Financial Statements

2008/2009

University of Surrey

Financial Statements for the Year ended 31 July 2009

Contents

Operating and Financial Review

Constitution And Group Structure

The University of Surrey has its origins in the Battersea College of Technology, which was established in 1891. In the early 1960s, it was decided to establish a new university in Guildford and the University of Surrey ('the University') received its Royal Charter in 1966. Since then the University has grown consistently in influence, size and status. Although founded as a science, engineering and technology focused institution, it now offers a broad range of courses, research programmes and enterprise activity in a wide variety of disciplines. These include the sciences, engineering, arts, management and business, medical, health and human sciences. The University is a member of the 1994 Group of research intensive universities and has ambitious plans for further growth and diversification.

In addition to its core academic activities, the University owns and manages the Surrey Research Park. This is one of the most successful research parks in Europe generating income of £10m per annum and providing further links between the academic community and the world of business. Other commercial and revenue generating activities are carried out through a range of subsidiary companies.

Following the signing of Heads of Terms in September 2007, the University formally merged with the Guildford School of Acting (GSA) on 1 August 2008 with the GSA becoming a wholly owned subsidiary of the University.

Operating Environment

The University is operating in a changing environment, reflecting greater competition both at home and overseas. The UK higher education sector is becoming increasingly competitive in pursuit of fee paying home students and overseas students who are looking to study abroad. Research funding is becoming more selective and, in all areas of activity, league table position is very important.

With the onset of the global recession over the past twelve months, the challenges facing the sector have intensified further. This year, we have already seen the restriction in government funding for additional student numbers and impending UK public sector funding cuts over the next few years are very likely to lead to a real reduction in government investment in higher education.

In this environment, the successful institutions will be those that are most adaptable and quick to react to the changing climate. The University is responding accordingly and both progress to date and future plans are described below.

Strategy And Objectives

In 2007, the University embarked on an ambitious agenda for change with the launch of a new 10 year strategy based on the following six imperatives which embody the University's aims and core values:-

- Quality
- International impact
- Distinctiveness
- Collegiality
- Professionalism
- Sustainability

The University continued to implement and develop its new strategy during 2008/09. Particular focus was placed on improving the student experience and the University's National Student Survey score. In pursuing the quality imperative, there was a drive to raise undergraduate entrance standards further and also to increase the volume and quality of research. In terms of distinctiveness, the University continued to look to benefit from the commercialisation of its research and know-how, recognizing the need to create collaborations and partnerships which can add value. This also applies internationally where further progress was made over the past twelve months in building the global network of strategic relationships.

The University uses a Balanced Scorecard to monitor current performance and progress towards achievement of its strategy. This comprises a number of key performance indicators (KPIs) relating to students, research and enterprise, staff and sustainability. Relevant indicators are included below.

Review Of Operations

Academic Development

Senior Appointments

During the year important new appointments were made in order to strengthen the senior management team. Two Deputy Vice-Chancellors, Professor Nigel Seaton and Professor Stephen Williamson, were appointed to lead the Academic Development and Research & Innovation agendas respectively, replacing the four existing part time Pro-Vice Chancellor roles. These appointments will ensure that real focus is maintained on key parts of the University's strategy. A new Senior Deputy Vice-Chancellor was appointed following the retirement of Professor John Turner in May 2009. Professor Seaton was appointed to this role and the University recruited Professor Gillian Nicholls as Deputy Vice-Chancellor for Academic Development.

Portfolio review

The on-going programme of portfolio review resulted in the closure of some programmes, reductions in the number of modules, and a broadening of the portfolio to include theatre studies, veterinary biosciences and paramedic practice.

QAA institutional audit

In March 2009, the Quality Assurance Agency for Higher Education (QAA) carried out an institutional audit at the University. The report on the quality of the learning opportunities available to students and on the academic standards of the awards that the University offers was very positive. The report, which is available to the public via the QAA's website, made a small number of minor recommendations to improve standards further. The University fully accepted these recommendations and work has already started to put them into action.

Students

Undergraduate applications to the University have increased by over 30% over the past two years. At the same time, there has been an increase in the average undergraduate entrance tariff to 372 for the 2008/09 entry reflecting the University's aim to improve the quality of students accepted onto its programmes. The slight fall in the number of applications per place for 2008/09 (2.3%) reflected a position where the increase in the number of places was slightly higher than the increase in the number of applications.

Applications

Chart 1 Undergraduate applications

	2008/09 Entry	2007/08 Entry *	2006/07 Entry *
Accepted Places	2,900	2,788	2,535
Applications	14,630	14,381	11,175
Applications per Place	5.04	5.16	4.41
Average UCAS Entrance Tariff	372	353	336

* *2006/07 and 2007/08 figures restated to include nursing & midwifery students recruited through UCAS from 2008/09*

The University intends to continue raising its entry tariff and it has increased its average tariff to 391 for the 2009/10 entry. As stated last year, by increasing the quality of its undergraduates, the University should be able to increase the percentage of good degrees (1st or 2.1) it awards.

Student numbers

Chart 2 Student numbers (headcount)

	2008/09	2007/08	2006/07
Undergraduate*	9,652	8,377	7,971
Postgraduate Taught	3,707	3,195	3,101
Postgraduate Research	1,082	1,103	1,141
Total	**14,441**	**12,675**	**12,213**
Overseas Students included above	2,586	2,289	2,321

* *The 2008/09 undergraduate figure includes 962 part-time students not previously included plus 252 GSA students*

The overall target for 2008/09 student numbers was met and the overseas population target was exceeded by over 200. This was a pleasing result following the thorough internal review the previous year after overseas student recruitment had fallen below target.

Student satisfaction

The University made further progress in 2008/09 towards improving its score in the National Student Survey, with its overall satisfaction rating rising from 83% in the 2008 survey to 85% in the 2009 survey. This moved the University up from joint 65th to joint 39th place in the overall rankings and the University was in the top two quartiles for 6 out of the 7 indicators. Over the past 3 years the University has moved from joint 96th to joint 39th position. It continues to target improvements in specific underperforming subject areas and in "assessment and feedback" more generally where it achieved a 4% increase in satisfaction in the most recent survey but remained in the 3rd quartile. The University will continue to strive to offer a high quality student experience and address any remaining areas which require further attention.

Research

Unconsolidated research income rose from £22.2m in 2007/08 to £25.3m in 2008/09. Research contribution (i.e. income less direct costs) rose from £4.7m to £5.9m. This was an encouraging result after the previous year's fall in income and contribution and reflected an increased level of concerted activity across the University.

2008/09 also saw further encouraging increases in the value of research bids, awards and extensions.

Chart 3 Research bids, awards and extensions

	2008/09	2007/08	2006/07
	£m	£m	£m
Research Bids	115	106	87
Research Awards and Extensions	30	27	23

Research bids are a key lead indicator of future income and the University was particularly proud to achieve two major awards - £2.6m for sleep research and £3m for basic research in nuclear physics.

The announcement of the results of the 2008 Research Assessment Exercise in December 2008 confirmed the quality of Surrey's research. The University submitted the research of 425 researchers across all four faculties. 88% of the University's activity was rated either 'world class' or 'internationally recognised' with four areas of research activity in the top 10 and a total of nine areas ranked in the top 20. 45% of staff were in areas ranked in the top 10.

Despite the continued strength of the University's research performance, the financial result was disappointing. In common with many other research intensive universities, Surrey will suffer a reduction in HEFCE funding from 2009/10 due to the change in funding methodology which diverts funding to universities with pockets of research excellence. £1.4m transitional funding is being provided for one year, which is being used to reshape parts of the University to optimise the financial and academic performance of academic departments.

In terms of training future researchers, the University was delighted to learn in December 2008 that it had secured two of only 17 industrial doctoral training centres in the UK to be funded by the Engineering and Physical Research Training Council (EPSRC). This will provide £12m of funding and will train over 100 researchers at doctoral level, equipping them with 'state-of-the-art' research expertise and the necessary business skills to turn pioneering ideas into products and services, boosting their impact on the UK economy.

