

Uni**S**

University of Surrey

Accounts 2002/2003

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Consolidated Financial Highlights for Financial Year 2002/2003

	2002/2003	2001/2002	%
	£000	£000	Increase (Decrease)
Income and Expenditure			
Income			
HEFCE Teaching Grant	17,850	16,949	5.3
Research, deferred and other specific grants	17,463	14,210	22.9
	<u>35,313</u>	<u>31,159</u>	13.3
Home Tuition Fees (i)	12,453	13,189	(5.6)
Total grant plus home fees	<u>47,766</u>	<u>44,348</u>	7.7
Other Income	103,186	87,105	18.5
Total Income	<u>150,952</u>	<u>131,453</u>	14.8
Total Expenditure	147,889	128,208	15.4
including taxation (£122k) and minority interest (£33k), 2001/2002 taxation £213k and minority interest £4k			
Consolidated surplus for the year	<u>3,063</u>	<u>3,245</u>	
HEFCE Grants plus Home Tuition Fees as percentage of total Income	<u>31.6%</u>	<u>33.7%</u>	
Note			
(i) Home Tuition Fees are derived from UK and other EU students.			
	2002/2003	2001/2002	
	£000	£000	
Assets			
Capital Assets purchased or donated in year	<u>13,543</u>	<u>17,780</u>	(23.8)
Total Net Assets	<u>130,530</u>	<u>122,954</u>	6.2

Report of the Chairman of Council

Financial Environment

The external financial environment continues to be challenging for HEIs although our results for the last financial year indicate that we have a sound basis on which to move forward. The political debate on how higher education is to be funded continues and until this is resolved there will be uncertainty and therefore some difficulty in arriving at reasonable forward plans and projections. 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 to its lowest level at this University and is now only 31.6%. Whilst the various funded initiatives that the government has introduced provide additional funds towards directed schemes, often major capital projects, these are no substitute for increasing core funding whether this be from government or other sources.

Major Financial Results

I am extremely pleased to report that the University's Consolidated Accounts for 2002/2003 show a surplus for the year of £3,063,000 (2001/2002: £3,245,000). Total income increased by 14.8% to £150,952,000 whilst total expenditure increased by 15.4% to £147,889,000. The University's investment in new capital assets in 2002/2003 was £13,543,000 (2001/2002: £17,780,000) which is equivalent to 9% of total income.

Looking at individual income sources, academic fees and support grants show an increase of 15.3%, up from £34,649,000 to £39,939,000 principally due to increases in postgraduate international students. Funding Council grants relating to teaching and research show an increase of 11.9% which reflects the improved funding as a result of the last Research Assessment Exercise (RAE). Research grant and contract income has fallen by 0.9% and we will be looking to better this record in future years although there are internal and external constraints. 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 2002/2003. The main financial highlights are shown on page 2 of the Financial Statements. We shall look to further improve the final accounts timetable and programme for next year.

Resource Allocation Methodology

The University has continued to evolve and develop 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 and equitable in the allocation of resources and the accountability for their use and the RAM has been instrumental in achieving this. The RAM methodology is currently under review, with appropriate consultation taking place, in order to ensure that it continues to be fit for its intended purpose.

Long Term Borrowing

During the year there was an increase in bank loans of £12,139,000 to part fund a gross capital spend of £13,543,000. The balance was funded from HEFCE grants. 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 2002/2003 were £57,077,000 (2001/2002: £45,350,000).

Report of the Chairman of Council (continued)

Cash Flow and Net Current Assets

The cash flow statement shows that there has been a net increase in cash of £5,063,000 over the year. Net current assets are £4,892,000 which are sufficient for our normal operating requirements.

Investment Performance and Cashflow

The total return on long term investments was 2.6% (2001/2002: 2.9%) whilst the rate of return on short term investments was 3.56% (2001/2002: 4.03%). Given our conservative investment policy and the prevailing level of interest rates these are regarded as satisfactory returns.

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 2002/2003 a total of £6,202,000 (2001/2002: £4,557,000) was transferred from the Foundation Fund to the University for these purposes. Part of this transfer (£1,959,000) related to the draw down of development funding to assist with the financing of the Manor Park development. The downward revaluation of £3,640,000 for the Foundation Fund property should be seen in the context of current market conditions and the fact that we have previously enjoyed considerable growth over a number of years.

University Companies

The University's major company Surrey Satellite Technology Ltd (SSTL) had a very successful year and achieved a profit before taxation of £874,012. The company is well set to achieve further controlled growth but operates in a challenging and rapidly changing environment.

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 was completed during the financial year and was opened by Lord Sainsbury in early October 2002. The Management Building was completed in April 2003 and provides excellent facilities for our combined Management School. 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 further prioritisation of funding.

