

## Contents

	Page
<b>Consolidated Financial Highlights</b>	2
<b>Report of the Chairman of Council</b>	3 - 5
<b>Corporate Governance</b>	6
<b>Responsibilities of the Council of the University of Surrey</b>	7
<b>Independent Auditors' Report to the Council of the University of Surrey</b>	8
<b>Income and Expenditure Accounts</b>	9
<b>Statement of Historical Cost Surpluses and Deficits</b>	10
<b>Statement of Consolidated Total Recognised Gains and Losses</b>	10
<b>Balance Sheets</b>	11
<b>Consolidated Cash Flow Statement</b>	12
<b>Notes to the Financial Statements</b>	13 - 37

## Consolidated Financial Highlights for the Year Ended 31 July 2005

	<b>2004/2005</b> <b>£000</b>	2003/2004 £000	% Increase (Decrease)
<b>Income and Expenditure</b>			
<b>Income</b>			
HEFCE teaching grant	<b>20,258</b>	19,464	4.1
Research, deferred and other specific grants	<b>19,444</b>	17,302	12.4
	<b>39,702</b>	36,766	8.0
Home tuition fees (i)	<b>12,562</b>	12,424	1.1
Total grant plus home fees	<b>52,264</b>	49,190	6.2
Other income	<b>115,697</b>	104,541	10.7
<b>Total income</b>	<b>167,961</b>	153,731	9.3
<b>Total expenditure</b>	<b>164,216</b>	150,677	9.0
<b>Operating surplus for the year</b>	<b>3,745</b>	3,054	22.6
Profit on sale of fixed asset investments	<b>1,588</b>	-	
Taxation, minority interests and transfers from specific endowments	<b>38</b>	(211)	
<b>Retained surplus for the year</b>	<b>5,371</b>	2,843	88.9
HEFCE grants plus home tuition fees as percentage of total Income	<b>31.1%</b>	32.0%	

**Note**

(i) Home tuition fees are derived from UK and other EU students.

	<b>2004/2005</b> <b>£000</b>	2003/2004 £000	
<b>Assets</b>			
Capital assets purchased or donated in year	<b>40,783</b>	30,882	32.1
Total net assets	<b>171,900</b>	148,288	15.9

## Report of the Chairman of Council

### **Financial Environment**

Three key issues are set to have a major influence over the HE sector in the medium term as follows :

- (1) The introduction of variable fees which come into effect from Autumn 2006
- (2) The variability of international student fee income with increasing global competition
- (3) The introduction of full economic costing, fEC, which will have a beneficial financial effect on the University's net research income in the long term but will require careful management during the transition to more realistic pricing.

The financial result for 2004/2005 provides a sound basis for meeting these challenges. 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 is from government or other sources.

### **Major Financial Results**

I am extremely pleased to report that the University's Consolidated Accounts for 2004/2005 show a surplus for the year of £5,371,000 (2003/2004 £2,843,000).

Total income increased by 9.3% to £167,961,000 whilst total expenditure increased by 9.0% to £164,216,000. The University's investment in new capital assets in 2004/2005 was £40,783,000 (2003/2004 £30,882,000) which is equivalent to 24.3% of total income, a significant level of investment.

Academic fees and support grants show an increase of 2.8%, up from £42,535,000 to £43,717,000. Core Funding Council grants relating to teaching and research show an increase of 8%. Research grant and contract income has increased by 12.5% which is a good result. Academic Schools and other units have generally performed well. Continuing improvements in our planning and budgeting processes, which operate in a devolved environment, have played an important role in achieving this good result.

### **Scope of the Financial Statements**

The main financial highlights are shown on page 2 of the Financial Statements, which comprise the consolidated results of the University (including the University's Foundation Fund) and its subsidiary companies and trusts.

### **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 will be kept under review to ensure that transparency, equity and accountability are maintained and perverse incentives minimised.

### **Long Term Borrowing**

During the year bank loans of £22,000,000 were drawn down to finance capital expenditure for the Manor Park Residences development and a new building for Surrey Satellite Technology Limited on the Research Park, together with the financing of previous Research Park capital expenditure. Other 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 and uses hedging instruments to limit the risks of increases in interest rates. These instruments mainly take the form of fixed rate swaps. The University also seeks to minimise its borrowings in the short term by using its own cash flow as much as is feasible. In some cases, Foundation Fund surpluses are used to underwrite debt servicing costs on those projects where commercial rates of return are neither appropriate nor achievable. The loan debt and finance lease obligations outstanding at the end of 2004/2005 were £86,932,000 (2003/2004: £67,351,000).

## Report of the Chairman of Council (continued)

### **Cash Flow and Net Current Assets**

The cash flow statement shows a net reduction in cash of £9,919,000, but with a corresponding increase of £8,263,000 in short term investments. Net current assets have improved to a positive balance of £1,508,000 (2003/2004: liability of £1,050,000).

### **Performance and Cashflow**

The return on long term investments, ignoring capital growth/diminution, was 3.10% (2003/2004 3.25%) whilst the rate of return on short term investments was 4.60% (2003/2004 3.80%). 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 robust, especially in view of current market letting conditions. The surpluses generated by the Research Park represent an important independent source of income for the University to support strategic academic initiatives and to finance capital projects. In 2004/2005 a total of £4,486,000 (2003/2004 £4,626,000) was transferred from the Foundation Fund to the University for these purposes. The upward revaluation of £5,730,000 for the Foundation Fund property reflects current market conditions.

### **University Companies**

The University's major company Surrey Satellite Technology Ltd (SSTL) had another successful year and achieved a profit before taxation of £1,251,000. Other companies largely operated within their expected plans.

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

The Postgraduate Medical School building, our major project during the year, was completed in July 2005. The University continues to invest significant sums in the rest of its capital and long term maintenance programmes to maintain and enhance its estate infrastructure. The level of this investment in 2004/2005 was £40,783,000 (2003/2004: £30,882,000). This is a continuing requirement for which the necessary funds need to be prioritised although the future pace of our development will be dependent upon the extent to which we can raise funds from our own resources and from external donations.

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

Detailed planning permission was received in October 2004 for the Manor Park residences development, a £31,000,000 project. The contract is proceeding well with an anticipated completion date of August 2006, and will provide accommodation for over 700 students and staff.

### **Employee and Student Involvement**

The University is continually striving to improve the ways in which it communicates with students and staff and is increasingly involving them in important decisions about future policies and the general management of the University. 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 and students 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 has shown a reasonable funding level so far, the financial performance of the SCCSF continues to cause some concern. As was expected, the results of the 31 March 2004 formal valuation of the SCCSF, showed a significant shortfall in funding and the University's contribution rate to the SCCSF increased by 2.5% with effect from 1 April 2005. The result of the USS fund valuation as at 31 March 2005 is due to be announced in December 2005.

### **Council Members' Liabilities**

The University has indemnified the members of Council against liability in respect of proceedings brought by third parties. Such qualifying third party indemnity provision was in force throughout the year and remains in force at the date of this report.

### **Current and Future Developments**

The University's Annual Report for 2004/2005 outlines a number of important initiatives and themes for the past financial year and for the future and includes, inter alia:

- The vision and values of the University of Surrey
- Investment in learning and teaching activities
- Concentration on improving the student experience
- The development of more market-led and student-focused approaches
- The investment in and development of our Manor Park campus
- Initiatives to encourage participation by those who might otherwise not benefit from higher education
- The impact of recent Government HE policy on the University

### **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 to the conclusion of the 2006/2007 audit.

### **Conclusion**

The University has achieved a good consolidated financial result which is critical in providing a firm base for the future and helps the University to support further much needed academic and capital investment. As in earlier years, following the long-established strategy of using endowment funds to support its academic activities, the University's academic and support activities have generated a loss. It is the intention of the University that, in order to ensure a sustainable future position in the rapidly changing higher education environment, the University will move towards a breakeven position on its academic and support activities over a period of three or so years. This challenge is being addressed by re-structuring both academic services and support services within the University. Although it cannot be stated for certain how the future will develop, I believe we have a strong foundation on which to move forward in an increasingly volatile, challenging and competitive environment.