Enterprise and Innovation

On 31 December 2008, the University successfully completed the sale of its shareholding in Surrey Satellite Technology Limited (SSTL) to EADs Astrium NV. The £50m total consideration makes this sale the highest value cash spin-out from any UK University. The main driver for the sale was SSTL's need for access to funds and other resources to enable it to realise its full potential as a rapidly growing and leading supplier of small and micro-satellites. The sale allows the University to focus on its core activities whilst enabling it both to develop new links with EADs Astrium and, at the same time, retain the benefits of close interaction with SSTL. The new partnership has proved extremely beneficial with the University securing £1.2m of research contracts from EADs Astrium within the first six months following the sale.

HEFCE's Higher Education Innovation Fund has been central to many of the University's recent successes. In particular, it has provided funding to enable the University to procure the expertise needed to support the recent successful bids in the Knowledge Transfer / Exchange area. Most significantly, the University has been awarded a £4.0m Knowledge Transfer Account from the Engineering and Physical Research Council as part of a £10m, three year, deal between the University of Surrey and the National Physical Laboratory. With £6m of funding coming from industrial partners and the University, the joint Surrey/NPL team will focus on three specific areas of research, each with the potential to create transformational benefits for the UK economy and society:- communications and signal processing; next generation materials & characterization; and nanotechnology & photonics.

Surrey's distinctive blend of pure and applied research positions it well to engage with businesses and industry during the economic downturn and subsequent recovery. During 2008/09, the University was successful in two bids to the Government's new Economic Challenge Investment Fund (ECIF), set up by HEFCE to help universities respond rapidly to meet the needs of the economy during the current recession. Together, these provide £1.6m of funding to enable the University and its partners firstly to support small and medium sized enterprises find innovative ways of working and secondly to support the biopharmaceutical industry in the South East address its skills and knowledge needs.

International Partnerships and Collaboration

The University made further progress in 2008/09 towards the consolidation of its position as an international university with the extension of its Global Partnership Network (GPN) to include Seoul National University, Universidade de Sao Paulo and Nanjing University. Launched in 2007 with North Carolina State University, the GPN represents a new approach to partnerships, focusing on deep engagement on research, teaching, enterprise and mobility activities with a small number of institutions across the world. Members of the GPN are selected against a number of criteria including their areas of research excellence, research synergies with Surrey and with other institutions within the GPN, their international ranking and a commitment to internationalisation. The University is working towards extending the GPN to Southern Africa and continental Europe in early 2010 which will give it a presence on all five continents and provide international opportunities for world-class research, staff and student exchange.

2008/09 was the second year of operations for Surrey International Institute, Dongbei University of Finance and Economics (SII, DUFE), the University's joint venture in China. This partnership gives Chinese students the opportunity to study for Surrey degrees in tourism, business management and computing in their home country, with options to spend varying amounts of time at the Surrey campus should they wish to do so.

The SII/DUFE undergraduate programme is proving successful with an initial cohort of 156 students starting in September 2007, followed by a second cohort of 495 in September 2008, and a third cohort of 418 in September 2009. With the first two years of the undergraduate programme being run by DUFE and the third and fourth years being run by Surrey, 2009 sees the first transfers to Surrey undergraduate programmes.

2008/09 was also the second year of the University's collaboration with Study Group, a world leader in education and training for international students. The programme run by Study Group provides international students with an intensive, direct path to specific degree programmes at the University. Good progress has been made in terms of the number of students transferring onto Surrey degree programmes.

Academic Restructure

Following the publication of the 2008 Research Assessment Exercise (RAE) results and the subsequent Quality Related (QR) funding allocation, together with the Government's Budget announcement of cuts in the Teaching funding from HEFCE, the University was regrettably forced to undertake a review of its academic shape in order to respond to the adverse financial result. Departmental level reviews were carried out across all academic areas assessing activities in terms of their research and teaching quality and financial viability. This review resulted in the University implementing plans to disinvest from some areas and to invest strategically in others.

A saving of 48 academic posts was targeted across three faculties and this has been largely achieved through the application of a voluntary severance scheme.

The total cost of the voluntary severance scheme to date is £2.8m. This is expected to be recovered over a period of approximately 12 months with 2010/11 delivering the first full year of savings. To ensure on-going financial sustainability, the University is also investing in an institution-wide Improvement Programme aimed at further reducing support costs and enhancing other income streams over the next 4 years.

Financial Review

The University's operating strategy is underpinned by a financial strategy, the aim of which is to achieve a break-even result on core University activities by 2011/12. This will enable income from the Foundation Fund and other enterprise activities to be used for strategic investment for growth.

For clarity, the unconsolidated numbers reported below comprise core University activities and the Foundation Fund. The consolidated results also include the results of the subsidiary companies, including, for 2008/09, five months of SSTL's results.

Income and Expenditure

Overall

The University achieved a consolidated surplus, before exceptional items, for 2008/09 of £0.2m. This was £3.1m lower than 2007/08 due almost entirely to the sale of SSTL part way through the year.

The sale of SSTL gave rise to an exceptional profit in the 2008/09 consolidated accounts of £31.3m. There was a further exceptional profit of £2.6m due to the write back of negative goodwill arising on the acquisition of the Guildford School of Acting. The retained profit for the year after exceptional items was £34.0m.

Unconsolidated income rose by £10.3m but the sale of Surrey Satellite Technology Limited in mid-year meant that consolidated income fell by £10.3m to £191.2m.

As in previous years, income was well diversified, with 25% of income derived from HEFCE grants, compared with the national average of 36%.

Core University activities

There was a deficit on core University activities, before restructuring costs, of £1.0m. This showed continuing improvement from 2007/08 when the corresponding deficit was £2.6m and 2006/07 when the figure was £5.5m. These results show the University making steady progress towards its target of breaking even on its core activities by 2011/12, after allowing for a base level of restructuring costs of c. £1.5m per annum.

Income grew by 7.0% to £165.4m. Tuition fee and educational grant income rose by £7.7m (15.2%) to £58.3m and research income rose by £3.0m (13.7%) to £25.3m. The increase in tuition fee income reflected not only the third year of variable fees for home and EU undergraduates but also an increase in overall student numbers. After remaining static in 2007/08, income from overseas students rose by £3.8m (20.8%) in 2008/09 to £21.8m.

High utility costs proved challenging, but the University benefited from falling interest rates and expenditure in other areas, especially staffing costs, remained tightly controlled. Restructuring costs totalled £3.6m which was £1.6m higher than last year due to the cost of the academic restructure.

Foundation Fund

As noted above, the unconsolidated figures include the Foundation Fund, the main asset of which is the Surrey Research Park. The Research Park achieved another excellent financial result, with a surplus of £5.6m matching the previous year's figure. This was a particularly encouraging result given the economic downturn. Income was slightly lower at £9.5m (2007/08: £10.2m), due mainly to some one-off transactions in 2007/08, but this was offset by savings in finance costs arising from lower interest rates.

Subsidiary companies

With the sale of Surrey Satellite Technology Limited (SSTL) in December 2008, only five months results have been included in the consolidated financial statements. SSTL's annualised turnover for the five months to 31 December 2008 was 14% lower than 2007/08 and there was a retained loss for the five months of £0.6m compared with a £2.9m profit for the previous financial year.

Chart 4 Surrey Satellite Technology Limited results

	2008/09 (5 mths)	2007/08	2006/07	2005/06	2004/05
	£m	£m	£m	£m	£m
Turnover	12.9	36.1	26.0	21.0	25.2
Retained Profit / (Loss)	(0.6)	2.9	1.2	0.5	1.3

The 2008/09 consolidated results include, for the first time, the results of the Guildford School of Acting Conservatoire Limited (GSA). 2008/09 was a challenging year for the School. Compared with the previous 11 month period, income rose by £0.2m (6.4%) to £2.9m and expenditure fell by £0.2m (5.7%) to £3.3m, giving a deficit before exceptional items of £0.4m. After providing a further £0.2m for impairment of a leasehold property, the retained deficit for 2008/09 was £0.6m. Overheads will reduce as the GSA physically moves its activities into new purpose built facilities on the University campus and these cost reductions, combined with planned growth in short course and summer school income, are expected to lead to a significant improvement in financial performance over the next few years.

