



# UniS



Statement of Accounts 2003-2004



THE QUEEN'S  
ANNIVERSARY PRIZES  
FOR HIGHER AND FURTHER EDUCATION  
2002

# UniS

University of Surrey

## **COUNCIL MEMBERS for 2003/2004**

### **Chairman**

Sir William Wells

### **Vice Chairman**

Mr M Taylor

### **Ex-officio members**

#### **Chancellor**

HRH The Duke of Kent

#### **Pro-Chancellors**

Sir Idris Pearce (until January 2004)

Baroness Perry

Mr J D M Robertson

Sir Alan Rudge

#### **Vice-Chancellor & Chief Executive**

Professor P J Dowling

#### **Treasurer**

drs J Derwig

#### **Deputy Vice-Chancellor**

Professor J A Turner

#### **Pro-Vice-Chancellors**

Professor D W Airey

Professor B G Evans

Professor G N Gilbert

#### **Chairman, Academic Assembly**

Dr D C Povey

#### **President, Students' Union**

Mr P Tivers

### **Elected by the Senate**

Professor S L Arber (until December 2003)

Dr C R Fife-Schaw

Dr C M France

Professor W Gelletly

Professor M Kipps

Dr L J Reynolds (until October 2003)

Dr N I Ward

Professor B Weiss

### **Appointed by the Council to represent local interests, including education**

Mr P Coen

Dr M W Gill

Mrs J Powell

Mrs L Sedgmore

### **Nominated by the Court**

Mr J A Holt

### **Co-opted by the Council**

Mr A J Booth

Mr C A Clark

drs J Derwig

Mr E J A fforde

Mr R I Houston (until February 2004)

Lady Kerr

Dr A G Limb

Dr A Naylor

Dr B Porter

Mr M Taylor

### **Clerk to the Council**

Mr J W A Strawson

## **FINANCE & GENERAL PURPOSES COMMITTEE MEMBERS for 2003/2004**

### **Ex-officio members**

#### **University Treasurer**

drs J Derwig (Chairman ex officio)

#### **Vice-Chancellor & Chief Executive**

Professor P J Dowling

#### **Chairman of Council**

Sir William Wells

#### **Vice Chairman of Council**

Mr M Taylor

#### **Deputy Vice-Chancellor**

Professor J A Turner

#### **President, Students' Union**

Mr P Tivers

#### **Chairman of the Academic Assembly**

Dr D C Povey

### **Nominated Head of School**

Professor W R Robertson

Professor B L Weiss (alternate)

### **Lay Member appointed by Council**

Mr E J A fforde

Mr J A Holt

Mr R I Houston (until January 2004)

## **AUDIT COMMITTEE MEMBERS for 2003/2004**

### **Chairman**

Mr A J Booth

### **Lay Members of Council**

Mr C A Clark

Dr A Naylor

### **Co-opted Members**

Mr A J Cornelius

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## Consolidated Financial Highlights for Financial Year 2003/2004

	<b>2003/2004</b> <b>£000</b>	Restated 2002/2003 £000	% Increase (Decrease)
<b>Income and Expenditure</b>			
<b>Income</b>			
HEFCE Teaching Grant	<b>18,166</b>	17,850	1.8
Research, deferred and other specific grants	<b>18,600</b>	17,524	6.1
	<b>36,766</b>	35,374	3.9
Home Tuition Fees (i)	<b>12,424</b>	12,453	(0.2)
Total grant plus home fees	<b>49,190</b>	47,827	2.8
Other Income	<b>104,631</b>	103,186	1.4
<b>Total Income</b>	<b>153,821</b>	151,013	1.9
<b>Total Expenditure</b>	<b>150,978</b>	145,563	3.7
including taxation (£258k) and minority interests (£43k), 2002/2003 taxation (-£122k) and minority interests (£33k)			
<b>Consolidated surplus for the year</b>	<b>2,843</b>	5,450	
HEFCE Grants plus Home Tuition Fees as percentage of total Income	<b>32.0%</b>	31.7%	
<b>Note</b>			
(i) Home Tuition Fees are derived from UK and other EU students.			
	<b>2003/2004</b> <b>£000</b>	Restated 2002/2003 £000	
<b>Assets</b>			
Capital Assets purchased or donated in year	<b>30,882</b>	16,213	90.5
Total Net Assets	<b>148,288</b>	137,367	8.0

# Report of the Chairman of Council

## **Financial Environment**

Although the external financial environment continues to be challenging for the University, our recent results indicate that we have a sound financial basis on which to move forward. The political debate on how higher education is to be funded has been decided, for England, although this is subject to the outcome of the next election. Therefore it is probable that the variable fees regime on which the University is currently developing its policy will start to be implemented in less than two years time. I would draw your attention to the financial highlights on page 2 where it can be seen that the University continues to have diversified sources of income. Whilst the various funded initiatives that the government has introduced provide additional finance towards directed schemes, particularly 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 2003/2004 show a surplus for the year of £2,843,000 (2002/2003 restated: £5,450,000). Whilst the 2003/2004 result is less than the restated surplus for 2002/2003, it is more than acceptable given where we are in our investment cycle. Total income increased by 1.9% to £153,821,000 whilst total expenditure, including taxation and minority interests, increased by 3.7% to £150,978,000. The University's investment in new capital assets in 2003/2004 was £30,882,000 (2002/2003 restated: £16,213,000) which is equivalent to 20.1% of total income.

Academic fees and support grants show an increase of 6.5%, up from £39,939,000 to £42,535,000 principally due to increases in the number of international students. Core Funding Council grants relating to teaching and research show an increase of 3.1%. Research grant and contract income has increased by 11.2% as a result of increased activity in Surrey Satellite Technology Ltd (SSTL). Academic Schools and other units have generally performed well. Continuing 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 2003/2004. The main financial highlights are shown on page 2 of the Financial Statements.

## **Resource Allocation Methodology**

The University has continued to evolve and develop its Resource Allocation Methodology (RAM) which is an important accountability tool in the University's strategic planning processes. The University aims to be transparent and equitable in the allocation of resources and in the accountability for their use. The RAM has been instrumental in achieving this. The RAM methodology has been reviewed and changes have been made to ensure that transparency, equity and accountability are further enhanced.

## **Long Term Borrowing**

During the year there was a reduction in bank loans of £1,041,031 as result of capital repayments. Capital expenditure was funded from both HEFCE grants and internal cash resources. The University has a policy of borrowing only against those 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 cash flow as much as is feasible and also uses hedging instruments to limit the risks of increases in interest rates. In some cases Foundation Fund surpluses are used to underwrite debt servicing costs on those projects where commercial rates of return are not properly achievable. The loan debt and finance lease obligations outstanding at the end of 2003/2004 were £67,351,000 (2002/2003: £59,645,000), the increase caused by the financing of International House.

## 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 £11,472,000 over the year which has provided funds for both capital investment and normal operating requirements.

### **Investment Performance and Cashflow**

The return on long term investments, ignoring capital growth/diminution was 3.25% (2002/2003: 2.60%) whilst the rate of return on short term investments was 3.80% (2002/2003: 3.56%). Given our risk averse 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 2003/2004 a total of £4,626,000 (2002/2003: £6,202,000) was transferred from the Foundation Fund to the University for these purposes. The upward revaluation of £3,020,000 for the Foundation Fund property should be seen in the context of current market conditions and represents a good result.

### **University Companies**

The University's major company Surrey Satellite Technology Ltd (SSTL) had a very successful year and achieved a profit before taxation of £1,333,000. The company is well set to achieve further growth despite operating in a challenging and rapidly changing environment.

### **Major Capital Projects and Long Term Maintenance Programme**

The Postgraduate Medical School building was started in the year and represents a major investment in this field of activity. The University also continues to invest significant sums in the rest of its capital and long term maintenance programmes to maintain and enhance its existing estate infrastructure. This must be a continuing and a growing requirement for which the necessary funds must be prioritised.