Manor Park Development

This year also saw the end of the Local Plan process, which removed 60 hectares of Manor Park from the Metropolitan Green Belt (MGB), and the adoption of a policy for the further development of this land for University purposes. However, the University is yet to receive outline planning consent for this development. Actual development on Manor Park is vital for the continued growth of the University and any further delay will seriously affect our ability to recruit students in the medium term.

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.

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.

Pensions

The vast majority of University staff are members of either the Universities Superannuation Scheme (USS) or the Surrey County Council Superannuation Fund (SCCSF). Whilst the USS fund continues to show a surplus of assets over liabilities, the financial performance of the SCCSF continues to deteriorate. Results of the next actuarial valuation of the SCCSF as at 31 March 2004 are awaited, with the likelihood that there will be an increased contribution rate required from the University.

Current and Future Developments

The University's annual report for 2002/2003 outlines a number of important initiatives and themes for the past financial year and for the future which include, inter alia;

- The impact that the University of Surrey makes as an International University serving a world class region
- The strong international character of the University community
- The world class research and high quality teaching conducted at the University
- The development of our future strategy to deliver academic excellence with financial robustness
- The need for further academic and infrastructure investment to secure our position in a more competitive environment
- Ways in which the University is reaching out to industry and commerce in support of the Government's 'third leg' agenda
- Initiatives that are being pursued to encourage participation by those who might otherwise not benefit from higher education

Conclusion

The University outturn has exceeded original expectations and the benefits of better student recruitment and marketing are beginning to be felt. I should like to personally thank all the staff for their help in achieving this result. Although it cannot be stated for certain how the future will develop there are definite opportunities to be grasped. The University's corporate structure has been reviewed and this together with the sound financial basis from which we are currently operating gives us some confidence that we shall continue to meet future and stretching challenges.

External Auditors

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

11 December 2003

Sir William Wells FRICS
Chairman of Council

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The University Council, as governing body, is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The University has an agreed Risk Management Policy which has been approved by Council, and its risk register is regularly reviewed and updated. A Risk Management Group exists, with senior lay membership, to oversee this process. The University has undertaken positive assurance exercises to ensure that current risks are appropriately managed, any significant changes in earlier risk assessments are scrutinised and any new risks are identified. These processes are reviewed regularly by the University's Council and accord with internal control guidance.

The University Council is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, that it has been in place for the whole of the year ended 31 July 2003 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Council and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

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. 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 Finance and General Purposes Committee, an Executive Board, 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 the Executive Board, 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.

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 monitors 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.

Note on the New Structure

From 1 August 2003 the University has reorganised its committee structure. The Executive Board has responsibility for managing the University whilst the Finance and General Purposes Committee's remit has become more focused and has been retitled Finance Committee. The Buildings and Estates Committee becomes the Estates Committee with a similar role but revised membership and the Audit Committee's role remains essentially unchanged.

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 internal 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 in the preparation of the financial statements.

The Council has taken reasonable steps to :

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- 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 2003. 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 2003 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.

This report is made solely to the Council of the University of Surrey, as a body. Our audit work has been undertaken so that we might state to the Council of the University of Surrey those matters we are required to state to them in an auditors' 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 of the University of Surrey as a body, for our audit work, for this report, or for the opinions we have formed.

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 2003, 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

11 December 2003

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 2003

	Note	Consolidated		University	
		2002/2003	2001/2002	2002/2003	2001/2002
		£000	£000	£000	£000
Income					
Funding Council grants	1	35,313	31,159	35,313	31,159
Academic fees and support grants	2	39,939	34,649	39,939	34,649
Research grants and contracts	3	22,317	22,511	19,396	20,729
Other operating income	4	44,167	33,871	24,644	22,626
Endowment and trust income and interest receivable	5	9,216	9,263	9,094	9,169
Total income		<u>150,952</u>	<u>131,453</u>	<u>128,386</u>	<u>118,332</u>
Expenditure					
Staff costs	6 & 10	75,900	69,028	69,858	63,851
Other operating expenses	8 & 10	60,871	48,409	45,410	41,823
Depreciation	10 & 13	7,113	6,442	6,691	5,590
Interest payable	9 & 10	4,094	4,120	4,098	4,145
Total expenditure		<u>147,978</u>	<u>127,999</u>	<u>126,057</u>	<u>115,409</u>
Surplus on continuing operations after depreciation of assets and before tax and minority interests		2,974	3,454	2,329	2,923
Taxation					
Surplus on continuing operations after depreciation of assets and tax and before minority interests	11	122	(213)	-	-
Minority interests		(33)	4	-	-
Surplus for the year	12	<u>3,063</u>	<u>3,245</u>	<u>2,329</u>	<u>2,923</u>
Income and expenditure and restricted reserves brought forward		44,450	41,178	45,139	42,189
Transfer from revaluation reserve	25	39	27	39	27
Income and expenditure and restricted reserves carried forward		<u>47,552</u>	<u>44,450</u>	<u>47,507</u>	<u>45,139</u>