I should like to personally thank all the staff for their help in achieving this satisfactory situation and look forward to a continuing period of success whilst the University is addressing the challenges that it currently faces.

## 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 Committee 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 2005 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.

The University Council has undertaken a review of its effectiveness in accordance with the Governance Code of Practice published jointly by the Committee of University Chairmen and HEFCE. This review gave positive feedback about the effectiveness of Council and also identified a number of areas for further development. It is intended that during 2005/2006 the Council will adopt a statement of primary responsibilities in accordance with the Governance Code of Practice.

### **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;
- 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 2005. 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 2005 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 37. These Financial Statements have been prepared on the basis of the accounting policies set out therein.

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 2005, and of the surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions;
- funds from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- income has been applied in accordance with the University's Statutes and, where appropriate, with the Financial Memorandum dated 1 October 2003 with the Higher Education Funding Council for England.

### **Ernst and Young LLP**

Registered Auditor  
Southampton

8 December 2005

## Income and expenditure accounts for the year ended 31 July 2005

	Note	Consolidated		University	
		2004/2005 £000	2003/2004 £000	2004/2005 £000	2003/2004 £000
<b>Income</b>					
Funding Council grants	2	<b>39,702</b>	36,766	<b>39,702</b>	36,766
Academic fees and support grants	3	<b>43,717</b>	42,535	<b>43,717</b>	42,535
Research grants and contracts	4	<b>27,903</b>	24,810	<b>22,470</b>	19,281
Other operating income	5	<b>46,955</b>	40,119	<b>26,940</b>	26,077
Endowment and trust income and interest receivable	6	<b>9,684</b>	9,501	<b>9,323</b>	9,216
<b>Total income</b>		<b>167,961</b>	153,731	<b>142,152</b>	133,875
<b>Expenditure</b>					
Staff costs	7 & 11	<b>90,740</b>	83,371	<b>81,222</b>	76,419
Other operating expenses	9 & 11	<b>60,324</b>	54,665	<b>46,101</b>	43,574
Depreciation	11 & 15	<b>8,456</b>	7,153	<b>7,659</b>	6,761
Interest payable	10 & 11	<b>4,696</b>	5,488	<b>4,695</b>	5,476
<b>Total expenditure</b>		<b>164,216</b>	150,677	<b>139,677</b>	132,230
Operating Surplus on continuing operations		<b>3,745</b>	3,054	<b>2,475</b>	1,645
Profit on sale of fixed asset investments	12	<b>1,588</b>	-	<b>1,801</b>	-
Surplus on continuing operations after profit on sale of fixed asset investments but before taxation and minority interests		<b>5,333</b>	3,054	<b>4,276</b>	1,645
<b>Taxation</b>	13	<b>107</b>	(258)	-	-
Minority interests		<b>(129)</b>	(43)	-	-
<b>Surplus after taxation and minority interests</b>	14	<b>5,311</b>	2,753	<b>4,276</b>	1,645
Transfer from accumulated income within specific endowments		<b>60</b>	90	<b>60</b>	90
<b>Retained surplus for the year</b>		<b>5,371</b>	2,843	<b>4,336</b>	1,735

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

## Statement of historical cost surpluses and deficits for the year ended 31 July 2005

	<b>Consolidated</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Surplus on continuing operations before taxation and minority interests	<b>5,333</b>	3,054
Depreciation not charged on properties held as investment properties	<b>(739)</b>	(738)
Depreciation charged on donated assets	<b>29</b>	51
Difference between historical cost depreciation and the actual charge for the year	<b>(710)</b>	(687)
Historical cost surplus for the year before taxation and minority interests	<b>4,623</b>	2,367
Historical cost surplus for the year after taxation and minority interests	<b>4,601</b>	2,066

## Statement of consolidated total recognised gains and losses for the year ended 31 July 2005

		<b>Consolidated</b>	
	Note	<b>2004/2005</b>	2003/2004
		<b>£000</b>	£000
Surplus for the year after taxation and minority interests		<b>5,311</b>	2,753
New endowments	24	<b>51</b>	118
Revaluation of general endowment	25	<b>5,730</b>	3,020
Reclassification of specific endowments as current liabilities	24	<b>(65)</b>	-
Unrealised surplus/(deficit) on revaluation of investments	27	<b>186</b>	(115)
Donated assets received during year	27	<b>-</b>	120
Total recognised gains relating to the year		<b>11,213</b>	5,896
<b>Reconciliation of opening and closing reserves and endowments</b>			
Opening reserves and endowments		<b>119,080</b>	113,184
Total recognised gains and losses for the year		<b>11,213</b>	5,896
Closing reserves and endowments		<b>130,293</b>	119,080

## Balance sheets as at 31 July 2005

	Note	Consolidated		University	
		2005 £000	2004 £000	2005 £000	2004 £000
<b>Fixed assets</b>					
Tangible assets	15	161,487	129,020	160,084	128,088
Investments	16	30,599	28,292	32,977	30,094
		<b>192,086</b>	<b>157,312</b>	<b>193,061</b>	<b>158,182</b>
<b>Endowment asset investments</b>	16	<b>64,115</b>	<b>58,459</b>	<b>64,115</b>	<b>58,459</b>
<b>Current assets</b>					
Stocks and stores in hand		1,261	1,219	481	608
Debtors	17	25,151	20,454	20,107	17,579
Investments	18	13,851	5,588	11,000	3,000
Cash at bank and in hand		13,775	22,411	7,880	12,955
		<b>54,038</b>	<b>49,672</b>	<b>39,468</b>	<b>34,142</b>
<b>Creditors : Amounts falling due within one year</b>	19	<b>(52,530)</b>	<b>(50,722)</b>	<b>(41,547)</b>	<b>(37,281)</b>
<b>Net current assets/(liabilities)</b>		<b>1,508</b>	<b>(1,050)</b>	<b>(2,079)</b>	<b>(3,139)</b>
<b>Total assets less current liabilities</b>		<b>257,709</b>	<b>214,721</b>	<b>255,097</b>	<b>213,502</b>
<b>Creditors : Amounts falling due after more than one year</b>	20	<b>(84,471)</b>	<b>(64,978)</b>	<b>(84,471)</b>	<b>(64,977)</b>
<b>Provisions for liabilities and charges</b>	22	<b>(1,338)</b>	<b>(1,455)</b>	<b>(1,338)</b>	<b>(1,455)</b>
<b>Total net assets</b>		<b>171,900</b>	<b>148,288</b>	<b>169,288</b>	<b>147,070</b>
<b>Deferred capital grants</b>	23	<b>41,107</b>	<b>29,112</b>	<b>41,183</b>	<b>29,143</b>
<b>Endowments</b>					
Specific	24	1,368	1,442	1,368	1,442
General	24	62,747	57,017	62,747	57,017
		<b>64,115</b>	<b>58,459</b>	<b>64,115</b>	<b>58,459</b>
<b>Reserves</b>					
Restricted reserves	26	1,291	1,125	1,145	976
Revaluation reserve	27	895	738	895	738
Income and expenditure account	28	63,992	58,758	61,950	57,754
		<b>66,178</b>	<b>60,621</b>	<b>63,990</b>	<b>59,468</b>
Total funds before minority interests		<b>171,400</b>	<b>148,192</b>	<b>169,288</b>	<b>147,070</b>
Minority interests		<b>500</b>	<b>96</b>	<b>-</b>	<b>-</b>
<b>Total funds</b>		<b>171,900</b>	<b>148,288</b>	<b>169,288</b>	<b>147,070</b>