Other subsidiary companies performed broadly in line with budget.

Consolidated trends

Trends in consolidated income and surplus/deficit over the past five years are shown below. The fall in income in 2008/09 reflects the sale of SSTL part way through the financial year.

Chart 5 Consolidated I&E results

	2008/09	2007/08	2006/07	2005/06	2004/05*
	£m	£m	£m	£m	£m
Income	191.2	201.5	181.7	169.8	168.0
Retained Surplus / (Deficit) before exceptional items	0.2	3.3	(2.7)	(2.6)	3.0
Retained Surplus / (Deficit) after exceptional items	34.0	3.3	(2.7)	(2.6)	4.6

** 2004/05 results restated for FRS17*

Balance Sheet

Despite achieving a consolidated profit on the sale of Surrey Satellite Technology Limited of £31.3m, consolidated net assets only rose in 2008/09 by £2.5m to £167.7m. This was due to the fall in the value of the Research Park (the major element of endowments) and the rise in pension liabilities, both consequences of the continuing economic downturn.

Chart 6 Movement in net assets 2008/09

	£m
Consolidated Net Assets at 31 July 2008	165.2
Profit on Sale of Surrey Satellite Technology Limited	31.3
Decrease in Value of Surrey Research Park	(18.3)
Increase in Pension Liability	(15.6)
Other Movements	5.1
Consolidated Net Assets at 31 July 2009	**167.7**

On-going difficulties in the UK commercial property market and a downturn in economic activity were reflected in a 24% fall in the Research Park's investment property values in 2008/09. The impact of this fall was mitigated to some extent by the transfer of the SSTL building from owner-occupied property (valued at depreciated historical cost) to investment properties (valued at market value) following the successful sale of SSTL. This increased the value of the SSTL building from £6.0m at 31 July 2008 to £9.0m at 31 July 2009 and resulted in an overall fall of 18% (£18m) in the value of the Research Park since 31 July 2008. The total fall in the two years to 31 July 2009 was 28% (£32m).

Chart 7 Gross value of the Surrey Research Park

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Research Park Gross Valuation	80	98	112	105	92

The net pension liability increased from £18.1m at 31 July 2008 to £33.7m at 31 July 2009. The major part of this relates to the Surrey County Council local government pension scheme which covers c. 600 members (26%) of the University's staff. The rise in the net liability was due in part to a fall in asset values but more significantly to a rise in gross liabilities due to a reduction in the discount rate as a result of falls in corporate bond yields.

Movements in net assets over the past five years are shown below.

Chart 8 Consolidated net assets at 31 July

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Total Net Assets	168	165	180	167	151

Note: 2007 and prior year balance sheets restated for implementation of 2007 SORP & FRS17

Cashflow

The Cashflow Statement on page 17 shows a consolidated net increase in cash in the year of £25.0m (2007/08: £6.4m increase). This shows the major cash inflow of £36.3m due to acquisitions and disposals (primarily the SSTL sale) and the cash outflow of £45.1m on capital expenditure and financial investment. However, this statement is not a true reflection of underlying liquidity due to the in-year repayment of £22m of revolving credit facilities (which will be re-drawn prior to term-out) and the switch from fixed term deposits to certificates of deposit, the latter being accounted for as cash as opposed to short term investments.

The underlying position was an increase in available cash (defined as cash plus short term investments plus unutilised revolving credit facilities) in the year of £33m, from £31.2m at 31 July 2008 to £64.2m at 31 July 2009. This included £40m from the sale of SSTL, with capital expenditure of £52.9m offset in part by loan drawdowns of £34.2m and capital grants received of £8.1m.

Long Term Borrowings and Hedging Strategy

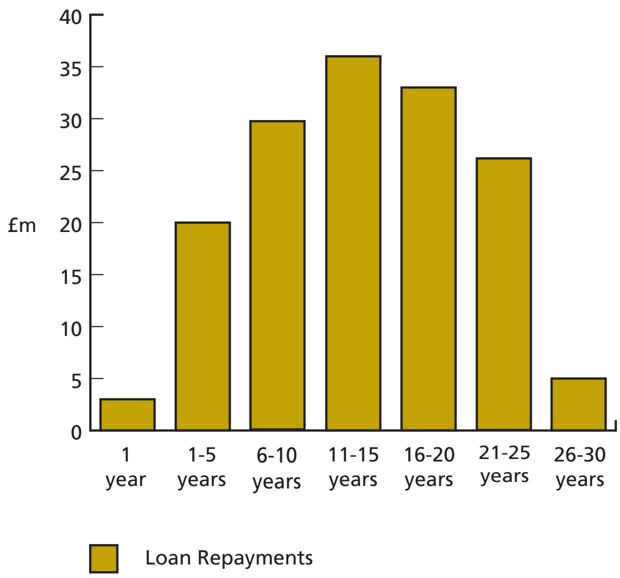
During 2008/09, the University drew down a further £32.5m against the recently agreed £50m borrowing facility. As at 31 July 2009, the University had outstanding borrowings of £135.6m which included £14.1m in respect of finance lease obligations, mainly relating to student residences. In addition, it had an undrawn balance of £13.6m on the £50m facility and £22.0m of other unutilised revolving credit facilities.

The University uses hedging instruments, mainly fixed rate swaps, to limit the risks of interest rate rises. The University's policy is to hedge at least 70% of its term debt. In light of the term out of £84.5m of revolving credit facilities between June 2010 and April 2012, the University decided to take advantage of the historically low swap rates and in March 2009 entered into a 24 year £50m forward starting amortising swap. This swap starts in July 2011, 12 months after the term out of the £50m facility, giving the University flexibility to benefit from what is expected still to be a fairly low interest rate environment for 2010/11, while giving security over costs from July 2011 onwards. The fair value of interest rate swaps at 31 July 2009 was £2.2m in favour of the University and £6.7m in favour of the counterparty.

The University recognises that it has a relatively high gearing ratio, but this debt continues to be secured largely against strong revenue streams, primarily from residences and the Research Park.

The loan repayment profile, assuming all facilities are fully drawn down and revolving credit facilities termed out, is as follows:

Chart 9



Investment Strategy / Liquidity

The University's investment strategy, like its borrowing strategy, is determined by its Finance Committee. The main objective in making investments is to achieve a reasonable rate of return whilst minimising risk. During 2008/09, the University's short term investment policy was kept under close review in light of the turmoil in the banking sector.

Main Trends And Factors Influencing Future Development And Performance

Resources

Staff

The University recognises that high performing staff are essential to the delivery of the 2007-17 strategy.

To ensure that the culture of the organisation facilities the delivery of the University's strategic objectives, the University has developed an Engagement and Development Strategy with a strong focus on leadership and collegiality. As part of the Strategy, and in response to feedback from the 2008 staff survey, the University has introduced a leadership development programme for academic and non-academic managers and a new appraisal process for all staff.

The Communications and PR Department is also working on a complementary multi-faceted communications strategy, looking at improving information-sharing practices to keep staff abreast of change, and opening channels of communication for staff at all levels. This will build on current communication practice which includes use of the University intranet, widespread distribution of the University's internal newsletter, team meetings, and regular presentations by Senior Management which are open to all staff. Staff are also encouraged to participate in formal and informal consultations at University, Faculty and Departmental level, often through membership of formal committees. Members of senior management meet regularly with representatives of trade unions who represent the interests of staff through consultative committees and staff are advised in accordance with the University's agreed employment policies when matters affect their employment directly. A comprehensive training and development programme is available to staff covering a range of technical, managerial and interpersonal skills.

The University is committed to promoting actively equality of opportunity across all areas of the campus. The University gives full consideration to applications for employment from disabled persons where the candidate's aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled persons for training, career development and promotion. Where existing employees become disabled, it is the University's policy to provide continuing employment where practicable in the same or an alternative position and to provide training to achieve this aim.