The difference between the result reported above and the result on an unmodified historical cost basis is a decrease to the surplus of £690,000 (2001/2002: £704,000). 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 £729,000 (2001/2: £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 £39,000 (2001/2002: £27,000) 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 2003

	Note	Consolidated	
		2002/2003	2001/2002
		£000	£000
Surplus for the year after tax and minority interest		3,063	3,245
Specific endowment income received during year	22	313	296
Specific endowment income released during year	22	(290)	(281)
Revaluation of general endowment	23	(3,640)	2,564
Unrealised deficit on revaluation of investments	25	(183)	(792)
Donated assets received during year	25	60	-
Total recognised (losses)/gains relating to the year		<u>(677)</u>	<u>5,032</u>
Reconciliation			
Opening reserves and endowments		106,883	
Total recognised gains and losses for the year		(677)	
Closing reserves and endowments		<u>106,206</u>	

Balance sheets as at 31 July 2003

	Note	Consolidated		University	
		2003	2002	2003	2002
		£000	£000	£000	£000
Fixed assets					
Tangible assets	13	99,193	92,990	98,416	92,062
Investments	14	27,075	25,087	28,985	27,134
		126,268	118,077	127,401	119,196
Endowment asset investments	14	57,870	61,487	57,870	61,487
Current assets					
Stocks and stores in hand		1,122	1,318	594	497
Debtors	15	23,894	21,116	20,763	14,614
Investments	16	13,858	4,423	13,858	4,423
Cash at bank and in hand		9,479	4,416	354	61
		48,353	31,273	35,569	19,595
Creditors : Amounts falling due within one year	17	(43,461)	(40,326)	(32,103)	(29,279)
Net current assets/(liabilities)		4,892	(9,053)	3,466	(9,684)
Total assets less current liabilities		189,030	170,511	188,737	170,999
Creditors : Amounts falling due after more than one year	18	(57,268)	(46,363)	(57,126)	(46,232)
Provisions for liabilities and charges	20	(1,232)	(1,194)	(1,232)	(1,194)
Total net assets		130,530	122,954	130,379	123,573
Deferred capital grants	21	24,271	16,061	24,218	16,001
Endowments					
Specific	22	3,873	1,891	3,873	1,891
General	22	53,997	59,596	53,997	59,596
		57,870	61,487	57,870	61,487
Reserves					
Restricted reserves	24	1,018	1,166	900	989
Revaluation reserve	25	784	946	784	946
Income and expenditure account	26	46,534	43,284	46,607	44,150
		48,336	45,396	48,291	46,085
Total funds before minority interests		130,477	122,944	130,379	123,573
Minority interests		53	10	-	-
Total funds		130,530	122,954	130,379	123,573

The financial statements on pages 9 to 34 were approved by the governing body on 11 December 2003 and were signed on its behalf by:

Professor PJ Dowling CBE DL FREng FRS
Vice-Chancellor

Sir William Wells FRICS
Chairman of Council

Consolidated cash flow statement
for the year ended 31 July 2003

	Note	Consolidated	
		2002/2003	2001/2002
		£000	£000
Cash flow from operating activities	27	7,655	8,643
Returns on investments and servicing of finance	28	5,485	4,663
Taxation		(64)	(5)
Capital expenditure and financial investment	28	(10,264)	(10,762)
Cash inflow before use of liquid resources and financing		2,812	2,539
Management of liquid resources	28	(9,435)	(1,444)
Financing	28	11,686	(1,934)
Increase/(decrease) in cash in the period		5,063	(839)

		2002/2003	2001/2002
		£000	£000
Reconciliation of net cash flow to movement in net debt	29		
Increase/(decrease) in cash in the period		5,063	(839)
Cash (inflow)/outflow from increase/decrease in debt financing		(11,686)	1,934
Cash outflow from decrease in liquid resources		9,435	1,444
Change in net debt resulting from cash flows		2,812	2,539
Increase in SAGE liabilities		(222)	(201)
New finance leases		(42)	(188)
Movement in net debt in the period		2,548	2,150
Net debt at 1 August		(39,482)	(41,632)
Net debt at 31 July		(36,934)	(39,482)