### **Manor Park, Guildford Development**

The University received outline planning permission for the development of its Manor Park site during the year and I am now pleased to report that detailed planning permission was received in October 2004 for the Manor Park residences development and their development will commence shortly.

### **Employee and Student Involvement**

The University encourages the involvement of all staff and students and fosters good communication with them. The University has a well publicised website and also 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, professional and manual 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 reasonable funding level, the financial performance of the SCCSF continues to cause some concern. Results of the next formal 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 2003/2004 outlines a number of important initiatives and themes for the past financial year and for the future and includes, inter alia;

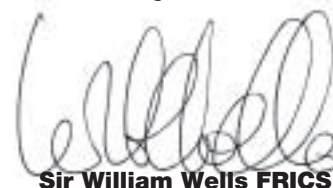
- The beneficial impact that the University of Surrey makes in meeting the region's innovation and enterprise agenda
- The revision of our academic strategy and the implementation of our improvement programmes
- The investment in research activity for the 2008 Research Assessment Exercise
- The investment in and development of our Manor Park, Guildford campus
- Investment in learning and teaching activities
- Concentration on improving the student experience
- Initiatives to encourage participation by those who might otherwise not benefit from higher education

### **Conclusion**

The University has had a good financial year which is so important in helping the University to support further needed academic and capital investment. 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, I believe we have a strong foundation on which to move forward.

### **External Auditors**

Ernst & Young LLP were appointed as auditors to the University in 2001. During 2003/2004, it was agreed to extend their initial three year contract through to the conclusion of the 2006/2007 audit.



**Sir William Wells FRICS**

Chairman of Council

9 December 2004

## 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 year ended 31 July 2004 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 Committee and an Audit Committee. From October 2003 the University implemented a new Executive Board structure with a number of supporting executive and advisory committees. The Executive Board is the senior management committee of the University and meets every month. The Executive Board is comprised of senior officers of the University under the Chairmanship of the Vice-Chancellor as Chief Executive, all other senior committees have substantial lay membership. All of these committees are formally constituted with appropriate terms of reference.

The Finance Committee ensures 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 acts 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.

## 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 Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and 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 2004. 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 2004 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 36. 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 Statement of Recommended Practice on Accounting in 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 2004, 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 Memoranda dated 1 August 2000 and 1 October 2003 with the Higher Education Funding Council for England.

### **Ernst and Young LLP**

Registered Auditor  
Southampton

9 December 2004

## Statement of principal accounting policies

### **Basis of preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education* 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 'Accounting for Subsidiary Undertakings', 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. During the year, the University changed its accounting policy for long term maintenance costs and made a prior year adjustment to reflect the capitalisation, from 1 August 1999, of those costs which meet the FRS15 'Tangible Fixed Assets' criteria for capitalisation. The effects of this change in accounting policy are shown in note 13. Expenditure on long term maintenance which does not meet the FRS 15 criteria for capitalisation, and expenditure on all 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 Second Pension (S2P). The liabilities 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.

During the year the University changed its accounting policy for long term maintenance costs and made a prior year adjustment to reflect the capitalisation, from 1 August 1999, of those costs which meet the FRS15 'Tangible Fixed Assets' criteria for capitalisation. Those costs which meet the FRS15 criteria for capitalisation are accounted for as additions to buildings and written off over their expected useful lives which are generally between 20 and 30 years. The effects of this change in accounting policy are shown in note 13.

## Statement of principal accounting policies (continued)

### **b. Equipment**

Equipment costing less than £10,000 per individual item, or group of related items, is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its useful life, as follows :

Motor vehicles and general equipment	-	5 years
Computer networks	-	5 to 7 years
Other 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).

### **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 capitalised and 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 'Reporting the Substance of Transactions'. 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 fixed asset investments are included in the balance sheet at market value. Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment. Current asset investments are included at the lower of cost and net realisable value.

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve unless a deficit arising, or its reversal, is considered permanent, in which case it is charged or credited to the profit and loss account. No depreciation is provided in respect of these properties.

## Statement of principal accounting policies (continued)

### **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.

### **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 Income and Corporation 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 Income and Corporation 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.

### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### **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 2004

	Note	Consolidated		University	
		2003/2004 £000	Restated 2002/2003 £000	2003/2004 £000	Restated 2002/2003 £000
<b>Income</b>					
Funding Council grants	1	<b>36,766</b>	35,374	<b>36,766</b>	35,374
Academic fees and support grants	2	<b>42,535</b>	39,939	<b>42,535</b>	39,939
Research grants and contracts	3	<b>24,810</b>	22,317	<b>19,281</b>	19,396
Other operating income	4	<b>40,119</b>	44,167	<b>26,077</b>	24,644
Endowment and trust income and interest receivable	5	<b>9,591</b>	9,216	<b>9,306</b>	9,094
<b>Total income</b>		<b>153,821</b>	151,013	<b>133,965</b>	128,447
<b>Expenditure</b>					
Staff costs	6 & 10	<b>83,371</b>	75,900	<b>76,419</b>	69,858
Other operating expenses	8 & 10	<b>54,665</b>	58,276	<b>43,574</b>	42,815
Depreciation	10 & 14	<b>7,153</b>	7,382	<b>6,761</b>	6,960
Interest payable	9 & 10	<b>5,488</b>	4,094	<b>5,476</b>	4,098
<b>Total expenditure</b>		<b>150,677</b>	145,652	<b>132,230</b>	123,731
Surplus on continuing operations after depreciation of assets and before tax and minority interests		<b>3,144</b>	5,361	<b>1,735</b>	4,716
<b>Taxation</b>					
	11	<b>(258)</b>	122	<b>0</b>	0
Surplus on continuing operations after depreciation of assets and tax and before minority interests		<b>2,886</b>	5,483	<b>1,735</b>	4,716
Minority interests		<b>(43)</b>	(33)	<b>0</b>	0
<b>Surplus for the year</b>	12	<b>2,843</b>	5,450	<b>1,735</b>	4,716

The difference between the result reported above and the result on an unmodified historical cost basis is a decrease to the surplus of £687,000 (2002/2003: £690,000). This arises because properties on the Research Park which are accounted for as investment properties at valuation would otherwise be liable to depreciation for the year of £738,000 (2002/2003: £729,000). 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 £51,000 (2002/2003: £39,000) during the year.

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

## Statement of consolidated total recognised gains and losses for the year ended 31 July 2004

	Note	<b>Consolidated</b>	
		<b>2003/2004</b> <b>£000</b>	Restated 2002/2003 £000
Surplus for the year after tax and minority interests		<b>2,843</b>	5,450
Specific endowment income received during year	23	<b>118</b>	313
Specific endowment income released during year	23	<b>(90)</b>	(290)
Revaluation of general endowment	24	<b>3,020</b>	(3,640)
Unrealised deficit on revaluation of investments	26	<b>(115)</b>	(183)
Donated assets received during year	26	<b>120</b>	60
Total recognised gains relating to the year		<b>5,896</b>	1,710
<b>Reconciliation of opening and closing reserves and endowments</b>			
Opening reserves and endowments as previously stated		<b>106,206</b>	
Prior year adjustment (see note 13)			
Capitalisation of long term maintenance		<b>6,978</b>	
		<b>113,184</b>	
Total recognised gains and losses for the year		<b>5,896</b>	
Closing reserves and endowments		<b>119,080</b>	