The financial statements and notes on pages 9 to 37 were approved by the governing body on 8 December 2005 and were signed on its behalf by:

Professor CM Snowden FRS FREng FIEE FIEEE FCGI  
**Vice-Chancellor  
& Chief Executive**

Sir William Wells FRICS  
**Chairman of Council**

## Consolidated cash flow statement for the year ended 31 July 2005

		<b>Consolidated</b>	
	Note	<b>2004/2005</b> <b>£000</b>	2003/2004 £000
<b>Cash flow from operating activities</b>	29	<b>703</b>	13,438
<b>Returns on investments and servicing of finance</b>	30	<b>4,928</b>	4,459
<b>Taxation</b>		<b>(71)</b>	(187)
<b>Capital expenditure and financial investment</b>	30	<b>(28,392)</b>	(10,945)
<b>Net proceeds on sale of shares in subsidiary undertaking</b>	12	<b>1,862</b>	-
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(20,970)</b>	6,765
<b>Management of liquid resources</b>	30	<b>(8,263)</b>	6,067
<b>Financing</b>	30	<b>19,314</b>	(1,360)
<b>(Decrease)/increase in cash in the period</b>		<b>(9,919)</b>	11,472
<hr/>			
		<b>2004/2005</b> <b>£000</b>	2003/2004 £000
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash in the period		<b>(9,919)</b>	11,472
Cash (inflow)/outflow from increase/decrease in debt financing		<b>(19,314)</b>	1,360
Cash outflow/(inflow) from decrease/increase in liquid resources		<b>8,263</b>	(6,067)
Change in net debt resulting from cash flows		<b>(20,970)</b>	6,765
Increase in SAGE liabilities		<b>(267)</b>	(230)
New finance leases		-	(8,400)
Increase in liability for finance leases		-	(436)
<b>Movement in net debt in the period</b>		<b>(21,237)</b>	(2,301)
Net debt at 1 August		<b>(39,352)</b>	(37,051)
<b>Net debt at 31 July</b>	31	<b>(60,589)</b>	(39,352)

## Notes to the financial statements

### 1 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.

#### **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 and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

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. 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.

## Notes to the financial statements (continued)

### 1 Accounting Policies (continued)

#### Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are 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 as part of the general endowment are accounted for as investment properties in accordance with SSAP 19. These are revalued on an annual basis by independent valuers.

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.

## Notes to the financial statements (continued)

**1 Accounting Policies** (continued)**b. Equipment**

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

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

Motor vehicles 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 1996 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 held as part of the general endowment 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.

## Notes to the financial statements (continued)

### 1 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 Council considers 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.

## Notes to the financial statements (continued)

**2 Funding Council Grants**

	<b>Consolidated &amp; University</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
<b>Recurrent Grant</b>		
Teaching	<b>20,258</b>	19,464
Research	<b>15,196</b>	14,301
Moderation Funding	<b>-</b>	567
	<b>35,454</b>	34,332
<b>Specific Grants</b>		
Higher Education Innovations Fund	<b>1,301</b>	230
Higher Education Reach Out to Business	<b>51</b>	248
Aimhigher	<b>470</b>	230
Active Community Fund	<b>55</b>	102
Joint Research Equipment Initiative	<b>16</b>	19
Joint Information Systems Committee	<b>24</b>	-
Centres for Excellence in Teaching and Learning	<b>8</b>	-
Institutional Teaching and Learning	<b>271</b>	-
National Teaching Fellowship	<b>-</b>	19
Other	<b>90</b>	76
<b>Deferred Capital Grants released in year</b> (note 23)		
Building	<b>661</b>	551
Equipment	<b>1,301</b>	959
Total Grants from HEFCE	<b>39,702</b>	36,766

**3 Academic Fees and Support Grants**

	<b>Consolidated &amp; University</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
UK HE students	<b>9,366</b>	9,535
EU (non UK) students	<b>3,196</b>	2,889
Non-EU students	<b>18,777</b>	18,823
Health Authority contract	<b>10,929</b>	10,601
Research training support grants	<b>1,449</b>	687
	<b>43,717</b>	42,535

**4 Research Grants and Contracts**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Research councils	<b>8,491</b>	7,453	<b>8,491</b>	7,453
UK based charities	<b>660</b>	706	<b>660</b>	706
UK government, health and hospital authorities	<b>2,191</b>	3,987	<b>1,445</b>	1,855
UK industry and commerce	<b>2,182</b>	2,412	<b>2,011</b>	2,319
EU government bodies	<b>7,452</b>	5,895	<b>4,984</b>	4,407
Other grants and contracts	<b>6,927</b>	4,357	<b>4,879</b>	2,541
	<b>27,903</b>	24,810	<b>22,470</b>	19,281

## Notes to the financial statements (continued)

**5 Other Operating Income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Residences, catering and conferences	<b>14,156</b>	13,493	<b>14,156</b>	13,493
Other services rendered	<b>25,818</b>	18,978	<b>4,789</b>	4,161
Donations from subsidiary companies	-	-	<b>273</b>	185
Departmental income	<b>4,622</b>	4,566	<b>4,633</b>	4,566
Released from deferred capital grants	<b>60</b>	260	<b>60</b>	260
Use of University facilities & rental income	<b>1,305</b>	1,331	<b>2,061</b>	1,931
VAT recovered	<b>710</b>	1,154	<b>710</b>	1,154
Other income	<b>284</b>	337	<b>258</b>	327
	<b>46,955</b>	40,119	<b>26,940</b>	26,077

**6 Endowment and Trust Income and Interest Receivable**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Income from general endowments (note 24)	<b>8,359</b>	8,189	<b>8,389</b>	8,225
Income from specific endowments (note 24)	<b>62</b>	52	<b>62</b>	52
Trust income	<b>369</b>	129	<b>234</b>	36
Other investment income	<b>894</b>	1,131	<b>638</b>	903
	<b>9,684</b>	9,501	<b>9,323</b>	9,216

**7 Staff**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	Restated 2003/2004	<b>2004/2005</b>	Restated 2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Staff costs :				
Wages and salaries	<b>75,655</b>	68,962	<b>67,287</b>	62,862
Social security costs	<b>6,390</b>	5,772	<b>5,468</b>	5,106
Other pension costs	<b>8,695</b>	8,637	<b>8,467</b>	8,451
	<b>90,740</b>	83,371	<b>81,222</b>	76,419

The 2003/2004 figures have been restated to reflect the reclassification of pension costs relating to staff restructuring. The total amount reclassified from wages and salaries to other pension costs is £847,000.