Notes to the financial statements

1 Funding Council Grants

	Consolidated & University	
	2002/2003	2001/2002
	£000	£000
Recurrent Grant		
Teaching	17,850	16,949
Research	14,180	11,667
	32,030	28,616
Specific Grants		
Rewarding and developing staff	879	596
Higher Education Innovations Fund	342	356
Higher Education Reach Out to Business	306	358
Management Development Fund	-	108
Graduate apprenticeships	-	41
Quest	30	-
Joint Information Systems Committee	-	38
Special needs	-	36
Widening participation	51	26
Active Community	61	-
Teaching and Learning Technology Programme	-	16
Joint Research Equipment Initiative	1	16
Learning and teaching support network	25	16
Learning and teaching development	18	14
National Teaching Fellowship	13	14
Other	72	56
Deferred Capital Grants released in year (note 21)	-	-
Building	411	241
Equipment	1,074	611
Total Grants from HEFCE	35,313	31,159

2 Academic Fees and Support Grants

	Consolidated & University	
	2002/2003	2001/2002
	£000	£000
UK HE students	9,708	10,760
EU (non UK) students	2,745	2,429
Non-EU students	16,507	12,170
Health Authority contract	9,936	8,939
Research Council support grants and bench fees	1,043	351
	39,939	34,649

3 Research Grants and Contracts

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Research councils	8,123	8,652	8,123	8,652
UK based charities	583	631	583	631
European commission	5,927	3,161	4,150	3,082
Other grants and contracts	7,310	9,114	6,166	7,411
Releases from deferred capital grants	374	953	374	953
	22,317	22,511	19,396	20,729

Notes to the financial statements (continued)

4 Other Operating Income

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Residences, catering and conferences	10,984	10,200	10,984	10,200
Other Services Rendered	24,498	15,818	4,223	3,782
Donations from subsidiary companies	-	-	232	203
Departmental income	3,981	2,757	3,981	2,776
Released from deferred capital grants	347	19	347	19
Use of University facilities & rental income	2,647	2,885	3,265	3,486
VAT recovered	1,459	2,065	1,459	2,065
Other income	251	127	153	95
	44,167	33,871	24,644	22,626

5 Endowment and Trust Income and Interest Receivable

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Income from endowments (see note 22)	8,426	8,504	8,426	8,504
Income from trusts	138	100	49	51
Income from short term investments	652	659	619	614
	9,216	9,263	9,094	9,169

The endowment income includes general endowment income of £8,136,000 (2001/2002: £8,223,000) and specific endowment income of £290,000 (2001/2002: £281,000). Trust income of £72,000 (2001/2002: £65,000) is included as rental income within consolidated other operating income (note 4).

6 Staff

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Staff costs :				
Wages and salaries	63,781	58,144	58,472	53,605
Social security costs	4,933	4,461	4,385	4,007
Other pension costs	7,186	6,423	7,001	6,239
	75,900	69,028	69,858	63,851

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	Number	Number	Number	Number
FTE staff numbers by major category				
Academic departments	1,307	1,270	1,307	1,270
Academic services	169	164	169	164
Administration and central services	223	223	223	223
Premises	143	128	143	128
Residences and catering	181	178	181	178
Other	168	153	20	23
University staff seconded to subsidiary companies	-	-	(19)	(17)
	2,191	2,116	2,024	1,969

Notes to the financial statements (continued)

7 Emoluments of Higher Paid Staff

	2002/2003	2001/2002
	£000	£000
Emoluments of the Vice-Chancellor	189	165
Pension contributions	22	19
Emoluments of the Vice-Chancellor including pension contributions	211	184

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 and compensation costs :

Remuneration Band	2002/2003	2001/2002
	Number of Employees	
£70,001 - £80,000	19	9
£80,001 - £90,000	6	3
£90,001 - £100,000	3	3
£100,001 - £110,000	4	3
£110,001 and over	2	1
	34	19

Early retirement and compensation costs of £441,393 were paid or payable in respect of Higher Paid Staff in 2002/2003 (2001/2002: £0).

8 Other Operating Expenses

Consolidated	2002/2003	2001/2002
	£000	£000
Residences, catering and conferences	6,532	5,812
Bursaries, scholarships and prizes	3,509	3,367
Repairs and general maintenance	2,413	2,242
Staff travel and subsistence	1,337	1,242
Consumables and laboratory expenditure	1,868	1,519
Course and conference costs for staff	1,120	1,074
Library services	1,827	1,584
Heat, light and power	1,634	1,094
Grants to University of Surrey Students' Union	721	660
Local authority rates	227	171
Auditors' remuneration (external audit)	54	55
Auditors' remuneration (for services other than external audit)	10	10
University companies (other than heat, light and power costs shown above)	15,515	6,586
Other expenses	24,104	22,993
	60,871	48,409

Notes to the financial statements (continued)