Physical assets

The University is investing significantly in its estate to support the needs of a growing student population. Capital expenditure in 2008/09 totalled £57.1m (consolidated), of which £40.4m was spent on schemes funded in whole or part by the £50m borrowing facility i.e. two new residential blocks, a new sports complex, and new buildings to support the GSA's move onto the University's Stag Hill campus. Practical completion was achieved on the first residential block at the end of July 2009 and on the second at the end of August 2009. Good progress was made on both the new academic building for the GSA which is due for completion at the end of 2009 and on the Surrey Sports Park which is due to open in March 2010. Conversion of the existing sports hall to a performing arts centre, to be used by both the GSA and the University, is due to commence when the new Sports Park opens.

The sale of SSTL has enabled the University to embark on two further important major capital projects which would not otherwise be possible. These are a £15.5m scheme to construct an enlarged Learning Resources Facility, for which only partial funding is available from HEFCE's Teaching Infrastructure Fund, and an £11m investment in a further residential block which will be available for the 2010/11 academic year.

Risks and Uncertainties

Risk management

The University's Executive Board closely monitors risk by maintaining a high level risk register that is regularly updated. The risk process is overseen by the Audit Committee and the high level risk register forms the basis of the internal audit programme.

Financial risks and uncertainties

The high level risk register includes certain items which are generic to the sector and not wholly within the University's control. Other high level risks are specific to the University's ambitious agenda for change and the underlying strategic imperatives.

The University, in common with all other UK Higher Education Institutions, is facing significant uncertainties as to the future level of government funding for Higher Education. The poor state of the public finances may also impact on the University in terms of the level of funding available to Research Councils and the NHS. The University has planned for a certain level of funding cuts and has carried out scenario planning on a range of possible forecasts over the four year planning period. It is in a stronger position than many others in the sector in that its strong commercial income and overseas student population mean that that it is less dependent than others on public funding. Nevertheless, a larger cut in government funding than is currently planned is one of the biggest risks currently facing the University.

Other major risks generic to the sector include a future potential rise in pension costs. In terms of student numbers and associated fee income, international student recruitment for 2009/10 entry has been strong, but failure to achieve planned international student numbers remains a major risk for future years.

Funding for capital developments

The amount of capital funding available through HEFCE allocations falls short of the amount required to deliver the University's strategy. Uncertainties over funding levels after the current allocations run out in March 2011 mean that the University will prioritise carefully its requirements based on robust business cases.

Stakeholder Relationships

The University engages with a wide range of stakeholders including its students, staff, funding bodies, other educational institutions, industry and commerce, government bodies, the local community and the NHS.

Students

In response to feedback from the National Student Survey, the University has developed and implemented a new Student Experience Strategy. One of the first projects was a review of the induction process which led to the introduction of 'Project Welcome' in September 2008 and further enhancements to the induction programme for the 2009 student intake.

The University recognises the importance of involving students in the general management of the University and in key decisions regarding its future development. Regular meetings are held with Students Union representatives and management. The President of the Students Union is a member of the University's Council, the Executive Board's sub-Group on the Student Experience (the Project Board) and the Senate. The Student Union's Vice-President (Education) is also a member of the Senate. The Students Union has an active representation programme and students are encouraged to participate in formal and informal discussions throughout the University, often through the membership of formal committees.

NHS

The University has strong links with the NHS notably through the provision of training for nurses and other healthcare professionals, also through the research and training carried out in its post-graduate medical school.

During 2008/09 the University both consolidated and further developed its partnerships with regional NHS bodies. This activity had led to a joint bid from the University, Brighton & Sussex Medical School, the Strategic Health Authority, and Trusts and Primary Care Trusts in Surrey and Sussex, to the Departmental of Health (DOH) for funding under the DOH's Health Innovation and Education Cluster (HIEC) initiative. If successful, this will provide infrastructure funding to facilitate future collaboration.

The University recognises that there is unlikely to be any future expansion of investment by the NHS in Education and Training but that there may be a change in priorities. It is pro-actively managing the change to all-degree pre-registration provision and will actively seek and exploit opportunities to widen its income base.

Environmental Sustainability

The University recognises the importance of environmental stability in both its regular operations and its new capital developments. It is on track to reduce carbon emissions by 2.5% per annum from the 2005-06 baseline to a maximum of 25% over a 10 year period and has drawn up a programme of events to engage with students and staff to create the cultural change needed to help meet this target. A £0.5m loan from HEFCE/Salix Finance Limited's institutional small project fund will help support the various initiatives. As an example of the consideration of environmental issues in the design of new buildings, the University has installed a biomass heating system on its Manor Park, Guildford, campus.

Summary

The University has made good progress towards the achievement of its 10 year strategy over the past 12 months. Uncertainties surrounding the level of Government funding mean that the University, along with the rest of the UK higher education sector, faces a particularly challenging period ahead. However, the diversity of the University's activities, the strength of its endowment and its international outlook, mean the University is well placed to overcome these challenges and emerge stronger in delivering its long term objectives.

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance and endeavours to conduct its business in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). 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 and in the Governance Code of Practice provided by the Committee of University Chairs (CUC) in its 'Guide for Members of Higher Education Bodies in the UK.' 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. The Executive Board is responsible for the consideration of issues relating to risk and this is a standing item on the Executive Board agenda. The status of the University's high level risks and actions taken to mitigate those risks are reported on regularly to Audit Committee, Finance Committee and Council. 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 2009 and up to the date of approval of the annual accounts. The process is regularly reviewed by the Council and accords with the internal control guidance for directors on the Combined Code as deemed appropriate for Higher Education.

Summary of the University's Structure of Corporate Governance

The University is an independent corporation, whose legal status derives from a royal charter originally granted in 1966. Its objects, powers and framework of governance are set out in the charter and its supporting statutes.

In accordance with the requirements of its Charter and Statutes, the University's Council comprises a number of ex officio, elected and co-opted external 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 is collectively responsible for overseeing the University's activities, determining its future direction and fostering an environment in which its mission is achieved. During the year, the University's Council undertook a review of its effectiveness in accordance with the CUC Governance Code of Practice. Overall, Council members were positive about the effectiveness of Council, and improvements since the last review, in 2005, were noted in most areas. Action will be taken in 2009/10 in areas identified for further improvement.

The Council meets four times a year and has several committees, all of which are formally constituted with appropriate terms of reference. These include a Finance Committee and an Audit Committee.

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

The Audit Committee meets three times annually with the External and Internal Auditors in attendance. It considers detailed reports from the Auditors, which include recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. It also receives and considers reports from 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 together with 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 and Internal Auditors on their own for independent discussions. The Chair of the Audit Committee has direct access to the Chair of Council.

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

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 management and administration of the revenue and property of the University and has general control over the conduct of the University. The Council is responsible for 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 its subsidiaries and which enable it to ensure that the financial statements are prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice 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 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 consistently applied;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 faculties and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee; 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 2009. 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 Consolidated and University financial statements (the "financial statements") of the University of Surrey for the year ended 31 July 2009 which comprise the Consolidated and University Income and Expenditure Accounts, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Council and Auditors

The University Council's responsibilities for preparing the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 11.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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: Accounting for Further and Higher Education. 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, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the funding agreement with the Learning and Skills Council. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Operating and Financial Review and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and University'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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group and the University's affairs as at 31 July 2009 and of the Group's surplus of income over expenditure for the year then ended;

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;

- in all material respects, income from the Higher Education Funding Council for England and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2009 have been applied for the purposes for which they were received; and

- in all material respects, income during the year ended 31 July 2009 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the funding agreement with the Learning and Skills Council.