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>Number</b>	Number	<b>Number</b>	Number
FTE staff numbers by major category				
Academic departments	<b>1,359</b>	1,331	<b>1,359</b>	1,331
Academic services	<b>155</b>	179	<b>155</b>	179
Administration and central services	<b>269</b>	241	<b>269</b>	241
Premises	<b>149</b>	146	<b>149</b>	146
Residences and catering	<b>155</b>	173	<b>155</b>	173
Other	<b>281</b>	188	<b>63</b>	20
University staff seconded to subsidiary companies	-	-	<b>(11)</b>	(14)
	<b>2,368</b>	2,258	<b>2,139</b>	2,076

## Notes to the financial statements (continued)

**8 Emoluments of Higher Paid Staff**

		<b>2004/2005</b>	2003/2004
		<b>£000</b>	£000
Emoluments of the Vice-Chancellor			
Previous Vice-Chancellor (to 30 June 2005)	Emoluments	<b>266</b>	204
	Pension contributions	<b>22</b>	24
		<b>288</b>	228
Current Vice-Chancellor (from 1 July 2005)	Emoluments	<b>14</b>	-
	Pension contributions	<b>2</b>	-
		<b>16</b>	-

The emoluments of the Vice-Chancellor include all remuneration and benefits. The University's pension contributions to USS are paid at the same rate as for other academic staff.

The outgoing Vice-Chancellor received a special one-off payment plus benefits totalling £32,988 in respect of relocation on his retirement, which is included in the figure for emoluments shown above.

The emoluments of other Higher Paid Staff including all remuneration, benefits and royalties, but excluding employer's pension contributions and early retirement costs, are analysed below:

<b>Remuneration Band</b>	<b>2004/2005</b>	2003/2004
	<b>Number of Employees</b>	
£70,001 - £80,000	<b>21</b>	23
£80,001 - £90,000	<b>13</b>	7
£90,001 - £100,000	<b>7</b>	5
£100,001 - £110,000	<b>4</b>	2
£110,001 - £120,000	<b>3</b>	4
£120,001 - £130,000	<b>1</b>	-
£150,001 - £160,000	<b>1</b>	-
	<b>50</b>	41

These bands include the annual emoluments of staff who joined the University during 2004/2005, although actual payments were pro rata to the number of months employed. Early retirement costs of £50,000 were paid or payable in respect of Higher Paid Staff in 2004/2005 (2003/2004: £nil).

**9 Other Operating Expenses**

<b>Consolidated</b>	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Residences, catering and conferences (other than lease rentals)	<b>3,883</b>	3,216
Bursaries, scholarships and prizes	<b>4,785</b>	3,560
Premises costs	<b>5,062</b>	5,036
Agency and other non-contracted staff	<b>3,907</b>	3,958
Equipment and consumables, including laboratory expenditure	<b>6,065</b>	5,458
Library and IT expenditure	<b>5,805</b>	5,681
Consultancy and sub-contracted services	<b>3,186</b>	2,814
Staff travel, subsistence and conference costs	<b>2,623</b>	2,586
Grants to University of Surrey Students' Union	<b>785</b>	736
Auditors' remuneration (external audit)	<b>67</b>	59
Auditors' remuneration (for services other than external audit)	<b>71</b>	17
Operating lease rentals - land and buildings	<b>1,961</b>	1,812
- equipment	<b>103</b>	110
University companies (other than premises costs included above)	<b>14,174</b>	11,035
Other expenses	<b>7,847</b>	8,587
	<b>60,324</b>	54,665

## Notes to the financial statements (continued)

**10 Interest Payable**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
On bank loans and other loans:				
Bank loans wholly repayable within five years	<b>59</b>	225	<b>59</b>	220
Bank loans not wholly repayable within five years	<b>3,496</b>	3,421	<b>3,496</b>	3,421
Other loans	<b>257</b>	231	<b>257</b>	231
	<b>3,812</b>	3,877	<b>3,812</b>	3,872
On finance leases	<b>884</b>	1,611	<b>883</b>	1,604
Total	<b>4,696</b>	5,488	<b>4,695</b>	5,476

The interest payable on other loans shown above relates to the SAGE scheme (note 31).

**11 Analysis of Expenditure by Activity**

<b>Consolidated</b>	<b>Staff</b>	<b>Other</b>	<b>Dep'n</b>	<b>Interest</b>	<b>2004/2005</b>	2003/2004
	<b>Costs</b>	<b>Operating</b>			<b>Total</b>	Total
	<b>£000</b>	<b>Expenses</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Academic departments	46,482	10,995	1,893	-	<b>59,370</b>	58,123
Academic services	4,449	3,024	678	1	<b>8,152</b>	7,693
Research grants and contracts	10,663	8,058	334	-	<b>19,055</b>	18,011
Residences, catering & conferences	3,033	5,598	1,416	1,910	<b>11,957</b>	11,734
Premises	3,748	5,062	3,058	1	<b>11,869</b>	11,270
Administration	11,297	11,339	268	1	<b>22,905</b>	20,257
Other expenses	11,068	16,248	809	2,783	<b>30,908</b>	23,589
Total per income and expenditure account	<b>90,740</b>	<b>60,324</b>	<b>8,456</b>	<b>4,696</b>	<b>164,216</b>	150,677

<b>University</b>	<b>Staff</b>	<b>Other</b>	<b>Dep'n</b>	<b>Interest</b>	<b>2004/2005</b>	2003/2004
	<b>Costs</b>	<b>Operating</b>			<b>Total</b>	Total
	<b>£000</b>	<b>Expenses</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Academic departments	46,482	11,022	1,893	-	<b>59,397</b>	58,149
Academic services	4,449	3,024	678	1	<b>8,152</b>	7,693
Research grants and contracts	8,793	6,010	334	-	<b>15,137</b>	14,202
Residences, catering & conferences	3,033	5,598	1,416	1,910	<b>11,957</b>	11,734
Premises	3,748	5,286	2,825	1	<b>11,860</b>	11,307
Administration	11,297	11,327	268	1	<b>22,893</b>	20,397
Other expenses	3,420	3,834	245	2,782	<b>10,281</b>	8,748
Total per income and expenditure account	<b>81,222</b>	<b>46,101</b>	<b>7,659</b>	<b>4,695</b>	<b>139,677</b>	132,230

The depreciation charge has been funded by :-

	<b>Consolidated</b>	<b>University</b>
	<b>2004/2005</b>	<b>2004/2005</b>
	<b>£000</b>	<b>£000</b>
Deferred capital grants released (note 23)	<b>2,505</b>	<b>2,498</b>
Revaluation reserve released (note 27)	<b>29</b>	<b>29</b>
General income	<b>5,922</b>	<b>5,132</b>
	<b>8,456</b>	<b>7,659</b>

## Notes to the financial statements (continued)

**12 Profit on Sale of Fixed Asset Investments**

During the year, the University sold 12% of its shares in Surrey Satellite Technology Limited, a subsidiary company, resulting in a profit for the University of £1,801,000, and a consolidated profit of £1,588,000. No tax liability arose as a result of this transaction.

These profit figures are shown net of the associated costs of sale arising in the year. A further £122,000 of costs was incurred in 2003/2004 and included in other operating expenses for that year.