9 Interest Payable

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
On bank loans and other loans:				
Loans wholly repayable within five years	32	9	54	10
Loans not wholly repayable within five years	3,238	3,308	3,238	3,351
Other loans	222	189	222	189
	3,492	3,506	3,514	3,550
On finance leases	602	614	584	595
Total	4,094	4,120	4,098	4,145

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

10 Analysis of 2002/2003 Expenditure by Activity

Consolidated	Staff	Dep'n	Other	Interest	Total
	Costs		Operating		
	£000	£000	Expenses	£000	£000
			£000		
Academic departments	40,580	1,466	11,150	-	53,196
Academic services	4,114	319	2,897	-	7,330
Research grants and contracts	9,146	811	7,060	-	17,017
Residences, catering & conferences	3,129	550	6,532	1,651	11,862
Premises	3,193	2,502	4,895	3	10,593
Administration	8,944	1,020	9,395	-	19,359
Other expenses	6,794	445	18,942	2,440	28,621
Total per income and expenditure account	75,900	7,113	60,871	4,094	147,978

The depreciation charge has been funded by :-

	£000
Deferred capital grants released (see note 21)	2,260
Revaluation reserve released (see note 25)	39
General income	4,814
	7,113

11 Taxation

	Consolidated	
	2002/2003	2001/2002
	£000	£000
UK corporation tax at 30% (2002: 30%) (recoverable)/payable on the profits of certain subsidiary companies	(122)	213

12 Surplus on Continuing Operations for the Period

	Consolidated	
	2002/2003	2001/2002
	£000	£000
The surplus on continuing operations for the period is made up as follows:		
University's surplus for the year	2,831	3,042
Surplus generated by subsidiary undertakings and transferred to the University under Gift Aid	232	203
	3,063	3,245

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 2002	94,203	6,787	39,512	140,502
Additions at cost	7,744	2,956	2,843	13,543
Reclassification	6,533	(6,533)	-	-
Disposals at cost	-	-	(1,539)	(1,539)
At 31 July 2003	<u>108,480</u>	<u>3,210</u>	<u>40,816</u>	<u>152,506</u>
Depreciation				
At 1 August 2002	19,245	-	28,267	47,512
Charge for the year	2,038	-	5,075	7,113
Eliminated on disposal	-	-	(1,312)	(1,312)
At 31 July 2003	<u>21,283</u>	<u>-</u>	<u>32,030</u>	<u>53,313</u>
Net Book Value				
At 31 July 2003	<u>87,197</u>	<u>3,210</u>	<u>8,786</u>	<u>99,193</u>
At 31 July 2002	<u>74,958</u>	<u>6,787</u>	<u>11,245</u>	<u>92,990</u>
University				
	Land and Buildings £000	Assets under Construction £000	Equipment £000	Total £000
Cost				
At 1 August 2002	94,164	6,787	35,672	136,623
Additions at cost	7,744	2,956	2,560	13,260
Reclassification	6,533	(6,533)	-	-
Disposals at cost	-	-	(1,487)	(1,487)
At 31 July 2003	<u>108,441</u>	<u>3,210</u>	<u>36,745</u>	<u>148,396</u>
Depreciation				
At 1 August 2002	19,182	-	25,379	44,561
Charge for year	2,015	-	4,676	6,691
Eliminated on disposal	-	-	(1,272)	(1,272)
At 31 July 2003	<u>21,197</u>	<u>-</u>	<u>28,783</u>	<u>49,980</u>
Net Book Value				
At 31 July 2003	<u>87,244</u>	<u>3,210</u>	<u>7,962</u>	<u>98,416</u>
At 31 July 2002	<u>74,982</u>	<u>6,787</u>	<u>10,293</u>	<u>92,062</u>

Buildings with a net book value of £18,255,000 and a cost of £25,499,000 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.

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 £5,980,000 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	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Investment at cost less provision	-	-	2,394	2,264

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
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
Genie Healthcare Limited	On-line healthcare information	Ordinary	66

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

Notes to the financial statements (continued)

14 Fixed Asset Investments (continued)

(ii) Other Investments	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Balance at 1 August	86,574	85,052	86,357	84,861
Additions	1,452	630	1,177	430
Disposals	(1,272)	(221)	(1,271)	(221)
Impairment in value	67	(281)	74	(107)
Provisions/revaluations	(3,836)	1,394	(3,836)	1,394
Balance at 31 July	82,985	86,574	82,501	86,357
Listed on London Stock Exchange:				
Government stocks	154	242	154	242
Fixed interest stocks	32	104	32	104
Equities	1,665	1,616	1,665	1,616
	1,851	1,962	1,851	1,962
Unlisted equities	704	484	270	267
Total fixed interest and equities	2,555	2,446	2,121	2,229
Fixed interest and equities	2,555	2,446	2,121	2,229
Deposits	1,959	0	1,959	0
Art collection	474	452	474	452
Partnership investment	50	0	0	0
General endowment assets: Research Park (2)	53,997	59,596	53,997	59,596
Investment: Research Park (2)	25,648	23,702	25,648	23,702
Other loans	262	378	262	378
Total other investments (1)	84,945	86,574	84,461	86,357
Land and property at cost	37,005	36,949	37,005	36,949
Fixed interest and equities at cost	3,232	2,978	1,937	2,739