Chris Wilson
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate, Brighton Road
Crawley, West Sussex
RH11 9PT

30 November 2009

Consolidated income and expenditure account for the year ended 31 July 2009

	Note	Consolidated 2008/2009 Continuing Operations £000	Consolidated 2008/2009 Discontinued Operations £000	Consolidated 2008/2009 Total £000	Consolidated 2007/2008 Continuing Operations £000	Consolidated 2007/2008 Discontinued Operations £000	Consolidated 2007/2008 Total £000
Income							
Funding body grants	2	**49,267**	**-**	**49,267**	47,003	-	47,003
Tuition fees and education grants	3	**59,957**	**-**	**59,957**	50,616	-	50,616
Research grants and contracts	4	**25,290**	**3,161**	**28,451**	22,166	8,740	30,906
Other income	5	**33,259**	**9,746**	**43,005**	34,351	27,337	61,688
Endowment and investment income	6	**10,427**	**123**	**10,550**	10,939	352	11,290
Total income		**178,200**	**13,030**	**191,230**	165,075	36,429	201,504
Expenditure							
Staff costs - operational	7	**95,402**	**6,165**	**101,567**	88,662	12,597	101,259
Staff costs - restructuring	7	**3,562**	**-**	**3,562**	1,983	-	1,983
Other operating expenses		**59,572**	**7,150**	**66,722**	55,186	19,739	74,925
Depreciation and amortisation	10,14 & 15	**13,796**	**315**	**14,111**	12,619	861	13,480
Interest and other finance costs	9	**5,287**	**51**	**5,338**	5,926	64	5,990
Total expenditure		**177,619**	**13,681**	**191,300**	164,376	33,261	197,637
Share of operating profit in joint arrangement not an entity		**66**	**-**	**66**	-	-	-
Surplus/(deficit) before taxation and minority interests		**647**	**(651)**	**(4)**	699	3,168	3,867
Taxation	11			**60**			(161)
Minority interests				**99**			(479)
Surplus after taxation and minority interests				**155**			3,227
Exceptional items	13			**33,894**			-
Surplus after taxation, minority interests and exceptional items	12			**34,049**			3,227
Transfer (to)/from accumulated income in endowment funds				**(1)**			100
Surplus for the year retained within general reserves				**34,048**			3,327

University income and expenditure account for the year ended 31 July 2009

	Note	University 2008/2009 £000	2007/2008 £000
Income			
Funding body grants	2	**48,108**	47,003
Tuition fees and education grants	3	**58,286**	50,616
Research grants and contracts	4	**25,290**	22,246
Other income	5	**32,594**	33,602
Endowment and investment income	6	**10,401**	10,931
Total income		**174,679**	164,398
Expenditure			
Staff costs - operational	7	**93,230**	88,363
Staff costs - restructuring	7	**3,562**	1,983
Other operating expenses		**57,774**	54,603
Depreciation	15	**13,691**	12,621
Interest and other finance costs	9	**5,277**	5,926
Total expenditure		**173,534**	163,496
Surplus on continuing operations before exceptional items		**1,145**	902
Exceptional items	13	**36,872**	-
Surplus after exceptional items		**38,017**	902
Transfer (to)/from accumulated income in endowment funds		**(16)**	100
Surplus for the year retained within general reserves		**38,001**	1,002

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

Statement of consolidated total recognised gains and losses for the year ended 31 July 2009

	Note	Consolidated 2008/2009 £000	2007/2008 £000
Surplus for the year after taxation, minority interests and exceptional items		**34,049**	3,227
New endowments	25	**68**	444
Endowments acquired on acquisition of subsidiary	25	**189**	-
Revaluation of permanent endowment assets	25	**(18,362)**	(14,075)
Decrease in value of expendable endowment assets	25	**(74)**	(163)
Unrealised deficit on revaluation of fixed asset investments	26	**(24)**	(51)
Actuarial losses in respect of pension schemes	37	**(15,124)**	(5,601)
Total recognised gains/(losses) relating to the year		**722**	(16,219)

Reconciliation

Opening reserves and endowments		**113,072**	129,229
Total recognised gains/(losses) for the year		**722**	(16,219)
Reserve for subsidiary company share-based payment plans		**11**	62
Closing reserves and endowments		**113,805**	113,072

Balance sheets as at 31 July 2009

	Note	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000	University 2008/2009 £000	University 2007/2008 £000
Fixed assets					
Intangible assets	14	**-**	50	**-**	-
Tangible assets	15	**249,839**	209,126	**246,672**	204,049
Investments	16	**35,241**	34,621	**36,877**	38,577
		285,080	243,797	**283,549**	242,626
Endowment asset investments	17	**48,785**	66,963	**48,607**	66,963
Current assets					
Stocks and stores in hand		**495**	1,139	**359**	421
Debtors	18	**18,010**	26,582	**19,847**	18,336
Investments	19	**59**	14,059	**59**	14,059
Cash at bank and in hand		**42,133**	17,114	**39,041**	7,895
		60,697	58,894	**59,306**	40,711
Creditors : amounts falling due within one year	20	**(59,759)**	(61,395)	**(59,055)**	(49,874)
Net current assets/(liabilities)		**938**	(2,501)	**251**	(9,163)
Total assets less current assets/(liabilities)		**334,803**	308,259	**332,407**	300,426
Creditors : amounts falling due after more than one year	21	**(131,750)**	(123,369)	**(131,630)**	(123,022)
Less: Provisions for liabilities and charges	23	**(1,700)**	(1,548)	**(1,700)**	(1,548)
Total net assets excluding pension liability		**201,353**	183,342	**199,077**	175,856
Pension liability		**(33,672)**	(18,141)	**(33,672)**	(18,141)
Total net assets including pension liability		**167,681**	165,201	**165,405**	157,715
Deferred capital grants	24	**53,876**	50,682	**53,876**	50,682
Endowments					
Expendable	25	**2,278**	2,082	**2,100**	2,082
Permanent	25	**46,507**	64,881	**46,507**	64,881
		48,785	66,963	**48,607**	66,963
Reserves	26				
Income and expenditure account excluding pension reserve		**98,618**	63,958	**96,520**	58,113
Pension reserve		**(33,672)**	(18,141)	**(33,672)**	(18,141)
Income and expenditure account including pension reserve		**64,946**	45,817	**62,848**	39,972
Restricted reserve		**-**	194	**-**	-
Revaluation reserve		**74**	98	**74**	98
		65,020	46,109	**62,922**	40,070
Total funds before minority interests		**167,681**	163,754	**165,405**	157,715
Minority interests		**-**	1,447	**-**	-
Total funds		**167,681**	165,201	**165,405**	157,715

The financial statements and notes on pages 13 to 45 were approved by the governing body on 26 November 2009 and signed on its behalf by:

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

Max Taylor
Chairman of Council

Consolidated cash flow statement for the year ended 31 July 2009

	Note	Consolidated 2008/2009 £000	2007/2008 £000
Net cash inflow from operating activities	27	**5,999**	10,434
Returns on investments and servicing of finance	28	**5,859**	5,481
Capital expenditure and financial investment	29	**(45,139)**	(15,961)
Management of liquid resources	30	**14,000**	4,000
Acquisitions and disposals	31	**36,306**	-
Financing	32	**7,994**	2,444
Increase in cash in the year	33	**25,019**	6,398

Reconciliation of net cash flow to movement in net debt		Consolidated 2008/2009 £000	2007/2008 £000
Increase in cash in the year		**25,019**	6,398
Cash inflow from increase in loans		**(34,231)**	(5,967)
Repayment of long term loans		**4,001**	3,019
Repayment of other loans		**21,685**	-
Loans acquired on purchase of subsidiary		**(856)**	-
Loans disposed of on sale of subsidiary		**370**	-
Capital element of finance lease payments		**551**	504
Cash inflow from increase in liquid resources		**(14,000)**	(4,000)
Change in net funds		**2,539**	(46)
Net debt at 1 August		**(95,946)**	(95,900)
Net debt at 31 July	33	**(93,407)**	(95,946)

Notes to the financial statements

1 Accounting Policies

Basis of preparation

The financial statements were approved for issue by the University Council on 26 November 2009. The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education 2007* and in accordance with other applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The financial statements are prepared under the historical cost convention modified by the revaluation of endowment asset investments and listed fixed asset investments.

Basis of consolidation

The consolidated financial statements include the financial statements of the University and Foundation Fund (the University's unrestricted permanent endowment fund), the University's subsidiaries and trusts for the financial year 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 1966. 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 (20)). Foundation Fund surpluses are used to support specific new academic initiatives and projects.