**13a Taxation**

	<b>Consolidated</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
UK corporation tax on the profits of certain subsidiary companies for the year	-	107
Adjustments in respect of prior periods	<b>(107)</b>	151
	<b>(107)</b>	258

**13b 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% (2004: 30%). The differences are reconciled below:

	<b>Consolidated</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Surplus on continuing operations before tax	<b>5,333</b>	3,054
Surplus on continuing operations multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	<b>1,600</b>	916
Factors affecting charge:		
University surplus exempt from taxation	<b>(1,183)</b>	(394)
Profits of subsidiary companies transferred to the University under Gift Aid	<b>(82)</b>	(82)
Research and development credits	<b>(358)</b>	(275)
Losses carried forward	<b>12</b>	11
Other	<b>11</b>	(69)
Total current tax charge (note 13a)	<b>-</b>	107

**14 Surplus for the Year**

	<b>Consolidated</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
The surplus after taxation and minority interests for the year is made up as follows:		
University's surplus for the year	<b>3,943</b>	1,313
Surpluses generated by subsidiary undertakings and transferred to the University as Gift Aid donations and dividends	<b>333</b>	332
Surpluses retained by subsidiary undertakings	<b>1,035</b>	1,108
	<b>5,311</b>	2,753

## Notes to the financial statements (continued)

**15 Tangible Fixed Assets**

<b>Consolidated</b>	<b>Land and Buildings Freehold £000</b>	<b>Buildings Leasehold £000</b>	<b>Assets under Construction £000</b>	<b>Equipment £000</b>	<b>Total £000</b>
<b>Cost</b>					
At 1 August 2004	112,811	15,115	17,000	42,895	187,821
Additions at cost	13,622	-	20,794	6,367	40,783
Reclassification from fixed asset investments	-	-	-	514	514
Transfers	8,254	-	(8,522)	268	-
Disposals at cost	(494)	-	-	(822)	(1,316)
At 31 July 2005	<u>134,193</u>	<u>15,115</u>	<u>29,272</u>	<u>49,222</u>	<u>227,802</u>
<b>Depreciation</b>					
At 1 August 2004	23,837	772	-	34,192	58,801
Charge for the year	3,595	302	-	4,559	8,456
Eliminated on disposal	(241)	-	-	(701)	(942)
At 31 July 2005	<u>27,191</u>	<u>1,074</u>	<u>-</u>	<u>38,050</u>	<u>66,315</u>
<b>Net Book Value</b>					
At 31 July 2005	<u>107,002</u>	<u>14,041</u>	<u>29,272</u>	<u>11,172</u>	<u>161,487</u>
At 31 July 2004	<u>88,974</u>	<u>14,343</u>	<u>17,000</u>	<u>8,703</u>	<u>129,020</u>
<b>University</b>					
	<b>Land and Buildings Freehold £000</b>	<b>Buildings Leasehold £000</b>	<b>Assets under Construction £000</b>	<b>Equipment £000</b>	<b>Total £000</b>
<b>Cost</b>					
At 1 August 2004	112,771	15,115	17,000	40,363	185,249
Additions at cost	13,622	-	20,794	5,099	39,515
Reclassification from fixed asset investments	-	-	-	514	514
Transfers	8,254	-	(8,522)	268	-
Disposals at cost	(494)	-	-	(822)	(1,316)
At 31 July 2005	<u>134,153</u>	<u>15,115</u>	<u>29,272</u>	<u>45,422</u>	<u>223,962</u>
<b>Depreciation</b>					
At 1 August 2004	23,744	772	-	32,645	57,161
Charge for the year	3,602	302	-	3,755	7,659
Eliminated on disposal	(241)	-	-	(701)	(942)
At 31 July 2005	<u>27,105</u>	<u>1,074</u>	<u>-</u>	<u>35,699</u>	<u>63,878</u>
<b>Net Book Value</b>					
At 31 July 2005	<u>107,048</u>	<u>14,041</u>	<u>29,272</u>	<u>9,723</u>	<u>160,084</u>
At 31 July 2004	<u>89,027</u>	<u>14,343</u>	<u>17,000</u>	<u>7,718</u>	<u>128,088</u>

## Notes to the financial statements (continued)

**15 Tangible Fixed Assets** (continued)

Buildings with a net book value of £28,770,000 (2004: £23,633,000) and a cost of £37,411,000 (2004: £31,611,000) 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 £13,787,000 (2004: £14,083,000) held under finance leases. The depreciation allocated for the year in respect of these assets was £296,000 (2004: £296,000).

Included within the cost of land and buildings is £372,000 (2004: £295,000) which represents interest charges on loans taken out to fund the cost of buildings and incurred before the buildings came into use.

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

	<b>University</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Investment at cost less provision		
Balance at 1 August	<b>2,300</b>	2,394
Additions	<b>960</b>	-
Impairment in value	<b>(167)</b>	(94)
Disposals (see note 12)	<b>(61)</b>	-
Balance at 31 July	<b><u>3,032</u></b>	<u>2,300</u>

**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	83
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 to entrepreneurs	Ordinary	100
Genie Healthcare Limited	On-line healthcare information	Ordinary [1]	84
DMC Imaging International Limited	Remote sensing data	Ordinary [2]	83

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

[1] 42% held by a subsidiary undertaking

[2] Held by a subsidiary undertaking

## Notes to the financial statements (continued)

**16 Fixed Asset Investments** (continued)

<b>(ii) Other Investments</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Balance at 1 August	<b>86,751</b>	85,062	<b>86,253</b>	84,578
Additions	<b>1,185</b>	1,149	<b>1,028</b>	991
Disposals	<b>(882)</b>	(802)	<b>(882)</b>	(766)
Impairment in value	<b>13</b>	32	<b>14</b>	140
Revaluations	<b>8,161</b>	3,269	<b>8,161</b>	3,269
Transfer to tangible fixed assets (note 15)	<b>(514)</b>	-	<b>(514)</b>	-
Transfer to current assets	<b>-</b>	(1,959)	<b>-</b>	(1,959)
Balance at 31 July	<b>94,714</b>	86,751	<b>94,060</b>	86,253
Listed investments	<b>2,094</b>	1,850	<b>2,094</b>	1,850
Cash held by stockbrokers	<b>479</b>	247	<b>479</b>	247
	<b>2,573</b>	2,097	<b>2,573</b>	2,097
Unlisted equities	<b>802</b>	686	<b>198</b>	238
Art collection	<b>-</b>	514	<b>-</b>	514
General endowment assets: Research Park (1)	<b>62,747</b>	57,017	<b>62,747</b>	57,017
Investment: Research Park (1)	<b>28,239</b>	26,013	<b>28,239</b>	26,013
Other loans and investments	<b>353</b>	424	<b>303</b>	374
Total other investments	<b>94,714</b>	86,751	<b>94,060</b>	86,253
Land and property at cost	<b>40,060</b>	37,438	<b>40,060</b>	37,438
Listed investments at cost	<b>1,753</b>	1,775	<b>1,753</b>	1,775
(1) 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 £8,359,000 (2004: £8,189,000), comprised principally of rental and service charge income (notes 6 and 24). The balances primarily represent the tangible assets held by the Foundation Fund. These comprise freehold investment properties of £88,658,000 (2004: £80,352,000), freehold investment land & buildings of £3,747,000 (2004: £3,741,000) and furniture and equipment of £35,000 (2004: £82,000). The movement in the freehold investment properties balance includes the annual revaluation of the investment properties (note 25).				
<b>Shown in balance sheet as:</b>				
Fixed asset investments	<b>30,599</b>	28,292	<b>32,977</b>	30,094
Endowment asset investments	<b>64,115</b>	58,459	<b>64,115</b>	58,459
Total investments (i) and (ii)	<b>94,714</b>	86,751	<b>97,092</b>	88,553

## Notes to the financial statements (continued)

<b>17 Debtors</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Trade debtors	<b>10,274</b>	10,414	<b>6,019</b>	5,518
Amounts owed by subsidiary companies	-	-	<b>2,285</b>	3,985
Other debtors	<b>1,122</b>	1,539	<b>149</b>	839
Prepayments and accrued income	<b>13,755</b>	8,501	<b>11,654</b>	7,237
	<b>25,151</b>	20,454	<b>20,107</b>	17,579

<b>18 Current Asset Investments</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Short term deposits	<b>13,851</b>	5,588	<b>11,000</b>	3,000
	<b>13,851</b>	5,588	<b>11,000</b>	3,000

<b>19 Creditors : amounts falling due within one year</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans (note 21)	<b>2,154</b>	2,088	<b>2,154</b>	2,088
Bank overdrafts	<b>1,283</b>	-	<b>1,273</b>	-
Obligations under finance leases (note 21)	<b>307</b>	285	<b>307</b>	237
Payments received on account	<b>10,471</b>	13,424	<b>2,213</b>	2,242
Trade creditors	<b>11,965</b>	11,214	<b>10,253</b>	9,911
Amounts owed to group companies	-	-	<b>481</b>	876
Other creditors including taxation and social security	<b>3,326</b>	3,169	<b>3,230</b>	3,053
Accruals and deferred income	<b>23,024</b>	20,542	<b>21,636</b>	18,874
	<b>52,530</b>	50,722	<b>41,547</b>	37,281

The bank overdraft includes cheques totalling £1,735,000 which had been drawn but not presented against the University's bank account at 31 July 2005. The management of cash resources provides for a transfer of funds from short term deposits to meet cheques as and when they are presented.