(1) The above includes £3,873,000 (2002: £1,891,000) in respect of specific endowment assets and £53,997,000 (2002: £59,596,000) 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 £8,136,000 (2002: £8,223,000), comprised principally of rental and service charge income (note 22). The balances primarily represent the tangible assets held by the Foundation Fund. These comprise freehold investment properties of £77,332,000 (2002: £80,916,000), freehold investment land & buildings of £3,312,000 (2002: £3,312,000) and furniture and equipment of £110,000 (2002: £153,000). £3,640,000 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	27,075	25,087	28,985	27,134
Endowment asset investments	57,870	61,487	57,870	61,487
Total investments (i) and (ii)	84,945	86,574	86,855	88,621

Notes to the financial statements (continued)

15 Debtors	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Trade debtors	12,127	13,280	5,640	5,878
Amounts owed by subsidiary companies	-	-	4,761	2,337
Other debtors	1,074	986	353	795
Prepayments and accrued income	10,693	6,850	10,009	5,604
	23,894	21,116	20,763	14,614

16 Current Asset Investments	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Short term deposits	13,858	4,423	13,858	4,423
	13,858	4,423	13,858	4,423

17 Creditors : amounts falling due within one year	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Bank loans (see note 19)	2,145	1,574	2,145	1,574
Bank overdrafts	626	-	-	-
Obligations under finance leases (note 19)	325	370	212	219
Other loans	-	15	-	15
Payments received on account	9,257	10,475	1,907	1,939
Trade creditors	9,206	8,033	7,695	7,166
Amounts owed to group companies	-	-	844	1,158
Other creditors including taxation and social security	2,849	2,854	2,819	2,290
Accruals and deferred income	19,053	17,005	16,481	14,918
	43,461	40,326	32,103	29,279

18 Creditors : amounts falling due after more than One Year	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Bank loans (see note 19)	48,197	37,255	48,197	37,255
Obligations under finance leases (note 19)	5,784	6,151	5,735	6,020
Other creditors	93	-	-	-
Other loans (note 29)	3,194	2,957	3,194	2,957
	57,268	46,363	57,126	46,232

Notes to the financial statements (continued)

19 Borrowings

a. Bank loans and overdrafts	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Bank loans and overdrafts are repayable as follows:				
In one year or less	2,771	1,574	2,145	1,574
Between one and two years	2,250	1,615	2,250	1,615
Between two and five years	7,473	5,119	7,473	5,119
In five years or more	38,474	30,521	38,474	30,521
Total	50,968	38,829	50,342	38,829
b. Finance leases	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
The net finance lease obligations to which the University is committed are:				
In one year or less	325	370	212	219
Between one and five years	743	895	694	764
Over five years	5,041	5,256	5,041	5,256
Total	6,109	6,521	5,947	6,239

Bank Loan - Yorkshire Bank plc

The loan of £39,643,000 (2002: £28,288,000) (£1,187,000 falling due within one year and £38,456,000 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 £19,694,000 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 £10,699,000 (2002: £10,542,000) (£958,000 falling due within one year and £9,741,000 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 are shown above.

Bank overdrafts

At the end of the year subsidiary undertakings had bank overdrafts totalling £626,000.

20 Provisions for Liabilities and Charges

Consolidated & University	Pensions	Other	Total
	£000	£000	£000
At 1 August 2002	1,144	50	1,194
Utilised in year	(102)	-	(102)
Transfer from income and expenditure account	140	-	140
At 31 July 2003	1,182	50	1,232

Notes to the financial statements (continued)

21 Deferred Capital Grants

Consolidated	Funding Council £000	Other grants & benefactions £000	Total £000
At 1 August 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>
Cash and cash equivalents received			
Building	6,918	1,847	8,765
Equipment	850	860	1,710
Total	<u>7,768</u>	<u>2,707</u>	<u>10,475</u>
Released to Income and Expenditure account			
Building	411	108	519
Equipment	1,074	672	1,746
Total	<u>1,485</u>	<u>780</u>	<u>2,265</u>
At 31 July 2003			
Building	17,786	2,445	20,231
Equipment	2,987	1,053	4,040
Total	<u>20,773</u>	<u>3,498</u>	<u>24,271</u>
University			
At 1 August 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>
Cash and cash equivalents received			
Building	6,918	1,847	8,765
Equipment	850	860	1,710
Total	<u>7,768</u>	<u>2,707</u>	<u>10,475</u>
Released to Income and Expenditure account			
Building	411	108	519
Equipment	1,074	665	1,739
Total	<u>1,485</u>	<u>773</u>	<u>2,258</u>
At 31 July 2003			
Building	17,786	2,445	20,231
Equipment	2,987	1,000	3,987
Total	<u>20,773</u>	<u>3,445</u>	<u>24,218</u>

The amount of £2,265,000 released to the consolidated income and expenditure account comprises £2,260,000 due to depreciation, and £5,000 due to disposals.