## Balance sheets as at 31 July 2004

	Note	Consolidated		University	
		2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
<b>Fixed assets</b>					
Tangible assets	14	<b>129,020</b>	106,030	<b>128,088</b>	105,253
Investments	15	<b>28,292</b>	27,192	<b>30,094</b>	29,102
		<b>157,312</b>	133,222	<b>158,182</b>	134,355
<b>Endowment asset investments</b>	15	<b>58,459</b>	57,870	<b>58,459</b>	57,870
<b>Current assets</b>					
Stocks and stores in hand		<b>1,219</b>	1,122	<b>608</b>	595
Debtors	16	<b>20,454</b>	23,894	<b>17,579</b>	20,763
Investments	17	<b>5,588</b>	11,655	<b>3,000</b>	8,040
Cash at bank and in hand		<b>22,411</b>	11,565	<b>12,955</b>	6,055
		<b>49,672</b>	48,236	<b>34,142</b>	35,453
<b>Creditors : Amounts falling due within one year</b>	18	<b>(50,722)</b>	(43,461)	<b>(37,281)</b>	(32,103)
<b>Net current (liabilities)/assets</b>		<b>(1,050)</b>	4,775	<b>(3,139)</b>	3,350
<b>Total assets less current liabilities</b>		<b>214,721</b>	195,867	<b>213,502</b>	195,575
<b>Creditors : Amounts falling due after more than one year</b>	19	<b>(64,978)</b>	(57,268)	<b>(64,977)</b>	(57,126)
<b>Provisions for liabilities and charges</b>	21	<b>(1,455)</b>	(1,232)	<b>(1,455)</b>	(1,232)
<b>Total net assets</b>		<b>148,288</b>	137,367	<b>147,070</b>	137,217
<b>Deferred capital grants</b>	22	<b>29,112</b>	24,130	<b>29,143</b>	24,078
<b>Endowments</b>					
Specific	23	<b>1,442</b>	3,873	<b>1,442</b>	3,873
General	23	<b>57,017</b>	53,997	<b>57,017</b>	53,997
		<b>58,459</b>	57,870	<b>58,459</b>	57,870
<b>Reserves</b>					
Restricted reserves	25	<b>1,125</b>	1,018	<b>976</b>	900
Revaluation reserve	26	<b>738</b>	784	<b>738</b>	784
Income and expenditure account	27	<b>58,758</b>	53,512	<b>57,754</b>	53,585
		<b>60,621</b>	55,314	<b>59,468</b>	55,269
Total funds before minority interests		<b>148,192</b>	137,314	<b>147,070</b>	137,217
Minority interests		<b>96</b>	53	<b>0</b>	0
<b>Total funds</b>		<b>148,288</b>	137,367	<b>147,070</b>	137,217

The financial statements and notes on pages 9 to 37 were approved by the governing body on 9 December 2004 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 2004

		<b>Consolidated</b>	
	Note	<b>2003/2004</b>	Restated
		<b>£000</b>	2002/2003
			£000
<b>Cash flow from operating activities</b>	28	<b>13,466</b>	10,326
<b>Returns on investments and servicing of finance</b>	29	<b>4,549</b>	5,485
<b>Taxation</b>		<b>(187)</b>	(64)
<b>Capital expenditure and financial investment</b>	29	<b>(11,063)</b>	(13,052)
<b>Cash inflow before use of liquid resources and financing</b>		<b>6,765</b>	2,695
<b>Management of liquid resources</b>	29	<b>6,067</b>	(7,232)
<b>Financing</b>	29	<b>(1,360)</b>	11,060
<b>Increase in cash in the period</b>		<b>11,472</b>	6,523

		<b>2003/2004</b>	Restated
		<b>£000</b>	2002/2003
			£000
<b>Reconciliation of net cash flow to movement in net debt</b>	30		
Increase in cash in the period		<b>11,472</b>	6,523
Cash outflow/(inflow) from decrease/increase in debt financing		<b>1,360</b>	(11,060)
Cash (inflow)/outflow from increase/decrease in liquid resources		<b>(6,067)</b>	7,232
Change in net debt resulting from cash flows		<b>6,765</b>	2,695
Increase in SAGE liabilities		<b>(230)</b>	(222)
New finance leases		<b>(8,400)</b>	(42)
Increase in liability for finance leases		<b>(436)</b>	0
<b>Movement in net debt in the period</b>		<b>(2,301)</b>	2,431
Net debt at 1 August		<b>(37,051)</b>	(39,482)
<b>Net debt at 31 July</b>		<b>(39,352)</b>	(37,051)

## Notes to the financial statements

**1 Funding Council Grants**

	<b>Consolidated &amp; University</b>	
	<b>2003/2004</b>	Restated 2002/2003
	<b>£000</b>	£000
<b>Recurrent Grant</b>		
Teaching	<b>18,166</b>	17,850
Research	<b>14,301</b>	14,180
Moderation Funding	<b>567</b>	0
	<b>33,034</b>	32,030
<b>Specific Grants</b>		
Rewarding and developing staff	<b>1,298</b>	879
Higher Education Innovations Fund	<b>230</b>	342
Higher Education Reach Out to Business	<b>248</b>	306
Aimhigher	<b>230</b>	0
Quest	<b>3</b>	30
Widening participation	<b>0</b>	51
Active Community	<b>102</b>	61
Teaching and Learning Technology Programme	<b>1</b>	0
Joint Research Equipment Initiative	<b>19</b>	1
Learning and teaching support network	<b>0</b>	25
Learning and teaching development	<b>0</b>	18
National Teaching Fellowship	<b>19</b>	13
Other	<b>72</b>	72
<b>Deferred Capital Grants released in year</b> (note 22)		
Building	<b>551</b>	472
Equipment	<b>959</b>	1,074
Total Grants from HEFCE	<b>36,766</b>	35,374

**2 Academic Fees and Support Grants**

	<b>Consolidated &amp; University</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
UK HE students	<b>9,535</b>	9,708
EU (non UK) students	<b>2,889</b>	2,745
Non-EU students	<b>18,823</b>	16,507
Health Authority contract	<b>10,601</b>	9,936
Research Council support grants and bench fees	<b>687</b>	1,043
	<b>42,535</b>	39,939

**3 Research Grants and Contracts**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Research councils	<b>7,419</b>	8,123	<b>7,419</b>	8,123
UK based charities	<b>720</b>	583	<b>720</b>	583
European commission	<b>4,405</b>	5,927	<b>4,405</b>	4,150
Other grants and contracts	<b>12,202</b>	7,310	<b>6,673</b>	6,166
Releases from deferred capital grants	<b>64</b>	374	<b>64</b>	374
	<b>24,810</b>	22,317	<b>19,281</b>	19,396

## Notes to the financial statements (continued)

**4 Other Operating Income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Residences, catering and conferences	<b>13,493</b>	10,984	<b>13,493</b>	10,984
Other Services Rendered	<b>18,978</b>	24,498	<b>4,161</b>	4,223
Donations from subsidiary companies	<b>0</b>	0	<b>185</b>	232
Departmental income	<b>4,566</b>	3,981	<b>4,566</b>	3,981
Released from deferred capital grants	<b>260</b>	347	<b>260</b>	347
Use of University facilities & rental income	<b>1,331</b>	2,647	<b>1,931</b>	3,265
VAT recovered	<b>1,154</b>	1,459	<b>1,154</b>	1,459
Other income	<b>337</b>	251	<b>327</b>	153
	<b>40,119</b>	44,167	<b>26,077</b>	24,644

**5 Endowment and Trust Income and Interest Receivable**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Income from endowments (see note 23)	<b>8,279</b>	8,426	<b>8,315</b>	8,426
Income from trusts	<b>129</b>	138	<b>36</b>	49
Income from short term investments and deposits	<b>1,183</b>	652	<b>955</b>	619
	<b>9,591</b>	9,216	<b>9,306</b>	9,094

Consolidated endowment income includes general endowment income of £8,189,000 (2002/2003: £8,136,000) and specific endowment income of £90,000 (2002/2003: £290,000). Trust income of £73,000 (2002/2003: £72,000) is included as rental income within consolidated other operating income (note 4).