The activities of the Students' Union are not consolidated because the University does not control those activities.

Recognition of income

Funding council block grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from grants, contracts and other services rendered is accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

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

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

Recognition of income (continued)

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund, and is reported in the statement of total recognised gains and losses.

Pension schemes

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

The University is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The University is able to identify its share of the underlying assets and liabilities of the Surrey Pension Fund and the LPFA Pension Fund and thus the University fully adopts FRS17 'Retirement Benefits' in respect of these two schemes.

The group operates defined contribution pension schemes for employees of certain subsidiary companies. Contributions are charged in the income and expenditure account as they become payable in accordance with the scheme rules.

Agency arrangements

Funds the institution receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the institution is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Intangible fixed assets

Intangible fixed assets comprise acquired intellectual property rights which are capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over their useful economic life of 3 years.

Costs relating to the maintenance of the intellectual property rights are expensed to the profit and loss account as incurred.

Tangible fixed assets

a. Land and buildings

Land and buildings are initially stated at cost and buildings are depreciated over their expected useful lives of 50 to 60 years. With effect from 1 August 1999, costs which meet the FRS15 criteria for capitalisation are accounted for as additions to buildings and written off over their expected useful lives (generally between 10 and 30 years). Finance costs which are directly attributable to the construction of buildings are capitalised as part of the cost of those assets.

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.

Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future benefits to the institution from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

Notes to the financial statements (continued)

1 Accounting Policies (continued)

b. Equipment and other

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

Motor vehicles	-	5 years
Computer software	-	5 to 7 years
Other computing equipment	-	3 years
Equipment acquired for specific research projects	-	project life
Other equipment	-	5 to 20 years
Furniture	-	10 years

Leasehold improvement costs incurred by subsidiary companies are capitalised and written off over the residual life of the lease.

Fixed asset impairments

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

Assets funded by specific grants

Where assets are acquired with the aid of specific grants they are capitalised and depreciated over their estimated useful lives. The related grants are credited to a deferred capital grant account and released to income over the expected useful lives of the corresponding assets.

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.

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.

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.

Freehold investment properties held as part of the general endowment are accounted for in accordance with SSAP19 'Accounting for Investment Properties'. No depreciation is provided in respect of these properties and they are revalued annually by independent professional valuers.

Stocks

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

Notes to the financial statements (continued)

1 Accounting Policies (continued)

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. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

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

Deferred taxation

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

Financial instruments

The institution uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

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.

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 re-translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Accounting for charitable donations

a. Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

b. Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:
1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution;
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income;
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

c. Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

d. Gifts in Kind, including donated tangible fixed assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

e. Heritage assets

Works of art and other valuable artefacts (heritage assets) and valued at over £10,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

Provisions, contingent liabilities and contingent assets

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

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

Notes to the financial statements (continued)

2 Funding Body Grants

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Recurrent Grant				
Teaching	**23,541**	22,110	**22,382**	22,110
Research	**18,010**	17,962	**18,010**	17,962
	41,551	40,072	**40,392**	40,072
Specific Grants				
Higher Education Innovation Fund	**1,525**	1,534	**1,525**	1,534
Other	**1,553**	1,004	**1,553**	1,004
Deferred Capital Grants released in year (note 24)				
Building	**1,618**	1,599	**1,618**	1,599
Equipment	**3,020**	2,794	**3,020**	2,794
Total grants from HEFCE	**49,267**	47,003	**48,108**	47,003

3 Tuition Fees and Education Grants

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
UK & EU undergraduates	**14,789**	11,471	**14,017**	11,471
UK & EU postgraduates	**7,634**	6,973	**7,304**	6,973
Non-EU students	**21,964**	18,046	**21,804**	18,046
Non-credit bearing courses	**2,739**	1,802	**2,339**	1,802
Nurse training contract	**11,217**	10,998	**11,208**	10,998
Research training support grants	**1,614**	1,326	**1,614**	1,326
	59,957	50,616	**58,286**	50,616

4 Research Grants and Contracts

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Research councils	**10,878**	10,340	**10,878**	10,340
UK based charities	**1,085**	933	**1,085**	933
UK government, health and hospital authorities	**1,324**	1,984	**1,320**	2,064
UK industry and commerce	**3,876**	3,294	**3,800**	3,238
EU bodies	**8,661**	7,067	**7,179**	5,148
Other grants and contracts	**2,627**	7,288	**1,028**	523
	28,451	30,906	**25,290**	22,246

Notes to the financial statements (continued)

5 Other Income

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Residences, catering and conferences	**18,743**	18,011	**18,770**	18,011
Other services rendered	**14,163**	33,530	**4,235**	5,386
Released from deferred capital grants	**222**	225	**222**	300
Other income	**9,877**	9,922	**9,367**	9,905
	43,005	61,688	**32,594**	33,602

6 Endowment and Investment Income

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Income from expendable endowments (note 25)	**85**	88	**80**	88
Income from permanent endowments (note 25)	**9,316**	9,917	**9,316**	9,917
Income from short term investments	**1,149**	1,285	**1,005**	926
	10,550	11,290	**10,401**	10,931

7 Staff

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Staff costs - operational:				
Wages and salaries	**84,789**	83,870	**77,459**	72,665
Social security costs	**6,853**	7,172	**6,077**	5,932
Other pension costs (note 37)	**9,925**	10,217	**9,694**	9,766
	101,567	101,259	**93,230**	88,363
Staff costs - restructuring	**3,562**	1,983	**3,562**	1,983
	105,129	103,242	**96,792**	90,346

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	Number	Number	**Number**	Number
Full time equivalent staff numbers:				
Research & Teaching	**933**	897	**858**	897
Professional	**857**	797	**834**	823
Technical and Experimental	**81**	74	**81**	74
Operational	**296**	286	**287**	289
Other	**134**	275	**12**	-
	2,301	2,329	**2,072**	2,083

Notes to the financial statements (continued)

8 Emoluments of Higher Paid Staff

		2008/2009 £000	2007/2008 £000
Emoluments of Vice-Chancellor	Emoluments	**327**	285
	Pension contributions to USS	**37**	33
		364	318

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.

During 2008/2009 the Vice Chancellor received an exceptional one-off bonus of £10,000 in respect of the successful sale of Surrey Satellite Technology Limited. This is included in the 2008/2009 emoluments figure above.

The emoluments of other Higher Paid Staff including all remuneration, benefits and royalties, but excluding employer's pension contributions and compensation for loss of office, are analysed below:

Remuneration Band	2008/2009 Number of Employees	2007/2008 Number of Employees
£100,001- £110,000	**5**	11
£110,001- £120,000	**5**	-
£120,001- £130,000	**5**	4
£130,001- £140,000	**2**	1
£140,001- £150,000	**1**	1
£150,001- £160,000	**2**	-
£160,001- £170,000	**-**	-
£170,001- £180,000	**1**	1
	21	18

These bands include the annual emoluments of staff who joined the University during 2008/2009, although actual payments were pro rata to the number of months employed.

The 2008/2009 bands above reflect exceptional one-off bonuses totalling £20,000 paid to two Higher Paid Staff in respect of the successful sale of Surrey Satellite Technology Limited.

Compensation for loss of office of £nil was paid or payable in respect of Higher Paid Staff in 2008/2009 (2007/2008: £119,000).