Notes to the financial statements (continued)

22 Endowments

	Consolidated & University		
	Specific	General	Total
	Endowments	Endowments	
	£000	£000	£000
At 1 August 2002	1,891	59,596	61,487
Additions	248	-	248
Income	65	8,136	8,201
Revaluation	-	(3,640)	(3,640)
Movement from general to specific endowments	1,959	(1,959)	-
Income transferred to Income & Expenditure account (note 5)	(290)	(8,136)	(8,426)
At 31 July 2003	<u>3,873</u>	<u>53,997</u>	<u>57,870</u>

23 Revaluation of General Endowment

	Consolidated & University	
	2002/2003	2001/2002
	£000	£000
Revaluations		
At 1 August	47,279	44,715
Revaluation in Year	(3,640)	2,564
At 31 July	<u>43,639</u>	<u>47,279</u>

The revaluation shown above forms part of the general endowment of £53,997,000 (2001/2002: £59,596,000).

24 Restricted Reserves

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Trust funds	<u>1,018</u>	<u>1,166</u>	<u>900</u>	<u>989</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			
	2002/2003		2001/2002	
	£000	£000	£000	£000
At 1 August		946		1,765
Revaluation of investments	(183)		(792)	
Donated assets received in year	60		-	
Released on depreciation of donated assets	(39)		(27)	
		(162)		(819)
At 31 July		784		946

26 Movement on General Reserves

	Consolidated		University	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
At 1 August	43,284	39,995	44,150	41,210
Transfer from revaluation reserve	39	27	39	27
Surplus for the year	3,063	3,245	2,329	2,923
Decrease/(increase) in restricted reserves	148	17	89	(10)
At 31 July	46,534	43,284	46,607	44,150

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

	Consolidated	
	2002/2003	2001/2002
	£000	£000
Surplus before tax	2,974	3,454
Depreciation	7,113	6,442
Deferred grants released	(2,265)	(1,951)
Investment income	(652)	(659)
Interest payable	4,094	4,120
Decrease/(increase) in stocks	196	(219)
Decrease/(increase) in trade debtors	406	(5,553)
Increase in creditors and accruals	2,053	10,231
Increase in provisions	38	66
Loss on disposal of property/investments	116	421
Endowment income	(8,426)	(8,504)
Permanent diminution of investments	26	280
Increase in specific endowment asset investments	1,982	515
Net cash inflow from operating activities	7,655	8,643

Notes to the financial statements (continued)

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

	2002/2003		2001/2002	
	£000	£000	£000	£000
Returns on investments and servicing of finance				
Income from endowments	8,436		8,403	
Interest received	670		629	
Interest element of finance lease rental payments	(602)		(614)	
Interest paid	(3,019)		(3,755)	
Net cash inflow from returns on investments and servicing of finance		5,485		4,663
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(13,441)		(17,592)	
Purchase of long term investments	(3,412)		(630)	
Realisation of long-term investments	1,271		221	
Increase in investment in Research Park	(1,946)		(122)	
Deferred grants received	7,264		7,361	
		(10,264)		(10,762)
Management of Liquid Resources				
Cash invested in short term deposit	(9,435)		(1,444)	
		(9,435)		(1,444)
Financing				
Debt due within a year				
repayment of a secured loan	(646)		(1,534)	
capital element of lease payment	(452)		(391)	
purchase of SAGE shares	-		(9)	
Debt due beyond a year				
new unsecured loan	12,784		-	
Net Cash Flow from Financing		11,686		(1,934)

29 Analysis of Changes in Net Debt

	At 1 Aug 2002 £000	Cash flows £000	Other non-cash changes £000	At 31 July 2003 £000
Cash in hand and at bank	4,416	5,063	-	9,479
Debt due after one year	(40,212)	(10,942)	(237)	(51,391)
Debt due within one year	(1,590)	(1,197)	16	(2,771)
Finance leases	(6,521)	453	(41)	(6,109)
Current asset investments	4,423	9,435	-	13,858
Total	(39,484)	2,812	(262)	(36,934)