**6 Staff**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Staff costs :				
Wages and salaries	<b>69,809</b>	63,781	<b>63,709</b>	58,472
Social security costs	<b>5,772</b>	4,933	<b>5,106</b>	4,385
Other pension costs	<b>7,790</b>	7,186	<b>7,604</b>	7,001
	<b>83,371</b>	75,900	<b>76,419</b>	69,858

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>Number</b>	Number	<b>Number</b>	Number
FTE staff numbers by major category				
Academic departments	<b>1,331</b>	1,307	<b>1,331</b>	1,307
Academic services	<b>179</b>	169	<b>179</b>	169
Administration and central services	<b>241</b>	223	<b>241</b>	223
Premises	<b>146</b>	143	<b>146</b>	143
Residences and catering	<b>173</b>	181	<b>173</b>	181
Other	<b>188</b>	168	<b>20</b>	20
University staff seconded to subsidiary companies	<b>0</b>	0	<b>(14)</b>	(19)
	<b>2,258</b>	2,191	<b>2,076</b>	2,024

## Notes to the financial statements (continued)

**7 Emoluments of Higher Paid Staff**

	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
Emoluments of the Vice-Chancellor	<b>204</b>	189
Pension contributions	<b>24</b>	22
Emoluments of the Vice-Chancellor including pension contributions	<b>228</b>	211

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, are analysed below:

<b>Remuneration Band</b>	<b>2003/2004</b>	2002/2003
	<b>Number of Employees</b>	
£70,001 - £80,000	<b>23</b>	19
£80,001 - £90,000	<b>7</b>	6
£90,001 - £100,000	<b>5</b>	3
£100,001 - £110,000	<b>2</b>	4
£110,001 and over	<b>4</b>	2
	<b>41</b>	34

No early retirement and compensation costs were paid or payable in respect of Higher Paid Staff in 2003/2004 (2002/2003: £441,393).

**8 Other Operating Expenses**

<b>Consolidated</b>	<b>2003/2004</b>	Restated 2002/2003
	<b>£000</b>	£000
Residences, catering and conferences (other than lease rentals)	<b>3,216</b>	3,676
Bursaries, scholarships and prizes	<b>3,560</b>	3,509
Repairs and general maintenance	<b>1,442</b>	1,610
Staff travel and subsistence	<b>1,416</b>	1,337
Consumables and laboratory expenditure	<b>1,753</b>	1,868
Course and conference costs for staff	<b>1,170</b>	1,120
Library services	<b>1,904</b>	1,827
Heat, light and power	<b>1,417</b>	1,634
Grants to University of Surrey Students' Union	<b>736</b>	721
Local authority rates	<b>263</b>	227
Auditors' remuneration (external audit)	<b>59</b>	54
Auditors' remuneration (for services other than external audit)	<b>17</b>	10
Operating lease rentals - land and buildings	<b>1,609</b>	1,074
- equipment	<b>110</b>	118
University companies (other than heat, light and power costs shown above)	<b>11,035</b>	15,505
Other expenses	<b>24,958</b>	23,986
	<b>54,665</b>	58,276

## Notes to the financial statements (continued)

**9 Interest Payable**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
On bank loans and other loans:				
Bank loans wholly repayable within five years	<b>225</b>	32	<b>220</b>	54
Bank loans not wholly repayable within five years	<b>3,421</b>	3,238	<b>3,421</b>	3,238
Other loans	<b>231</b>	222	<b>231</b>	222
	<b>3,877</b>	3,492	<b>3,872</b>	3,514
On finance leases	<b>1,611</b>	602	<b>1,604</b>	584
Total	<b>5,488</b>	4,094	<b>5,476</b>	4,098

The interest payable on other loans shown above relates to the SAGE scheme (note 33).

**10 Analysis of 2003/2004 Expenditure by Activity**

<b>Consolidated</b>	<b>Staff Costs</b>	<b>Dep'n</b>	<b>Other Operating Expenses</b>	<b>Interest Payable</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Academic departments	45,457	1,572	11,094	0	<b>58,123</b>
Academic services	4,507	490	2,680	16	<b>7,693</b>
Research grants and contracts	9,678	479	7,854	0	<b>18,011</b>
Residences, catering & conferences	3,120	1,248	4,729	2,637	<b>11,734</b>
Premises	3,582	2,650	5,036	2	<b>11,270</b>
Administration	9,864	286	10,105	2	<b>20,257</b>
Other expenses	7,163	428	13,167	2,831	<b>23,589</b>
Total per income and expenditure account	<b>83,371</b>	<b>7,153</b>	<b>54,665</b>	<b>5,488</b>	<b>150,677</b>

The depreciation charge has been funded by :-

	<b>£000</b>
Deferred capital grants released (see note 22)	<b>1,885</b>
Revaluation reserve released (see note 26)	<b>51</b>
General income	<b>5,217</b>
	<b>7,153</b>

**11a Taxation on Profit on Ordinary Activities**

	<b>Consolidated</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
UK corporation tax on the profits of certain subsidiary companies for the period	<b>107</b>	(2)
Adjustments in respect of prior periods	<b>151</b>	(120)
	<b>258</b>	(122)

## Notes to the financial statements (continued)

**11b Factors Affecting Current Tax Charge**

The tax assessed on the surplus on continuing operations for the year is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are reconciled below:

	<b>Consolidated</b>	
	<b>2003/2004</b>	Restated 2002/2003
	<b>£000</b>	£000
Surplus on continuing operations before tax	<b>3,144</b>	5,361
Surplus on continuing operations multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	<b>943</b>	1,608
Factors affecting charge:		
University surplus exempt from taxation	<b>(421)</b>	(1,300)
Profits of subsidiary companies transferred to the University under Gift Aid	<b>(82)</b>	(70)
Research and development credits	<b>(275)</b>	(438)
Losses carried forward	<b>11</b>	213
Other	<b>(69)</b>	(15)
Total current tax charge (note 11a)	<b>107</b>	(2)

**12 Surplus for the Year**

	<b>Consolidated</b>	
	<b>2003/2004</b>	Restated 2002/2003
	<b>£000</b>	£000
The surplus on continuing operations for the period is made up as follows:	<b>£000</b>	£000
University's surplus for the year	<b>1,403</b>	4,334
Surplus generated by subsidiary undertakings and transferred to the University by Gift Aid and dividends	<b>332</b>	382
Retained surplus generated by subsidiary undertakings	<b>1,108</b>	734
	<b>2,843</b>	5,450

## Notes to the financial statements (continued)

**13 Prior Year Adjustment**

During the year, the University carried out a review of the carrying value of its buildings. This review highlighted that the University's policy of expensing all long term maintenance costs was not in line with FRS15 'Tangible Fixed Assets'. The University has therefore changed its accounting policy for long term maintenance costs and a prior year adjustment has been made to the financial statements to capitalise such costs with effect from 1 August 1999, the year FRS15 'Tangible Fixed Assets' was introduced.