<b>20 Creditors : amounts falling due after more than one year</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans (note 21)	<b>67,011</b>	47,213	<b>67,011</b>	47,213
Obligations under finance leases (note 21)	<b>13,769</b>	14,341	<b>13,769</b>	14,340
Other loans (note 31)	<b>3,691</b>	3,424	<b>3,691</b>	3,424
	<b>84,471</b>	64,978	<b>84,471</b>	64,977

## Notes to the financial statements (continued)

**21 Borrowings**

<b>a. Bank loans</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans are repayable as follows:				
In one year or less	<b>2,154</b>	2,088	<b>2,154</b>	2,088
Between one and two years	<b>2,387</b>	2,158	<b>2,387</b>	2,158
Between two and five years	<b>8,157</b>	6,942	<b>8,157</b>	6,942
In five years or more	<b>56,467</b>	38,113	<b>56,467</b>	38,113
Total	<b>69,165</b>	49,301	<b>69,165</b>	49,301

<b>b. Finance leases</b>	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<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>307</b>	285	<b>307</b>	237
Between one and five years	<b>1,371</b>	990	<b>1,371</b>	989
Over five years	<b>12,398</b>	13,351	<b>12,398</b>	13,351
Total	<b>14,076</b>	14,626	<b>14,076</b>	14,577

**Bank loan - Yorkshire Bank plc**

The loan of £38,605,000 (2004: £39,671,000) (£1,084,000 falling due within one year and £37,521,000 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 £18,816,000 (2004: £19,227,000) of the loan at 9.115% until March 2007 and at 5.995% thereafter. The remainder of the loan is at a variable rate of 0.42% above LIBOR. The loan is secured by a charge on part of the land and buildings included within the Research Park, and repayment is due in quarterly instalments by 2026.

**Bank loans - NatWest Bank plc**

The first loan of £8,560,000 (2004: £9,630,000) (£1,070,000 falling due within one year and £7,490,000 falling due after one year) relates to funding for the new building for the European Institute of Health and Medical Sciences - The Duke of Kent Building. Interest is payable at a variable rate of 0.5% above LIBOR (0.375% above LIBOR from August 2005). Repayment is due in quarterly instalments over a period of 12 years to 2013. There is a negative pledge on the Duke of Kent Building in respect of this loan.

The second loan of £15,000,000 (2004: £nil) relates to a revolving credit facility of £24,000,000 (£13,000,000 for general business purposes and £11,000,000 to finance the construction of new buildings on the University's Research Park for a subsidiary company). Interest is payable at a variable rate of 0.225% above LIBOR. The facility is repayable in full in July 2010, subject to the option to term out the loan in July 2010 or earlier over a period not extending beyond July 2030.

**Bank loan - Lloyds TSB Bank plc**

The loan of £7,000,000 (2004: £nil) relates to a £30,000,000 revolving loan facility to provide funding for student residences. Interest is payable at a variable rate of 0.25% above LIBOR or base rate. The revolving loan facility is available until August 2006 at which point the University can opt to convert the borrowings to a term loan with repayment due in quarterly instalments over a period of 25 years.

## Notes to the financial statements (continued)

**21 Borrowings** (continued)**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 following 24 to 30 years. The transactions are accounted for as finance leases. The assets have been capitalised (note 15) and the obligations under the finance leases are shown above.

**22 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 2004	1,305	150	1,455
Charged to income and expenditure account	117	-	117
Utilised in year	(84)	-	(84)
Released unused	-	(150)	(150)
At 31 July 2005	<u>1,338</u>	<u>-</u>	<u>1,338</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>2004/2005 £000</b>	2003/2004 £000
Depreciation in advance of capital allowances in a subsidiary company	<b>110</b>	139
Subsidiary company losses	<b>92</b>	18
Other short term timing differences	<b>6</b>	4
	<u><b>208</b></u>	<u>161</u>

## Notes to the financial statements (continued)

**23 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 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>
Cash and cash equivalents received			
Building	5,797	307	6,104
Equipment	7,802	594	8,396
Total	<u>13,599</u>	<u>901</u>	<u>14,500</u>
Released to Income and Expenditure account			
Building	661	60	721
Equipment	1,301	483	1,784
Total	<u>1,962</u>	<u>543</u>	<u>2,505</u>
At 31 July 2005			
Building	28,300	2,635	30,935
Equipment	9,326	846	10,172
Total	<u>37,626</u>	<u>3,481</u>	<u>41,107</u>
<b>University</b>	<b>Funding Council £000</b>	<b>Other grants &amp; benefactions £000</b>	<b>Total £000</b>
At 1 August 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>
Cash and cash equivalents received			
Building	5,797	307	6,104
Equipment	7,802	632	8,434
Total	<u>13,599</u>	<u>939</u>	<u>14,538</u>
Released to Income and Expenditure account			
Building	661	60	721
Equipment	1,301	476	1,777
Total	<u>1,962</u>	<u>536</u>	<u>2,498</u>
At 31 July 2005			
Building	28,300	2,710	31,010
Equipment	9,326	847	10,173
Total	<u>37,626</u>	<u>3,557</u>	<u>41,183</u>

The amount of £2,505,000 (2004: £1,885,000) released to the consolidated income and expenditure account comprises £2,505,000 (2004: £1,775,000) due to depreciation, and £nil (2004: £110,000) due to disposals.

## Notes to the financial statements (continued)

**24 Endowments****Consolidated**

	<b>Specific Endowments £000</b>	<b>General Endowments £000</b>	<b>Total £000</b>
At 1 August 2004	1,442	57,017	58,459
Transfer to accruals and deferred income	(65)	-	(65)
Additions	51	-	51
Income	62	8,359	8,421
Revaluation	-	5,730	5,730
Expenditure	(122)	(8,359)	(8,481)
At 31 July 2005	<u>1,368</u>	<u>62,747</u>	<u>64,115</u>

**University**

	<b>Specific Endowments £000</b>	<b>General Endowments £000</b>	<b>Total £000</b>
At 1 August 2004	1,442	57,017	58,459
Transfer to accruals and deferred income	(65)	-	(65)
Additions	51	-	51
Income	62	8,389	8,451
Revaluation	-	5,730	5,730
Expenditure	(122)	(8,389)	(8,511)
At 31 July 2005	<u>1,368</u>	<u>62,747</u>	<u>64,115</u>

**25 Revaluation of General Endowment**

	<b>Consolidated &amp; University</b>	
	<b>2004/2005 £000</b>	2003/2004 £000
Revaluations		
At 1 August	<b>46,659</b>	43,639
Revaluation in year	<b>5,730</b>	3,020
At 31 July	<u><b>52,389</b></u>	<u>46,659</u>

The revaluation shown above forms part of the general endowment of £62,747,000 (2003/04: £57,017,000).