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 £3,194,000 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	
	2002/2003	2001/2002	2002/2003	2001/2002
	£000	£000	£000	£000
Commitments contracted at 31 July	3,959	10,349	3,959	10,349
Authorised but not contracted at 31 July	19,746	23,158	19,746	23,158
	23,705	33,507	23,705	33,507

31 Lease Obligations

Operating lease commitments for the 2002/2003 financial year, on leases expiring :

Consolidated	2002/2003		2001/2002	
	Land & Buildings	Plant & Equipment	Land & Buildings	Plant & Equipment
	£000	£000	£000	£000
Within one year	1,325	15	1,063	10
Between two and five years	-	97	-	102
Over five years	188	-	181	-
	1,513	112	1,244	112

University	2002/2003		2001/2002	
	Land & Buildings	Plant & Equipment	Land & Buildings	Plant & Equipment
	£000	£000	£000	£000
Within one year	1,325	15	1,063	10
Between two and five years	-	97	-	102
Over five years	188	-	181	-
	1,513	112	1,244	112

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 2003 being £3,194,000.

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 2002. 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 valuation rate would be 5.0% per annum, that salary scale increases would be 3.7% per annum and that pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the Scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% 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 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 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 2005 when the above rates will be reviewed.

The total consolidated pension cost to the University of Surrey for the year was £5,472,000 (2002: £4,884,000). This includes £728,000 (2002: £656,000) 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 £1,699,000 (2002: £1,356,000).

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 2002 and 31 July 2003. The major assumptions used by the actuary were:

	2003	2002
	%	%
Rate of salary increases	4.3	4.3
Rate of pension increases in payment	2.5	2.5
Discount rate	5.4	5.9
Inflation rate	2.5	2.5

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

	At 31 July 2003		At 31 July 2002	
	Market value £m	Expected rate of return	Market value £m	Expected rate of return
Equities	21.3	8.00%	16.9	8.00%
Gilts	1.9	4.70%	2.2	4.90%
Property	1.6	6.70%	1.8	5.80%
Overseas bonds	2.4	5.40%	3.7	5.80%
Cash	0.5	3.50%	0.6	4.50%
	<u>27.7</u>	<u>7.40%</u>	<u>25.2</u>	7.20%

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

	31 July 2003	31 July 2002
	£m	£m
Estimated market value of scheme assets	27.7	25.2
Present value of scheme liabilities	(48.4)	(40.8)
Deficit in scheme	<u>(20.7)</u>	<u>(15.6)</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 2003	31 July 2002
	£m	£m
Net assets as stated in balance sheet	130.5	123.0
SSAP 24 balance	1.1	1.0
Net assets excluding pension liability	131.6	124.0
FRS 17 pension liability	(20.7)	(15.6)
Net assets including FRS 17 pension liability	110.9	108.4
General reserve as stated in balance sheet	48.3	45.4
SSAP 24 balance	1.1	1.0
General reserve excluding pension liability	49.4	46.4
FRS 17 pension liability	(20.7)	(15.6)
General reserve including FRS 17 pension liability	28.7	30.8

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 2003:

	Year ended 31 July 2003	
	£m	£m
Analysis of amounts charged to income and expenditure account:		
Current service cost		1.7
Past service cost		0.1
Curtailment cost		0.1
Financing - expected return on pension scheme assets	(1.8)	
Financing - interest on expected scheme liabilities	2.4	
Net return on financing		0.6
		2.5
Analysis of amounts recognised in statement of total recognised gains and losses:		
Actual return less expected return on pension scheme assets		(0.2)
Gain or loss on change of assumptions		(4.3)
Total actuarial loss recognised		(4.5)

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 2003
	£m
Deficit on scheme at 1 August 2002	(15.6)
Movement in year - current service cost	(1.7)
- contributions	1.9
- past service costs	(0.1)
- other finance charge	(0.6)
- actuarial loss	(4.5)
- curtailment cost	(0.1)
Deficit on scheme at 31 July 2003	(20.7)

Notes to the financial statements (continued)

33 Pension Schemes (continued)

The experience gains and losses for the year ended 31 July 2003 were as follows:

Difference between the expected and actual return on scheme assets:

Amount £m	(0.2)
Percentage of scheme assets	(0.72%)

Experience gains and losses on scheme liabilities:

Amount £m	0
Percentage of the present value of scheme liabilities	0%

Total amount recognised in the statement of total recognised gains and losses:

Amount £m	(4.5)
Percentage of the present value of scheme liabilities	(9.3%)

34 Access Funds

	University	
	2002/2003	2001/2002
	£000	£000
Balance as at 1 August	39	8
Funding Council Access funds	297	262
	336	270
Interest earned	3	3
Disbursed to students	(300)	(234)
Balance unspent as at 31 July	39	39

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'.