The effects of the change in policy are summarised below:

**Income and Expenditure Account**

	<b>Consolidated &amp; University</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
Funding Council grants	<b>2</b>	61
Other operating expenses - capitalised costs	<b>3,338</b>	2,671
- loss on disposal of replaced assets	<b>(166)</b>	(76)
Depreciation	<b>(344)</b>	(269)
Increase in surplus for the year	<b><u>2,830</u></b>	<u>2,387</u>

**Balance Sheet**

	<b>Consolidated &amp; University</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
Tangible fixed assets - cost	<b>10,031</b>	7,128
- accumulated depreciation	<b>(366)</b>	(291)
	<b><u>9,665</u></b>	<u>6,837</u>
Deferred capital grants	<b>143</b>	141
Increase in net assets	<b><u>9,808</u></b>	<u>6,978</u>

## Notes to the financial statements (continued)

**14 Tangible Fixed Assets**

<b>Consolidated</b>	<b>Land and Buildings</b>		<b>Assets under Construction</b>	<b>Equipment</b>	<b>Total</b>
	<b>Freehold</b>	<b>Leasehold</b>			
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>					
At 1 August 2003 as previously stated	101,766	6,715	3,210	40,816	152,507
Prior year adjustment (note 13)	7,128	0	0	0	7,128
At 1 August 2003 as restated	108,894	6,715	3,210	40,816	159,635
Fully depreciated assets reinstated	0	0	0	660	660
Additions at cost	5,085	8,400	13,833	3,564	30,882
Reclassification	43	0	(43)	0	0
Disposals at cost	(1,211)	0	0	(2,145)	(3,356)
At 31 July 2004	112,811	15,115	17,000	42,895	187,821
<b>Depreciation</b>					
At 1 August 2003 as previously stated	20,814	470	0	32,030	53,314
Prior year adjustment (note 13)	291	0	0	0	291
At 1 August 2003 as restated	21,105	470	0	32,030	53,605
Fully depreciated assets reinstated	0	0	0	660	660
Charge for the year	3,208	302	0	3,643	7,153
Eliminated on disposal	(476)	0	0	(2,141)	(2,617)
At 31 July 2004	23,837	772	0	34,192	58,801
<b>Net Book Value</b>					
At 31 July 2004	88,974	14,343	17,000	8,703	129,020
At 31 July 2003 as restated	87,789	6,245	3,210	8,786	106,030
At 31 July 2003 as previously stated	80,952	6,245	3,210	8,786	99,193
<b>University</b>					
	<b>Freehold</b>	<b>Leasehold</b>	<b>Assets under Construction</b>	<b>Equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>					
At 1 August 2003 as previously stated	101,726	6,715	3,210	36,745	148,396
Prior year adjustment (note 13)	7,128	0	0	0	7,128
At 1 August 2003 as restated	108,854	6,715	3,210	36,745	155,524
Fully depreciated assets reinstated	0	0	0	660	660
Additions at cost	5,085	8,400	13,833	3,013	30,331
Reclassification	43	0	(43)	0	0
Disposals at cost	(1,211)	0	0	(55)	(1,266)
At 31 July 2004	112,771	15,115	17,000	40,363	185,249
<b>Depreciation</b>					
At 1 August 2003 as previously stated	20,727	470	0	28,783	49,980
Prior year adjustment (note 13)	291	0	0	0	291
At 1 August 2003 as restated	21,018	470	0	28,783	50,271
Fully depreciated assets reinstated	0	0	0	660	660
Charge for the year	3,202	302	0	3,257	6,761
Eliminated on disposal	(476)	0	0	(55)	(531)
At 31 July 2004	23,744	772	0	32,645	57,161
<b>Net Book Value</b>					
At 31 July 2004	89,027	14,343	17,000	7,718	128,088
At 31 July 2003 as restated	87,836	6,245	3,210	7,962	105,253
At 31 July 2003 as previously stated	80,999	6,245	3,210	7,962	98,416

## Notes to the financial statements (continued)

**14 Tangible Fixed Assets** (continued)

Buildings with a net book value of £23,633,000 (2003 restated: £18,114,000) and a cost of £31,611,000 (2003 restated: £25,541,000) 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.

The University entered into a lease and leaseback arrangement with A F Trust Company 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 £14,083,000 (2003: £5,980,000) held under finance leases. The depreciation allocated for the year in respect of these assets was £296,000 (2003: £129,000).

Included within the cost of land and buildings is £295,000 (2003: £295,000) which represents interest charges on loans taken out to fund the cost of buildings and incurred before the buildings came into use.

**15 Fixed Asset Investments****(i) Shares in Group Companies**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Investment at cost less provision	<b>0</b>	0	<b>2,300</b>	2,394

The net movement in the year reflects a provision for diminution in value of £94,000.

**Shares in Subsidiaries**

Principal subsidiaries are :-

<b>Name</b>	<b>Nature of Business</b>	<b>Class of Share</b>	<b>% held</b>
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
UniSGrist Limited	Loans	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)

**15 Fixed Asset Investments** (continued)

<b>(ii) Other Investments</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Balance at 1 August	<b>85,062</b>	86,574	<b>84,578</b>	86,357
Additions	<b>1,149</b>	3,529	<b>991</b>	3,254
Disposals	<b>(802)</b>	(1,161)	<b>(766)</b>	(1,161)
Impairment in value	<b>32</b>	(44)	<b>140</b>	(36)
Revaluations	<b>3,269</b>	(3,836)	<b>3,269</b>	(3,836)
Transfer to current assets	<b>(1,959)</b>	0	<b>(1,959)</b>	0
Balance at 31 July	<b>86,751</b>	85,062	<b>86,253</b>	84,578
Listed on London Stock Exchange:				
Fixed interest stocks	<b>324</b>	186	<b>324</b>	186
Equities	<b>1,526</b>	1,665	<b>1,526</b>	1,665
	<b>1,850</b>	1,851	<b>1,850</b>	1,851
Unlisted equities	<b>686</b>	704	<b>238</b>	270
Total fixed interest and equities	<b>2,536</b>	2,555	<b>2,088</b>	2,121
Fixed interest and equities	<b>2,536</b>	2,555	<b>2,088</b>	2,121
Cash held by stockbrokers	<b>247</b>	117	<b>247</b>	117
Deposits	<b>0</b>	1,959	<b>0</b>	1,959
Art collection	<b>514</b>	474	<b>514</b>	474
Partnership investment	<b>50</b>	50	<b>0</b>	0
General endowment assets: Research Park (2)	<b>57,017</b>	53,997	<b>57,017</b>	53,997
Investment: Research Park (2)	<b>26,013</b>	25,648	<b>26,013</b>	25,648
Other loans	<b>374</b>	262	<b>374</b>	262
Total other investments (1)	<b>86,751</b>	85,062	<b>86,253</b>	84,578
Land and property at cost	<b>37,438</b>	37,005	<b>37,438</b>	37,005
Fixed interest and equities at cost	<b>3,558</b>	3,232	<b>2,142</b>	1,937

(1) The above includes £1,442,000 (2003: £3,873,000) in respect of specific endowment assets and £57,017,000 (2003: £53,997,000) in respect of general endowment assets (see note 23).

(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 £8,189,000 (2003: £8,136,000), comprised principally of rental and service charge income (note 23). The balances primarily represent the tangible assets held by the Foundation Fund. These comprise freehold investment properties of £80,352,000 (2003: £77,332,000), freehold investment land & buildings of £3,741,000 (2003: £3,312,000) and furniture and equipment of £82,000 (2003: £110,000). The movement in the freehold investment properties balance represents the annual revaluation of the investment properties (note 24).