Notes to the financial statements (continued)

9 Interest and Other Finance Costs

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
On bank loans and other loans:				
Bank loans wholly repayable within five years	**268**	65	**243**	-
Bank loans not wholly repayable within five years	**3,069**	4,960	**3,033**	4,960
	3,337	5,025	**3,276**	4,960
On finance leases	**873**	905	**873**	905
Net charge on pension scheme	**1,100**	31	**1,100**	31
Other interest payable	**28**	29	**28**	30
Total	**5,338**	5,990	**5,277**	5,926

10 Analysis of Expenditure by Activity

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	Total	Total	**Total**	Total
	£000	£000	**£000**	£000
Academic departments	**66,798**	62,801	**64,256**	62,847
Academic services	**12,847**	11,352	**12,806**	11,352
Research grants and contracts	**27,775**	22,993	**19,193**	17,236
Residences, catering & conferences	**13,349**	13,498	**13,349**	13,498
Premises	**22,443**	20,039	**22,018**	20,045
Administration	**29,281**	26,231	**28,980**	26,242
Other expenses	**18,807**	40,723	**12,932**	12,276
Total	**191,300**	197,637	**173,534**	163,496

	Consolidated	
	2008/2009	2007/2008
	£000	£000
Other operating expenses include:		
External Auditors remuneration in respect of audit services	**61**	64
Remuneration due to former auditors for prior year audit	**-**	7
External Auditors remuneration in respect of other services:		
The audit of the Univeristy's subsidiaries	**26**	17
Other services	**53**	14
Remuneration due to other auditors for audit of University subsidiaries	**12**	39
Remuneration due to former auditors for other services pursuant to legislation	**-**	88
Remuneration due to former auditors for other services	**-**	3
Operating lease rentals: land and buildings	**1,273**	1,130
other	**171**	128

Consolidated depreciation of £14,111,000 (2007/2008: £13,480,000) includes £101,000 (2007/2008: £210,000) in respect of assets held as part of the general endowment.

Notes to the financial statements (continued)

11a Taxation

	Consolidated	
	2008/2009	2007/2008
	£000	£000
UK corporation tax on the (losses)/profits of certain subsidiary companies for the year	**(60)**	161

11b Factors Affecting Current Tax Charge

	Consolidated	
	2008/2009	2007/2008
	£000	£000
Surplus before taxation	**(4)**	3,867
Surplus multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	**(1)**	1,160
Factors affecting charge:		
University surplus not eligible for tax	**(305)**	(255)
Subsidiary loss not eligible for relief	**106**	-
Overseas surplus outside scope	**(18)**	-
Profits of subsidiary companies transferred to the University under Gift Aid	**(17)**	(16)
Research and development credits	**(262)**	(663)
Accelerated capital allowances	**(37)**	(153)
Expenses not deductible for tax purposes	**112**	50
Subsidiary losses disposed of on sale of subsidiary	**389**	-
Change to tax rate in year to 28%	**(2)**	(3)
Other	**(24)**	41
Total current tax charge (note 11a)	**(60)**	161

12 Surplus for the Year

	Consolidated	
	2008/2009	2007/2008
The surplus after taxation, minority interests and exceptional items for the year is made up as follows:	**£000**	£000
University's surplus before Gift Aid	**1,090**	850
Surpluses generated by subsidiary undertakings and transferred to the University as Gift Aid donations	**55**	52
University's surplus after Gift Aid	**1,145**	902
Net (deficits)/surpluses retained by subsidiary undertakings	**(1,419)**	2,714
Minority interests	**99**	(479)
Exceptional items	**33,894**	-
Balances eliminated on consolidation	**330**	90
	34,049	3,227

Notes to the financial statements (continued)

13 Exceptional items

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Profit on sale of SSTL	**31,306**	-	**36,872**	-
Negative goodwill arising on acqusition of GSA (note 16)	**2,588**	-	**-**	-
	33,894	-	**36,872**	-

During the year, the University sold its investment in Surrey Satellite Technology Limited, a subsidiary company, resulting in a profit for the University of £36,872,000 and a consolidated profit of £31,306,000. No tax liability arose as a result of this transaction.

14 Intangible Fixed Assets

Consolidated	**Intellectual Property Rights £000**
Cost	
At 1 August 2008	180
Disposals at cost	(180)
At 31 July 2009	-
Amortisation	
At 1 August 2008	130
Charge for the year	25
Eliminated on disposal	(155)
At 31 July 2009	-
Net Book Value	
At 31 July 2009	-
At 31 July 2008	50

Notes to the financial statements (continued)

15 Tangible Fixed Assets

Consolidated	Land and Buildings Freehold £000	Leasehold £000	Assets under Construction £000	Equipment & Other £000	Total £000
Cost					
At 1 August 2008	204,288	15,850	15,508	69,082	304,728
Additions at cost	4,839	-	48,056	4,166	57,061
Acquisition of subsidiary	3,145	630	-	130	3,905
Transfers	2,343	-	(4,416)	2,073	-
Disposals at cost	(941)	-	-	(40)	(981)
Disposal of subsidiary	(1,604)	(1,039)	-	(7,671)	(10,314)
At 31 July 2009	212,070	15,441	59,148	67,740	354,399
Depreciation					
At 1 August 2008	42,397	1,910	-	51,295	95,602
Charge for the year	6,928	303	-	6,754	13,985
Eliminated on disposal	(157)	279	-	(506)	(384)
Disposal of subsidiary	(254)	(279)	-	(4,110)	(4,643)
At 31 July 2009	48,914	2,213	-	53,433	104,560
Net Book Value					
At 31 July 2009	163,156	13,228	59,148	14,307	249,839
At 31 July 2008	161,891	13,940	15,508	17,787	209,126

University	Land and Buildings Freehold £000	Leasehold £000	Assets under Construction £000	Equipment & Other £000	Total £000
Cost					
At 1 August 2008	202,841	14,811	15,508	62,017	295,177
Additions at cost	4,839	-	48,056	3,481	56,376
Transfers	2,343	-	(4,416)	2,073	-
Disposals at cost	(487)	-	-	(41)	(528)
At 31 July 2009	209,536	14,811	59,148	67,530	351,025
Depreciation					
At 1 August 2008	42,330	1,910	-	46,888	91,128
Charge for the year	6,815	297	-	6,477	13,589
Eliminated on disposal	(332)	-	-	(32)	(364)
At 31 July 2009	48,813	2,207	-	53,333	104,353
Net Book Value					
At 31 July 2009	160,723	12,604	59,148	14,197	246,672
At 31 July 2008	160,511	12,901	15,508	15,129	204,049

Included within the cost of land and buildings for both Consolidated and University is £1,720,000 (2008: £1,313,000) which represents interest charges on loans taken out to fund the cost of buildings and incurred before the buildings came into use.

All leasehold land and buildings are long leases.

The net book value of land and buildings and equipment & other for both Consolidated and University includes £12,604,000 (2008: £12,901,000) and £1,267,000 (2008: £808,000) respectively for assets held under a finance lease, and depreciation charged for the year of £297,000 (2008: £297,000) and £284,000 (2008: £158,000) respectively.

Notes to the financial statements (continued)

16 Fixed Asset Investments

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Subsidiary companies	**-**	-	**2,040**	3,533
Investments in spinouts	**587**	249	**55**	55
Investment: Research Park	**33,116**	32,565	**33,116**	33,182
Listed investments	**1,027**	1,039	**1,027**	1,039
Cash held as part of investment portfolio	**201**	280	**201**	280
Other investments	**553**	488	**487**	488
	35,483	34,621	**36,925**	38,577

Significant Shareholdings in Subsidiaries

Name	**Nature of Business**	**Class of Share**	**% held**
Surrey University Press Limited	Book shop and publishers	Ordinary	100
Surrey Social and Market Research Limited	Market research	Ordinary	100
Surrey Health and Medical Enterprises Limited	Nurse training	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100
UniSGrist Limited	Grants to entrepreneurs	Ordinary	100
The Guildford School of Acting Conservatoire Limited	Drama school	Limited by guarantee	100

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

Also included in Other Investments is the University's share of the net assets of Surrey International Institute, a Sino-Foreign Cooperative School established in China. In accordance with FRS2, this investment is accounted for as a joint arrangement that is not an entity.

On 1 August 2008 the University acquired The Guildford School of Acting Conservatoire Limited, a company limited by guarantee, for nil cost. The investment has been included in the consolidated balance sheet at its fair value at date of acquisition.

