in trade debtors	(5,553)	(3,184)
Increase in creditors and accruals	10,231	8,168
Increase in provisions	66	107
Loss on disposal of property/investments	421	514
Endowment income	(8,504)	(8,039)
Permanent diminution of investments	280	111
Increase in specific endowment asset investments	515	18
Net cash inflow from operating activities	<u>8,643</u>	<u>6,823</u>

Notes to the financial statements (continued)

28 Analysis of cash flows for headings netted in the cash flow statement

	2001/2002		2000/2001	
	£000	£000	£000	£000
Returns on investments and servicing of finance				
Income from endowments	8,403		8,025	
Interest received	629		291	
Interest element of finance lease rental payments	(614)		(580)	
Interest paid	<u>(3,755)</u>		<u>(3,642)</u>	
Net cash inflow from returns on investments and servicing of finance		<u>4,663</u>		<u>4,094</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(17,592)		(7,599)	
Purchase of long term investments	(630)		(430)	
Realisation of long-term investments	221		106	
Increase in investment in Research Park	(122)		(662)	
Deferred grants received	<u>7,361</u>		<u>2,892</u>	
		<u>(10,762)</u>		<u>(5,693)</u>
Management of Liquid Resources				
Cash invested in short term deposit	<u>(1,444)</u>		<u>(2,185)</u>	
		<u>(1,444)</u>		<u>(2,185)</u>
Financing				
Debt due within a year				
repayment of a secured loan	(1,534)		(393)	
capital element of lease payment	(391)		(241)	
purchase of SAGE shares	(9)		(1)	
Debt due beyond a year				
new unsecured loan	<u>-</u>		<u>1,100</u>	
Net Cash Flow from Financing		<u>(1,934)</u>		<u>465</u>

29 Analysis of Changes in Net Debt

	At	Cash flows	Other non-cash changes	At
	1 Aug 2001			31 July 2002
	£000	£000	£000	£000
Cash in hand and at bank	5,255	(839)	-	4,416
Debt due after one year	(42,238)	2,341	(315)	(40,212)
Debt due within one year	(907)	(797)	114	(1,590)
Finance leases	(6,722)	390	(188)	(6,520)
Current asset investments	<u>2,980</u>	<u>1,444</u>	<u>-</u>	<u>4,424</u>
Total	<u>(41,632)</u>	<u>2,539</u>	<u>(389)</u>	<u>(39,482)</u>

Debt due within one year and after one year represents bank loans (note 19) and amounts payable under an arrangement with the shareholders of previous BES companies. The latter are included as 'Other loans' and amount to £15,000 due within one year and £2,957,000 due after one year.

The finance lease non-cash change represents the value of equipment obtained on finance leases during the year.

Notes to the financial statements (continued)

30 Capital Commitments

	Consolidated		University	
	2001/2002 £000	2000/2001 £000	2001/2002 £000	2000/2001 £000
Commitments contracted at 31 July	10,349	17,552	10,349	17,486
Authorised but not contracted at 31 July	23,158	15,389	23,158	15,336
	<u>33,507</u>	<u>32,941</u>	<u>33,507</u>	<u>32,822</u>

31 Lease Obligations

Operating lease commitments for the 2001/2002 financial year, on leases expiring :

Consolidated	2001/2002		2000/2001	
	Land & Buildings £000	Plant & Equipment £000	Land & Buildings £000	Plant & Equipment £000
Within one year	1,063	10	991	15
Between two and five years	-	102	-	98
Over five years	181	-	174	-
	<u>1,244</u>	<u>112</u>	<u>1,165</u>	<u>113</u>

University	2001/2002		2000/2001	
	Land & Buildings £000	Plant & Equipment £000	Land & Buildings £000	Plant & Equipment £000
Within one year	1,063	10	1,047	15
Between two and five years	-	102	45	98
Over five years	181	-	174	-
	<u>1,244</u>	<u>112</u>	<u>1,266</u>	<u>113</u>

32 Contingent Liabilities

Research Park Developments Limited, a subsidiary company, has entered into standard building contracts where the company is required to provide guarantees against defects for periods up to twelve years following construction. The University has provided a parent entity guarantee in respect of this liability. These will have all expired by June 2006.

The University entered into an arrangement with some of the shareholders of the BES companies when those companies were wound up under the SAGE scheme. Within the terms of this scheme the University has an obligation to buy back the shares at later dates and at fixed prices. If no shares are repurchased before the end of the arrangement in March 2007 the total amount due then will be £4,090,000, the balance due at 31 July 2002 being £2,972,000.

Notes to the financial statements (continued)

33 Pension Schemes

SSAP 24 disclosures

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Surrey County Council Superannuation Fund (SCCSF).

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the Scheme was at 31 March 1999. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the investment return would be 4.5% per annum, that salary scale increases would be 3.6% per annum and that pensions would increase by 2.6% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the Scheme was £18,870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of the valuation (the average working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2002 when the above rates will be reviewed.

The total consolidated pension cost to the University of Surrey for the year was £4,884,000 (2001: £4,627,000). This includes £656,000 (2001: £629,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

Surrey County Council Superannuation Fund (SCCSF)

The University participates in the SCCSF, a defined benefit pension scheme which provides benefits based on final pensionable salary for its support staff. The assets of the SCCSF Scheme are held in a separate trustee-administered fund.