**Shown in balance sheet as:**

Fixed asset investments	<b>28,292</b>	27,192	<b>30,094</b>	29,102
Endowment asset investments	<b>58,459</b>	57,870	<b>58,459</b>	57,870
Total investments (i) and (ii)	<b>86,751</b>	85,062	<b>88,553</b>	86,972

## Notes to the financial statements (continued)

<b>16 Debtors</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Trade debtors	<b>10,414</b>	12,127	<b>5,518</b>	5,640
Amounts owed by subsidiary companies	<b>0</b>	0	<b>3,985</b>	4,761
Other debtors	<b>1,539</b>	1,074	<b>839</b>	353
Prepayments and accrued income	<b>8,501</b>	10,693	<b>7,237</b>	10,009
	<b><u>20,454</u></b>	<u>23,894</u>	<b><u>17,579</u></b>	<u>20,763</u>

<b>17 Current Asset Investments</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Short term deposits	<b>5,588</b>	11,655	<b>3,000</b>	8,040
	<b><u>5,588</u></b>	<u>11,655</u>	<b><u>3,000</u></b>	<u>8,040</u>

<b>18 Creditors : amounts falling due within one year</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans (note 20)	<b>2,088</b>	2,145	<b>2,088</b>	2,145
Bank overdrafts	<b>0</b>	626	<b>0</b>	0
Obligations under finance leases (note 20)	<b>285</b>	325	<b>237</b>	212
Payments received on account	<b>13,424</b>	9,257	<b>2,242</b>	1,907
Trade creditors	<b>11,214</b>	9,206	<b>9,911</b>	7,695
Amounts owed to group companies	<b>0</b>	0	<b>876</b>	844
Other creditors including taxation and social security	<b>3,169</b>	2,849	<b>3,053</b>	2,819
Accruals and deferred income	<b>20,542</b>	19,053	<b>18,874</b>	16,481
	<b><u>50,722</u></b>	<u>43,461</u>	<b><u>37,281</u></b>	<u>32,103</u>

<b>19 Creditors : amounts falling due after more than one year</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans (note 20)	<b>47,213</b>	48,197	<b>47,213</b>	48,197
Obligations under finance leases (note 20)	<b>14,341</b>	5,784	<b>14,340</b>	5,735
Other creditors	<b>0</b>	93	<b>0</b>	0
Other loans (note 30)	<b>3,424</b>	3,194	<b>3,424</b>	3,194
	<b><u>64,978</u></b>	<u>57,268</u>	<b><u>64,977</u></b>	<u>57,126</u>

## Notes to the financial statements (continued)

**20 Borrowings**

<b>a. Bank loans and overdrafts</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans and overdrafts are repayable as follows:				
In one year or less	<b>2,088</b>	2,771	<b>2,088</b>	2,145
Between one and two years	<b>2,158</b>	2,250	<b>2,158</b>	2,250
Between two and five years	<b>6,942</b>	7,473	<b>6,942</b>	7,473
In five years or more	<b>38,113</b>	38,474	<b>38,113</b>	38,474
Total	<b>49,301</b>	50,968	<b>49,301</b>	50,342

<b>b. Finance leases</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
The net finance lease obligations to which the University is committed are:				
In one year or less	<b>285</b>	325	<b>237</b>	212
Between one and five years	<b>990</b>	743	<b>989</b>	694
Over five years	<b>13,351</b>	5,041	<b>13,351</b>	5,041
Total	<b>14,626</b>	6,109	<b>14,577</b>	5,947

**Bank Loan - Yorkshire Bank plc**

The loan of £39,671,000 (2003: £39,643,000) (£1,018,000 falling due within one year and £38,653,000 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 £19,277,000 (2003: £19,694,000) of the loan until March 2007 at 9.115% and at 5.995% thereafter. 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 £9,630,000 (2003: £10,699,000) (£1,070,000 falling due within one year and £8,560,000 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 Duke of Kent Building. The loan falls due over fifteen years with a variable rate of interest of 0.5% above LIBOR. There is a negative pledge on the Duke of Kent Building in respect of this loan.

**Finance leases**

The University has 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 24 to 30 years. The transactions are accounted for as finance leases. The assets have been capitalised (note 14) and the obligations under the finance leases are shown above.

## Notes to the financial statements (continued)

**21 Provisions for Liabilities and Charges**

	<b>Consolidated &amp; University</b>		
	<b>Pensions £000</b>	<b>Other £000</b>	<b>Total £000</b>
At 1 August 2003	1,182	50	1,232
Utilised in year	(104)	0	(104)
Transfer from income and expenditure account	227	100	327
At 31 July 2004	<u>1,305</u>	<u>150</u>	<u>1,455</u>

The pensions provision relates to enhanced unfunded pension benefits for former staff, primarily members of the Surrey County Council Superannuation Fund.

No provision has been made for deferred taxation in the accounts. The deferred tax asset not recognised in the accounts comprises the following:

	<b>Consolidated</b>	
	<b>2003/2004 £000</b>	2002/2003 £000
Depreciation in advance of capital allowances in a subsidiary company	<b>139</b>	176
Other short term timing differences	<b>22</b>	13
	<u><b>161</b></u>	<u>189</u>

## Notes to the financial statements (continued)

**22 Deferred Capital Grants**

<b>Consolidated</b>	<b>Funding Council £000</b>	<b>Other grants &amp; benefactions £000</b>	<b>Total £000</b>
At 1 August 2003			
Building - as previously stated	17,786	2,445	20,231
- prior year adjustment (note 13)	(141)	0	(141)
- as restated	17,645	2,445	20,090
Equipment	2,987	1,053	4,040
Total	<u>20,632</u>	<u>3,498</u>	<u>24,130</u>
Cash and cash equivalents received			
Building	6,070	0	6,070
Equipment	797	0	797
Total	<u>6,867</u>	<u>0</u>	<u>6,867</u>
Released to Income and Expenditure account			
Building	551	57	608
Equipment	959	318	1,277
Total	<u>1,510</u>	<u>375</u>	<u>1,885</u>
At 31 July 2004			
Building	23,164	2,388	25,552
Equipment	2,825	735	3,560
Total	<u>25,989</u>	<u>3,123</u>	<u>29,112</u>
<b>University</b>	<b>Funding Council £000</b>	<b>Other grants &amp; benefactions £000</b>	<b>Total £000</b>
At 1 August 2003			
Building - as previously stated	17,786	2,445	20,231
- prior year adjustment (note 13)	(141)	0	(141)
- as restated	17,645	2,445	20,090
Equipment	2,987	1,001	3,988
Total	<u>20,632</u>	<u>3,446</u>	<u>24,078</u>
Cash and cash equivalents received			
Building	6,070	75	6,145
Equipment	797	0	797
Total	<u>6,867</u>	<u>75</u>	<u>6,942</u>
Released to Income and Expenditure account			
Building	551	57	608
Equipment	959	310	1,269
Total	<u>1,510</u>	<u>367</u>	<u>1,877</u>
At 31 July 2004			
Building	23,164	2,463	25,627
Equipment	2,825	691	3,516
Total	<u>25,989</u>	<u>3,154</u>	<u>29,143</u>

The amount of £1,885,000 (2003 restated: £2,326,000) released to the consolidated income and expenditure account comprises £1,775,000 (2003 restated: £2,262,000) due to depreciation, and £110,000 (2003 restated: £64,000) due to disposals.

## Notes to the financial statements (continued)

**23 Endowments****Consolidated**

	<b>Specific Endowments £000</b>	<b>General Endowments £000</b>	<b>Total £000</b>
At 1 August 2003	3,873	53,997	57,870
Reclassification of fund balances at 1 August 2003: transfer to General Reserves	(2,459)	0	(2,459)
Additions	66	0	66
Income	52	8,189	8,241
Revaluation	0	3,020	3,020
Income transferred to Income & Expenditure account (note 5)	(90)	(8,189)	(8,279)
At 31 July 2004	<u>1,442</u>	<u>57,017</u>	<u>58,459</u>

**University**

	<b>Specific Endowments £000</b>	<b>General Endowments £000</b>	<b>Total £000</b>
At 1 August 2003	3,873	53,997	57,870
Reclassification of fund balances at 1 August 2003: transfer to General Reserves	(2,459)	0	(2,459)
Additions	66	0	66
Income	52	8,225	8,277
Revaluation	0	3,020	3,020
Income transferred to Income & Expenditure account (note 5)	(90)	(8,225)	(8,315)
At 31 July 2004	<u>1,442</u>	<u>57,017</u>	<u>58,459</u>

**24 Revaluation of General Endowment**

	<b>Consolidated &amp; University</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
Revaluations		
At 1 August	<b>43,639</b>	47,279
Revaluation in Year	<b>3,020</b>	(3,640)
At 31 July	<u><b>46,659</b></u>	<u>43,639</u>

The revaluation shown above forms part of the general endowment of £57,017,000 (2002/2003: £53,997,000).