**26 Restricted Reserves**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005 £000</b>	2003/2004 £000	<b>2004/2005 £000</b>	2003/2004 £000
Trust funds	<u><b>1,291</b></u>	<u>1,125</u>	<u><b>1,145</b></u>	<u>976</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 Guildford Institute is included only in the consolidated figures.

## Notes to the financial statements (continued)

**27 Revaluation Reserve**

	<b>Consolidated &amp; University</b>			
	<b>2004/2005</b>		2003/2004	
	<b>£000</b>	<b>£000</b>	£000	£000
At 1 August		<b>738</b>		784
Revaluation of investments	<b>186</b>		(115)	
Donated assets received in year	-		120	
Released on depreciation of donated assets	<b>(29)</b>		(51)	
		<b>157</b>		(46)
At 31 July		<b>895</b>		738

**28 Movement on General Reserves**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
At 1 August	<b>58,758</b>	53,512	<b>57,754</b>	53,585
Reclassification of fund balances at 1 August: transfer from endowments (note 24)	-	2,459	-	2,459
Transfer from revaluation reserve	<b>29</b>	51	<b>29</b>	51
Surplus for the year	<b>5,371</b>	2,843	<b>4,336</b>	1,735
(Increase) in restricted reserves	<b>(166)</b>	(107)	<b>(169)</b>	(76)
At 31 July	<b>63,992</b>	58,758	<b>61,950</b>	57,754

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

	<b>Consolidated</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Surplus before tax	<b>5,333</b>	3,054
Depreciation	<b>8,456</b>	7,153
Deferred grants released	<b>(2,505)</b>	(1,885)
Investment income	<b>(894)</b>	(1,131)
Interest payable	<b>4,696</b>	5,488
Increase in stocks	<b>(42)</b>	(97)
(Increase)/decrease in trade debtors	<b>(3,306)</b>	136
(Decrease)/increase in creditors and accruals	<b>(1,166)</b>	8,005
(Decrease)/increase in provisions	<b>(117)</b>	223
Loss on disposal of property/investments	<b>284</b>	765
Endowment income	<b>(8,421)</b>	(8,241)
Revaluation of investments	<b>(27)</b>	(32)
Profit on sale of fixed asset investments	<b>(1,588)</b>	-
Net cash inflow from operating activities	<b>703</b>	13,438

## Notes to the financial statements (continued)

**30 Analysis of Cash Flows for Headings Netted in the Cash Flow Statement**

	2004/2005		2003/2004	
	£000	£000	£000	£000
<b>Returns on investments and servicing of finance</b>				
Income from endowments	8,436		8,368	
Interest received	912		1,097	
Interest element of finance lease rental payments	(884)		(1,266)	
Interest paid	(3,536)		(3,740)	
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>4,928</b>		<b>4,459</b>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	(39,187)		(22,362)	
Purchase of long term investments	(1,185)		(1,149)	
Realisation of long-term investments	972		2,735	
Increase in investment in Research Park	(2,226)		(365)	
Deferred grants received	13,183		10,078	
Endowments received	51		118	
		<b>(28,392)</b>		<b>(10,945)</b>
<b>Management of liquid resources</b>				
Cash (invested in)/withdrawn from short term deposits	(8,263)		6,067	
		<b>(8,263)</b>		<b>6,067</b>
<b>Financing</b>				
Debt due within a year				
repayment of secured loans	(1,066)		(696)	
repayment of unsecured loans	(1,070)		(1,070)	
capital element of lease payment	(550)		(319)	
Debt due beyond a year				
new unsecured loans	22,000		725	
<b>Net cash flow from financing</b>		<b>19,314</b>		<b>(1,360)</b>

**31 Analysis of Changes in Net Debt**

	At	Cash flows	Other non-cash changes	At
	1 Aug 2004			31 July 2005
	£000	£000	£000	£000
Cash at bank and in hand	22,411	(8,636)	-	13,775
Overdrafts	-	(1,283)	-	(1,283)
	22,411	(9,919)	-	12,492
Debt due after one year	(50,637)	(19,798)	(267)	(70,702)
Debt due within one year	(2,088)	(66)	-	(2,154)
Finance leases	(14,626)	550	-	(14,076)
Current asset investments	5,588	8,263	-	13,851
Total	(39,352)	(20,970)	(267)	(60,589)

Debt due within one year and after one year represents bank loans (note 21) and amounts payable under an arrangement with the shareholders of previous BES companies. The latter are included as 'Other loans' and amount to £3,691,000 (2004: £3,424,000) due after one year.

## Notes to the financial statements (continued)

**32 Capital Commitments**

	<b>Consolidated</b>		<b>University</b>	
	<b>2004/2005</b>	2003/2004	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000	<b>£000</b>	£000
Commitments contracted at 31 July	<b>30,850</b>	24,138	<b>30,850</b>	24,138
Authorised but not contracted at 31 July	<b>58,072</b>	69,288	<b>58,072</b>	69,288
	<b>88,922</b>	93,426	<b>88,922</b>	93,426

**33 Lease Obligations**

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

<b>Consolidated</b>	<b>2004/2005</b>		2003/2004	
	<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>1,450</b>	-	1,319	8
Between two and five years	-	<b>113</b>	200	95
Over five years	<b>203</b>	-	196	-
	<b>1,653</b>	<b>113</b>	1,715	103

  

<b>University</b>	<b>2004/2005</b>		2003/2004	
	<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>1,250</b>	-	1,319	6
Between two and five years	-	<b>113</b>	-	95
Over five years	<b>203</b>	-	196	-
	<b>1,453</b>	<b>113</b>	1,515	101

**34 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 has received a claim from a contractor for an increase in the value of the final account on a major building project. The University is of the opinion that the claim has no merit and has retained appropriate consultancy and legal advice to deal with any potential disputes.

Surrey Satellite Technology Limited, a subsidiary company, has in place a standby letter of credit in favour of MacDonald Dettweller 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)

**35 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 £6,535,000 (2004 restated: £6,776,000). This includes £839,000 (2004: £788,000) 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)

**35 Pension Schemes** (continued)

The latest actuarial valuation of the Scheme was at 31 March 2004 which was carried out by an independent qualified actuary using the projected unit method. The assumptions used by the actuary (in nominal terms) were:

Rate of salary increase	4.40%
Inflation rate / pension increase	2.90%
Discount rate	6.30%

At the date of the latest actuarial valuation, the market value of the assets of the Scheme was £1,107 million and the actuarial value of the assets was sufficient to cover 68% of the benefits which had accrued to members after allowing for expected future increases in earnings. The University's contribution rate increased from 15.4% to 17.9% from 1 April 2005.

The total consolidated pension cost to the University of Surrey for the year was £2,100,000 (2004 restated: £1,840,000). This includes £247,000 (2004: £211,000) outstanding contributions at the balance sheet date.