Notes to the financial statements (continued)

33 Pension Schemes (continued)

The latest actuarial valuation of the Scheme was at 31 March 2001 which was carried out by an independent qualified actuary using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. It was assumed that the investment return would be 4% per annum, that salary scale increases would be 4.25% per annum and that pensions would increase by 2.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the Scheme was £989 million and the actuarial value of the assets was sufficient to cover 75% of the benefits which had accrued to members after allowing for expected future increases in earnings. The level of contributions paid by the employing institutions takes into account this actuarial deficiency. The University's contribution rate was set at 195% of members contributions.

The total consolidated pension cost to the University of Surrey for the year was £1,356,000 (2001: £1,207,000).

FRS 17 Disclosures

As noted above it is not possible to identify the University's share of the underlying assets and liabilities of the Universities Superannuation Scheme and therefore the following disclosures relate to the Surrey County Council Superannuation Fund only. The valuation used for FRS 17 disclosures have been based on the most recent actuarial valuation at 31 March 2001 and updated by Watson Wyatt to take account of the requirements of FRS 17 in order to assess the University's share of the assets and liabilities of the scheme as at 31 July 2001 and 31 July 2002. The major assumptions used by the actuary were:

	2002 %	2001 %
Rate of increase in salaries	4.3	4.3
Rate of increase in pensions in payment	2.5	2.5
Discount rate	2.5	2.5
Inflation assumption	5.9	5.9

The assets in the scheme and the expected rate of return were:

	At 31 July 2002		At 31 July 2001	
	Market value £000	Expected rate of return	Market value £000	Expected rate of return
Equities	16,943	8.00%	20,019	7.25%
Gilts	2,246	4.90%	2,013	5.00%
Property and overseas bonds	5,487	5.80%	4,962	5.80%
Cash	568	4.50%	1,475	5.00%
	<u>25,244</u>	7.20%	<u>28,469</u>	6.70%

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

	31 July 2002 £000	31 July 2001 £000
Estimated market value of scheme assets	25,244	28,469
Present value of scheme liabilities	<u>(40,836)</u>	<u>(37,664)</u>
Deficit in scheme	<u>(15,592)</u>	<u>(9,195)</u>

Notes to the financial statements (continued)

33 Pension Schemes (continued)

If the amounts had been recognised in the financial statements, the University's net assets and general reserves at 31 July would be as follows:

	31 July 2002 £000	31 July 2001 £000
Net assets as stated in balance sheet	122,954	112,517
SSAP 24 balance	<u>1,025</u>	<u>953</u>
Net assets excluding pension liability	123,979	113,470
FRS 17 pension liability	<u>(15,592)</u>	<u>(9,195)</u>
Net assets including FRS 17 pension liability	<u>108,387</u>	<u>104,275</u>
General reserve as stated in balance sheet	45,396	42,943
SSAP 24 balance	<u>1,025</u>	<u>953</u>
General reserve excluding pension liability	46,421	43,896
FRS 17 pension reserve	<u>(15,592)</u>	<u>(9,195)</u>
General reserve including FRS 17 pension liability	<u>30,829</u>	<u>34,701</u>

Additionally, if the pension costs had been recognised in accordance with FRS17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2002:

	Year ended 31 July 2002 £000	
Analysis of amounts charged to income and expenditure account:		
Current service cost		1,501
Past service cost		92
Curtailment cost		52
Financing - expected return on pension scheme assets	2,189	
Financing - interest on expected scheme liabilities	<u>(1,934)</u>	
Net return on financing		<u>255</u>
		<u>1,900</u>
Analysis of amounts recognised in statement of total recognised gains and losses:		
Actual return less expected return on pension scheme assets		(5,945)
Experience gains and losses arising on scheme liabilities		<u>30</u>
Total actuarial loss recognised		<u>(5,915)</u>

The total movement in the institution's share of the scheme's deficit during the year is made up as follows:

	Year ended 31 July 2002 £000	
Deficit on scheme at 1 August 2001		(9,195)
Movement in year - current service cost		(1,501)
- contributions		1,418
- past service costs		(92)
- other finance charge		(255)
- actuarial loss		(5,915)
- curtailment cost		<u>(52)</u>
Deficit on scheme at 31 July 2002		<u>(15,592)</u>

Notes to the financial statements (continued)

33 Pension Schemes (continued)

The experience gains and losses for the year ended 31 July 2002 were as follows:

Difference between the expected and actual return on scheme assets:	
Amount £000	(5,945)
Percentage of scheme assets	23.55%
Experience gains and losses on scheme liabilities:	
Amount £000	30
Percentage of the present value of scheme liabilities	0.07%
Total amount recognised in the statement of total recognised gains and losses:	
Amount £000	(5,915)
Percentage of the present value of scheme liabilities	14.48%

34 Access Funds

	University	
	2001/2002 £000	2000/2001 £000
Balance as at 1 August	8	2
Funding Council Access funds	<u>262</u>	<u>251</u>
	270	253
Interest earned	3	2
Disbursed to students	<u>(234)</u>	<u>(247)</u>
Balance unspent as at 31 July	<u>39</u>	<u>8</u>

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

35 Related party transactions

Due to the nature of the University's operations and the composition of the Council (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arms' length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.