**25 Restricted Reserves**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Trust funds	<u><b>1,125</b></u>	<u>1,018</u>	<u><b>976</b></u>	<u>900</u>

These funds are held by the General Nursing Council Chair of Nursing Education at the University of Surrey Trust, the High Coombe Trust for Midwifery Education Research & Development Unit, the Battersea Trust Fund 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)

**26 Revaluation Reserve**

	<b>Consolidated &amp; University</b>			
	<b>2003/2004</b>		2002/2003	
	<b>£000</b>	<b>£000</b>	£000	£000
At 1 August		<b>784</b>		946
Revaluation of investments	<b>(115)</b>		(183)	
Donated assets received in year	<b>120</b>		60	
Released on depreciation of donated assets	<b>(51)</b>		(39)	
		<b>(46)</b>		(162)
At 31 July		<b>738</b>		784

**27 Movement on General Reserves**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
At 1 August as previously stated	<b>46,534</b>	43,284	<b>46,607</b>	44,150
Prior year adjustment:				
Capitalisation of long term maintenance costs	<b>6,978</b>	4,591	<b>6,978</b>	4,591
At 1 August as restated	<b>53,512</b>	47,875	<b>53,585</b>	48,741
Reclassification of fund balances at 1 August				
2003: transfer from endowments (note 23)	<b>2,459</b>	0	<b>2,459</b>	0
Transfer from revaluation reserve	<b>51</b>	39	<b>51</b>	39
Surplus for the year	<b>2,843</b>	5,450	<b>1,735</b>	4,716
(Increase)/decrease in restricted reserves	<b>(107)</b>	148	<b>(76)</b>	89
At 31 July	<b>58,758</b>	53,512	<b>57,754</b>	53,585

**28 Reconciliation of Consolidated Operating Surplus to Net Cash Flow From Operating Activities**

	<b>Consolidated</b>	
	<b>2003/2004</b>	Restated
	<b>£000</b>	2002/2003 £000
Surplus before tax	<b>3,144</b>	5,361
Depreciation	<b>7,153</b>	7,382
Deferred grants released	<b>(1,885)</b>	(2,326)
Investment income	<b>(1,183)</b>	(652)
Interest payable	<b>5,488</b>	4,094
(Increase)/decrease in stocks	<b>(97)</b>	196
Decrease in trade debtors	<b>136</b>	406
Increase in creditors and accruals	<b>8,005</b>	2,053
Increase in provisions	<b>223</b>	38
Loss on disposal of property/investments	<b>765</b>	192
Endowment income	<b>(8,279)</b>	(8,426)
Impairment of investments	<b>(32)</b>	26
Increase in specific endowment asset investments	<b>28</b>	1,982
Net cash inflow from operating activities	<b>13,466</b>	10,326

## Notes to the financial statements (continued)

**29 Analysis of cash flows for headings netted in the cash flow statement**

	<b>2003/2004</b>		Restated 2002/2003	
	<b>£000</b>	<b>£000</b>	£000	£000
<b>Returns on investments and servicing of finance</b>				
Income from endowments	<b>8,406</b>		8,436	
Interest received	<b>1,149</b>		670	
Interest element of finance lease rental payments	<b>(1,266)</b>		(602)	
Interest paid	<b>(3,740)</b>		(3,019)	
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>4,549</b>		5,485
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	<b>(22,362)</b>		(16,112)	
Purchase of long term investments	<b>(1,149)</b>		(3,529)	
Realisation of long-term investments	<b>2,735</b>		1,271	
Increase in investment in Research Park	<b>(365)</b>		(1,946)	
Deferred grants received	<b>10,078</b>		7,264	
		<b>(11,063)</b>		(13,052)
<b>Management of Liquid Resources</b>				
Cash withdrawn from/(invested in) short term deposits	<b>6,067</b>		(7,232)	
		<b>6,067</b>		(7,232)
<b>Financing</b>				
Debt due within a year				
repayment of a secured loan	<b>(696)</b>		(646)	
repayment of an unsecured loan	<b>(1,070)</b>			
capital element of lease payment	<b>(319)</b>		(452)	
Debt due beyond a year				
new secured loan	<b>725</b>		12,158	
<b>Net Cash Flow from Financing</b>		<b>(1,360)</b>		11,060

**30 Analysis of Changes in Net Debt**

	<b>At 1 Aug 2003 £000</b>	<b>Cash flows £000</b>	<b>Other non-cash changes £000</b>	<b>At 31 July 2004 £000</b>
Cash in hand and at bank	11,565	10,846	0	22,411
Overdrafts	(626)	626	0	0
	10,939	11,472	0	22,411
Debt due after one year	(51,391)	984	(230)	(50,637)
Debt due within one year	(2,145)	57	0	(2,088)
Finance leases	(6,109)	319	(8,836)	(14,626)
Current asset investments	11,655	(6,067)	0	5,588
Total	(37,051)	6,765	(9,066)	(39,352)

Debt due within one year and after one year represents bank loans (note 20) and amounts payable under an arrangement with the shareholders of previous BES companies. The latter are included as 'Other loans' and amount to £3,424,000 (2003: £3,194,000) due after one year.

The finance lease non-cash change represents the value of student residence blocks obtained on finance leases during the year, plus an adjustment in respect of interest for previous years.

## Notes to the financial statements (continued)

**31 Capital Commitments**

	<b>Consolidated</b>		<b>University</b>	
	<b>2003/2004</b>	Restated 2002/2003	<b>2003/2004</b>	Restated 2002/2003
	<b>£000</b>	£000	<b>£000</b>	£000
Commitments contracted at 31 July	<b>24,138</b>	4,749	<b>24,138</b>	4,749
Authorised but not contracted at 31 July	<b>69,288</b>	43,013	<b>69,288</b>	43,013
	<b>93,426</b>	47,762	<b>93,426</b>	47,762

**32 Lease Obligations**

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

<b>Consolidated</b>	<b>2003/2004</b>		2002/2003	
	<b>Land &amp; Buildings</b>	<b>Plant &amp; Equipment</b>	Land & Buildings	Plant & Equipment
Expiry date:	<b>£000</b>	<b>£000</b>	£000	£000
Within one year	<b>1,319</b>	<b>8</b>	1,325	15
Between two and five years	<b>200</b>	<b>95</b>	0	97
Over five years	<b>196</b>	<b>0</b>	188	0
	<b>1,715</b>	<b>103</b>	1,513	112

<b>University</b>	<b>2003/2004</b>		2002/2003	
	<b>Land &amp; Buildings</b>	<b>Plant &amp; Equipment</b>	Land & Buildings	Plant & Equipment
Expiry date:	<b>£000</b>	<b>£000</b>	£000	£000
Within one year	<b>1,319</b>	<b>6</b>	1,325	15
Between two and five years	<b>0</b>	<b>95</b>	0	97
Over five years	<b>196</b>	<b>0</b>	188	0
	<b>1,515</b>	<b>101</b>	1,513	112

**33 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 further shares are repurchased before the end of the arrangement in March 2007 the total amount then due will be £4,068,000, the balance due at 31 July 2004 being £3,424,000.

The building contract for the Management School Building was originally agreed with the contractor, Mansell, in the sum of £8,533,000. The University has recently received a draft final account from the contractor in the sum of £11,879,850 with the increase arising by virtue of extension of time claims and associated costs. The University is of the opinion that the claim has no merit and has retained appropriate consultancy and legal advice to dispute the claim. At the time of signing these accounts little progress has been made with further agreement of the final account as the contractor has decided to await the outcome of any further extension of time award which is being considered by the University Architect.