**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 2004 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 2004 and 31 July 2005. The major assumptions used by the actuary were:

	<b>2005</b>	2004	2003
	<b>%</b>	%	%
Rate of salary increases	<b>4.3</b>	4.7	4.3
Rate of pension increases in payment	<b>2.8</b>	2.9	2.5
Discount rate	<b>5.0</b>	5.8	5.4
Inflation rate	<b>2.8</b>	2.9	2.5

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

	<b>2005</b>	2004	2003
	<b>£m (%)</b>	£m (%)	£m (%)
Equities	<b>28.7 (7.3%)</b>	23.9 (7.9%)	21.3 (8.0%)
Bonds	<b>7.1 (4.7%)</b>	5.0 (5.4%)	4.3 (5.0%)
Property	<b>2.2 (5.4%)</b>	2.0 (6.7%)	1.6 (6.7%)
Cash	<b>0.6 (4.5%)</b>	0.8 (4.5%)	0.5 (3.5%)
	<b>38.6 (6.7%)</b>	31.7 (7.3%)	27.7 (7.4%)

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

	<b>2005</b>	2004	2003
	<b>£m</b>	£m	£m
Estimated market value of scheme assets	<b>38.6</b>	31.7	27.7
Present value of scheme liabilities	<b>(57.7)</b>	(53.2)	(48.4)
Net pension liability	<b>(19.1)</b>	(21.5)	(20.7)

## Notes to the financial statements (continued)

**35 Pension Schemes** (continued)

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

	<b>2005</b>	2004	2003
	<b>£m</b>	£m	£m
Net assets as stated in balance sheet	<b>171.9</b>	148.3	137.4
SSAP 24 balance	<b>1.2</b>	1.2	1.1
Net assets excluding pension liability	<b>173.1</b>	149.5	138.5
FRS 17 pension liability	<b>(19.1)</b>	(21.5)	(20.7)
<b>Net assets</b>			
<b>including FRS 17 pension liability</b>	<b>154.0</b>	128.0	117.8
Reserves as stated in balance sheet	<b>66.2</b>	60.6	55.3
SSAP 24 balance	<b>1.2</b>	1.2	1.1
Reserves excluding pension liability	<b>67.4</b>	61.8	56.4
FRS 17 pension liability	<b>(19.1)</b>	(21.5)	(20.7)
<b>Reserves</b>			
<b>including FRS 17 pension liability</b>	<b>48.3</b>	40.3	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 2005:

**Analysis of amounts charged to income and expenditure account during the years ended 31 July :**

	<b>2005</b>	2004
	<b>£m</b>	£m
Current service cost	<b>2.0</b>	2.1
Past service cost	<b>-</b>	-
Curtailment cost	<b>0.1</b>	0.1
Net return on financing	<b>0.7</b>	0.5
	<b>2.8</b>	2.7

**Analysis of amounts recognised in statement of total recognised gains and losses during the years ended 31 July :**

	<b>2005</b>	2004
	<b>£m</b>	£m
Actual return less expected return on pension scheme assets	<b>4.4</b>	0.6
Experience gains and losses arising on the scheme liabilities	<b>4.3</b>	(0.7)
Changes in financial assumptions underlying the present value of scheme liabilities	<b>(5.6)</b>	(0.1)
Total actuarial gain/(loss) recognised	<b>3.1</b>	(0.2)

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

	<b>2005</b>	2004
	<b>£m</b>	£m
Deficit on scheme at 1 August	<b>(21.5)</b>	(20.7)
Movement in year - current service cost	<b>(2.0)</b>	(2.1)
- employer contributions	<b>2.0</b>	2.0
- contributions in respect of unfunded benefits	<b>0.1</b>	0.1
- past service cost	<b>-</b>	-
- other finance charge	<b>(0.7)</b>	(0.5)
- actuarial gain / (loss)	<b>3.1</b>	(0.2)
- curtailment cost	<b>(0.1)</b>	(0.1)
Deficit on scheme at 31 July	<b>(19.1)</b>	(21.5)

## Notes to the financial statements (continued)

**35 Pension Schemes** (continued)

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

	<b>2005</b>	2004	2003	2002
<b>Difference between the expected and actual return on scheme assets:</b>				
Amount £m	<b>4.4</b>	0.6	(0.2)	(5.9)
Percentage of scheme assets	<b>11.4%</b>	2.0%	(0.7%)	(23.6%)
<b>Experience gains and losses on scheme liabilities:</b>				
Amount £m	<b>4.3</b>	(0.7)	-	-
Percentage of the present value of scheme liabilities	<b>7.5%</b>	(1.3%)	-	-
<b>Total amount recognised in the statement of total recognised gains and losses:</b>				
Amount £m	<b>3.1</b>	(0.2)	(4.5)	(5.9)
Percentage of the present value of scheme liabilities	<b>5.5%</b>	(0.3%)	(9.3%)	(14.5%)

**36 Access Funds**

	<b>University</b>	
	<b>2004/2005</b>	2003/2004
	<b>£000</b>	£000
Balance at 1 August	<b>11</b>	39
Funding Council Access funds	<b>349</b>	335
	<b>360</b>	374
Interest earned	<b>4</b>	3
Disbursed to students	<b>(358)</b>	(366)
Balance unspent at 31 July	<b>6</b>	11

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.

**37 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 been awarded a grant under the government's Knowledge Transfer Partnership (KTP) Scheme for a project with a company in which James Forde, a member of the University's Council, has an interest and is a director. The total value of the grant is £80,000, of which the company, Duncton plc, is contributing £32,000.

John Maxwell Taylor, a member of the University's Council, is deputy chairman of Aon Limited, which provides insurance brokerage services to the University for a fee of approximately £30,000 per annum.

The following directors of Surrey Satellite Technology Limited had interest free loans from that company during the year ended 31 July 2005 :

	Date provided	Amount outstanding at 31 July 2005	Maximum amount outstanding during the year	Balance at 1 August 2004
		£	£	£
Dr J Ward	October 2002 and June 2005	4,861	5,000	2,042
Mr M N Allery	October 2002	338	1,691	1,691
Mrs S Parker	October 2002 and June 2005	4,376	4,500	1,691
Dr W Sun	October 2002	408	2,042	2,042

## Notes to the financial statements (continued)

**37 Related Party Transactions** (continued)

The following directors of Surrey Satellite Technology Limited, who held office at the end of the financial year, had the following interests in the ordinary shares of that company, as recorded in the register of directors' share interests:

Ordinary Shares of 0.1p each	Interest at end of year	Interest at beginning of year
Professor Sir M N Sweeting	5,025	5,000
Dr J Ward	95	70
Mrs S Parker	78	58
Mr M Day	58	58
Dr W Sun	70	70

The following directors of Surrey Satellite Technology Limited also had the following options in an unapproved share option plan:

	Exercise Price £	At 31 July 2005 No.	At 31 July 2004 No.
Dr J Ward	70	110	110
Mrs S Parker	70	110	110
Mr M Day	70	110	110
Dr W Sun	70	110	110

The directors will be able to exercise vested options when the University of Surrey ceases to be a controlling shareholder of the company. The options were granted on 1 October 2002 and vest upon the achievement of set performance criteria. The options lapse on the earlier of the tenth anniversary of the date of grant or six months after the date at which the University of Surrey ceases to be the controlling party.

Under the terms of the Directors' Agreement, the directors of University of Surrey Seed Fund Limited are eligible to participate in options to be granted by the company over a percentage of each investment made during their term as director. During the year options totalling £19,963 (2004: £nil) were granted in respect of Omniperception Limited as follows :

	Date of Grant	Date of Expiry	No. of Ordinary Shares	Exercise Price	No. of Ordinary Shares	Exercise Price
Mrs P Drakes	07/03/05	07/03/15	348	£10.75	83	£15.05
Professor B Blunden	07/03/05	07/03/15	348	£10.75	83	£15.05
Dr P Bailey	07/03/05	07/03/15	348	£10.75	83	£15.05
Mr P Norman	07/03/05	07/03/15	348	£10.75	83	£15.05

Under the Option Scheme Rules options may only be exercised in the event of a sale or quotation of the respective investee company.

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