Surrey Satellite Technology Limited, a subsidiary company, has in place a standby letter of credit in favour of MacDonald Dettwelier Associates Ltd for Canadian Dollars 5,000,000 against cash held of the same amount for a launch reservation.

## Notes to the financial statements (continued)

### **34 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 Second Pension (S2P). 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, salary scale increases would be 3.7% per annum and 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 £5,966,000 (2003: £5,472,000). This includes £788,000 (2003: £728,000) 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)

**34 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 £1,804,000 (2003: £1,699,000).

**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 has been based on the most recent actuarial valuation at 31 March 2001 and updated by the actuary 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 2003 and 31 July 2004. The major assumptions used by the actuary were:

	<b>2004</b>	2003
	%	%
Rate of salary increases	<b>4.7</b>	4.3
Rate of pension increases in payment	<b>2.9</b>	2.5
Discount rate	<b>5.8</b>	5.4
Inflation rate	<b>2.9</b>	2.5

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

	<b>At 31 July 2004</b>		At 31 July 2003	
	<b>Market value £m</b>	<b>Expected rate of return</b>	Market value £m	Expected rate of return
Equities	<b>23.9</b>	<b>7.90%</b>	21.3	8.00%
Bonds	<b>5.0</b>	<b>5.40%</b>	4.3	5.00%
Property	<b>2.0</b>	<b>6.70%</b>	1.6	6.70%
Cash	<b>0.8</b>	<b>4.50%</b>	0.5	3.50%
	<b><u>31.7</u></b>	<b><u>7.30%</u></b>	<u>27.7</u>	7.40%

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

	<b>31 July 2004</b>	31 July 2003
	£m	£m
Estimated market value of scheme assets	<b>31.7</b>	27.7
Present value of scheme liabilities	<b>(53.2)</b>	(48.4)
Deficit in scheme	<b><u>(21.5)</u></b>	<u>(20.7)</u>

## Notes to the financial statements (continued)

**34 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:

	<b>31 July 2004</b>	Restated 31 July 2003
	<b>£m</b>	£m
Net assets as stated in balance sheet	<b>148.3</b>	137.4
SSAP 24 balance	<b>1.2</b>	1.1
Net assets excluding pension liability	<b>149.5</b>	138.5
FRS 17 pension liability	<b>(21.5)</b>	(20.7)
<b>Net assets including FRS 17 pension liability</b>	<b>128.0</b>	117.8
Reserves as stated in balance sheet	<b>60.6</b>	55.3
SSAP 24 balance	<b>1.2</b>	1.1
Reserves excluding pension liability	<b>61.8</b>	56.4
FRS 17 pension liability	<b>(21.5)</b>	(20.7)
<b>Reserves including FRS 17 pension liability</b>	<b>40.3</b>	35.7

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 2004:

	<b>Year ended 31 July 2004</b>	
	<b>£m</b>	<b>£m</b>
<b>Analysis of amounts charged to income and expenditure account:</b>		
Current service cost		<b>2.1</b>
Past service cost		<b>0.0</b>
Curtailement cost		<b>0.1</b>
Financing - expected return on pension scheme assets	<b>(2.1)</b>	
Financing - interest on expected scheme liabilities	<b>2.6</b>	
Net return on financing		<b>0.5</b>
		<b>2.7</b>
<b>Analysis of amounts recognised in statement of total recognised gains and losses:</b>		
Actual return less expected return on pension scheme assets		<b>0.6</b>
Experience gains and losses arising on the scheme liabilities		<b>(0.7)</b>
Changes in financial assumptions underlying the present value of scheme liabilities		<b>(0.1)</b>
Total actuarial (loss) recognised		<b>(0.2)</b>

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

	<b>Year ended 31 July 2004</b>	
	<b>£m</b>	
Deficit on scheme at 1 August 2003		<b>(20.7)</b>
Movement in year - current service cost		<b>(2.1)</b>
- employer contributions		<b>2.0</b>
- contributions in respect of unfunded benefits		<b>0.1</b>
- past service costs		<b>0.0</b>
- other finance charge		<b>(0.6)</b>
- actuarial loss		<b>(0.2)</b>
Deficit on scheme at 31 July 2004		<b>(21.5)</b>

## Notes to the financial statements (continued)

**34 Pension Schemes** (continued)

The experience gains and losses for the year ended 31 July 2004 were as follows:

**Difference between the expected and actual return on scheme assets:**

Amount £m	0.6
Percentage of scheme assets	2.0%

**Experience gains and losses on scheme liabilities:**

Amount £m	(0.7)
Percentage of the present value of scheme liabilities	-1.3%

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

Amount £m	(0.1)
Percentage of the present value of scheme liabilities	-0.3%

**35 Access Funds**

	<b>University</b>	
	<b>2003/2004</b>	2002/2003
	<b>£000</b>	£000
Balance as at 1 August	<b>39</b>	39
Funding Council Access funds	<b>335</b>	297
	<b>374</b>	336
Interest earned	<b>3</b>	3
Disbursed to students	<b>(366)</b>	(300)
Balance unspent as at 31 July	<b>11</b>	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.

**36 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.

The University has entered into a joint application bid under the government's Knowledge Transfer Partnership (KTP) Scheme with a company in which James fforde, a member of the University's Council, has an interest and is a director. The bid is for a grant of £80,000, of which the company, Duncton plc, is contributing £32,000.

No other transactions have been identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

## **OFFICERS OF THE UNIVERSITY for 2003/2004**

### **Chancellor**

HRH The Duke of Kent, KG

### **Pro-Chancellors Emeritus**

Sir Eric Ash, CBE, FREng, FRS

Sir Austin Pearce, CBE, FREng (deceased 21 March 2004)

### **Pro-Chancellors**

Sir Idris Pearce, CBE, TD, DL, FRICS, FRSA (until January 2004)

Baroness Perry

Mr J D M Robertson, CBE, DL, FRICS, FIMgt, FRSA

Sir Alan Rudge, CBE, PhD(Birm), FIEE, FREng, FRS

### **Vice-Chancellor & Chief Executive and Vice-Chancellor of the Federal University**

Professor P J Dowling, CBE, DL, BE(NUI), DIC, PhD(Lond),  
DSc(Ulst), LLD(NUI), DSc(Vilnius TU), FICE, FIStructE, FRINA, FIEI,  
FASCE, FCGI, FIC, FIAE, FREng, FRS

### **Treasurer**

drs J Derwig, RA

### **Chairman of Council**

Sir William Wells, FRICS

### **Deputy Vice-Chancellor**

Professor J A Turner, MA, DPhil, FRHistS

### **Pro-Vice-Chancellors**

Professor D W Airey, BA(Lond), MSc(Strath), FHCIMA, FRSA, FTS

Professor B G Evans, BSc, PhD(Leeds), FIEE, FRSA, FREng

Professor G N Gilbert, MA, PhD(Camb), CEng, FBCS, FREng, AcSS

### **Director of Corporate Services**

Mr G K Melly, MBA, CAIB

### **Director of External Academic Relationships**

Professor J E Harding, ACGI, BSc(Eng), MSc, DIC, PhD(Lond),  
CEng, FIStructE, FICE

### **Director of Finance**

Mr A J Knapp, CPFA

### **Director of Information Services & University Librarian**

Mr T J A Crawshaw, BEng(Sheff), DipLib

### **Registrar**

Mr P W Beardsley, BA, FRSA

### **University Secretary & Clerk to the Council**

Mr J W A Strawson, MA, MSc, Cert Ed



**The University of Surrey**

Guildford, Surrey  
GU2 7XH, UK

**Tel:** +44 (0)1483 300800

**Fax:** +44 (0)1483 300803

**E-mail:** [information@surrey.ac.uk](mailto:information@surrey.ac.uk)

**[www.surrey.ac.uk](http://www.surrey.ac.uk)**