	Book value	**Adjustments**	**Fair value**
	£000	**£000**	**£000**
Tangible fixed assets	3,861	44 (a)	3,905
Endowment asset investments	165	24 (b)	189
Debtors	118		118
Cash	198	(24) (b)	174
Creditors due within one year	(773)		(773)
Creditors due after more than one year	(836)		(836)
Less: endowment funds	(189)		(189)
Negative goodwill arising on acquisition	2,544	44	2,588

(a) Increase in value of tangible fixed assets to market value consisting of £337,000 upward revaluation of freehold properties and impairment of £293,000 of leasehold property. The fair values reflect management judgement based on the results of a valuation carried out in February 2008 by a qualified external valuer.

(b) Transfer between cash and investments to reflect the portion of endowments held in cash.

Notes to the financial statements (continued)

16 Fixed Asset Investments (continued)

On 31 December 2008, the University sold its investment in Surrey Satellite Technology Limited. The disposal is analysed as follows:

Net assets disposed of:

	£000
Intangible fixed assets	25
Tangible fixed assets	5,425
Stocks	487
Cash	2,955
Trade debtors	11,366
Creditors due within one year	(10,903)
Creditors due after more than one year	(139)
	9,216
Less: Minority Interest	(1,350)
Profit on disposal	31,306
Net cash received	39,172

The profit attributable to the University includes losses of £492,000 incurred by Surrey Satellite Technology Limited up to its date of disposal on 31 December 2008.

17 Endowment Assets

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Balance at 1 August	**66,963**	80,857	**66,963**	80,857
Net disposals	**(53)**	(90)	**(44)**	(90)
Decrease in market value of investments	**(18,436)**	(14,238)	**(18,428)**	(14,238)
Increase in cash balances held for endowment funds	**122**	434	**116**	434
Acquisition of subsidiary (note 16)	**189**	-	**-**	-
Balance at 31 July	**48,785**	66,963	**48,607**	66,963
Represented by:				
Foundation Fund land and buildings	**46,255**	64,597	**46,255**	64,597
Listed investments	**982**	999	**869**	999
Cash held as part of investment portfolio	**355**	49	**345**	49
Cash held at bank for endowment funds	**1,193**	1,318	**1,138**	1,318
Total endowments	**48,785**	66,963	**48,607**	66,963

Notes to the financial statements (continued)

18 Debtors

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Trade debtors	**8,463**	11,125	**7,696**	8,671
Amounts recoverable on contracts	**-**	4,778	**-**	-
Amounts owed by subsidiary companies	**-**	-	**2,778**	415
Other debtors	**635**	1,032	**585**	161
Prepayments and accrued income	**8,912**	9,647	**8,788**	9,089
	18,010	26,582	**19,847**	18,336

Other debtors includes £75,000 which is due after more than one year (2007/2008: £nil).

Amounts owed by subsidiary companies in the University includes £734,000 which is due after more than one year (2007/2008 £nil).

19 Current Asset Investments

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Fixed term deposits (maturing within 1 year)	**-**	14,000	**-**	14,000
Other investments	**59**	59	**59**	59
	59	14,059	**59**	14,059

Fixed term deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority with more than 24 hours maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

Other investments represents shares with a market value at the balance sheet date of £2,256,000 (2008: £3,974,000).

20 Creditors : amounts falling due within one year

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Bank loans (note 22a)	**3,170**	3,306	**3,170**	3,023
Obligations under finance leases (note 22b)	**799**	582	**799**	582
Other loans	**100**	-	**100**	-
Payments received on account	**5,174**	8,174	**5,039**	5,167
Trade creditors	**2,126**	5,116	**1,998**	3,202
Amounts owed to group companies	**-**	-	**50**	35
Other creditors including taxation and social security	**5,649**	5,274	**5,289**	4,674
Accruals and deferred income	**42,741**	38,943	**42,610**	33,191
	59,759	61,395	**59,055**	49,874

21 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Bank loans (note 22a)	**117,330**	109,895	**117,330**	109,686
Obligations under finance leases (note 22b)	**13,297**	13,336	**13,297**	13,336
Other loans	**1,003**	-	**1,003**	-
Other creditors	**120**	138	**-**	-
	131,750	123,369	**131,630**	123,022

Notes to the financial statements (continued)

22 Borrowings

a. Bank loans

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000	University 2008/2009 £000	University 2007/2008 £000
Bank loans are repayable as follows:				
In one year or less	**3,170**	3,306	**3,170**	3,023
Between one and two years	**4,380**	3,468	**4,380**	3,305
Between two and five years	**13,446**	12,877	**13,446**	12,831
In five years or more	**99,504**	93,550	**99,504**	93,550
	120,500	113,201	**120,500**	112,709
Due within one year or on demand	**(3,170)**	(3,306)	**(3,170)**	(3,023)
Due after more than one year	**117,330**	109,895	**117,330**	109,686
Unsecured loans repayable by 2038	**117,330**	109,895	**117,330**	109,686

Included in loans are the following:

Lender	Amount £000	Term	Interest Rate %	Borrower
Lloyds	30,313	2031	0.20 above base/LIBOR	University
Lloyds	33,406	2026	0.20 above base/LIBOR	University
National Westminster	4,280	2013	0.20 above base/LIBOR	University
National Westminster	12,500	2030	0.20 above base/LIBOR	University
National Westminster	3,601	2022	0.20 above base/LIBOR	University
Abbey	36,400	2038	0.18 above LIBOR	University
	120,500			

b. Finance leases

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000	University 2008/2009 £000	University 2007/2008 £000
The net finance lease obligations to which the University is committed are:				
In one year or less	**799**	582	**799**	582
Between two and five years	**2,631**	2,199	**2,631**	2,199
Over five years	**10,666**	11,137	**10,666**	11,137
Total	**14,096**	13,918	**14,096**	13,918

23 Provisions for Liabilities and Charges

	Consolidated 2008/2009 £000	University 2008/2009 £000
At 1 August 2008	**1,548**	**1,548**
Utilised in year	**(103)**	**(103)**
Transfer from income and expenditure account	**255**	**255**
At 31 July 2009	**1,700**	**1,700**

The provision relates to premature retirement compensation.

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

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
Capital allowances in advance of depreciation in a subsidiary company	**-**	(189)
Subsidiary company trading lossses	**-**	147
Equity settled share based payments	**-**	39
Other short term timing differences	**-**	14
	-	11

Notes to the financial statements (continued)

24 Deferred Capital Grants

Consolidated	Funding Council £000	Other Grants £000	Total £000
At 1 August 2008			
Building	38,976	4,208	43,184
Equipment	7,326	172	7,498
Total	46,302	4,380	50,682
Cash and cash equivalents received			
Building	5,893	42	5,935
Equipment	2,119	-	2,119
Total	8,012	42	8,054
Released to income and expenditure account			
Building	1,618	130	1,748
Equipment	3,020	92	3,112
Total	4,638	222	4,860
At 31 July 2009			
Building	43,251	4,120	47,371
Equipment	6,425	80	6,505
Total	49,676	4,200	53,876

University	Funding Council £000	Other Grants £000	Total £000
At 1 August 2008			
Building	38,976	4,208	43,184
Equipment	7,326	172	7,498
Total	46,302	4,380	50,682
Cash and cash equivalents received			
Building	5,893	42	5,935
Equipment	2,119	-	2,119
Total	8,012	42	8,054
Released to income and expenditure account			
Building	1,618	130	1,748
Equipment	3,020	92	3,112
Total	4,638	222	4,860
At 31 July 2009			
Building	43,251	4,120	47,371
Equipment	6,425	80	6,505
Total	49,676	4,200	53,876

Notes to the financial statements (continued)

25 Endowments

Consolidated

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2008/2009 Total £000	2007/2008 Total £000
Balances at 1 August 2008						
Capital	**64,597**	**274**	**64,871**	**1,972**	**66,843**	80,759
Accumulated income	**-**	**10**	**10**	**110**	**120**	98
	64,597	**284**	**64,881**	**2,082**	**66,963**	80,857
New endowments	**-**	**-**	**-**	**68**	**68**	444
Acquisition of subsidiary	**-**	**-**	**-**	**189**	**189**	-
Investment income	**9,310**	**6**	**9,316**	**85**	**9,401**	10,005
Transfer to accruals and deferred income	**-**	**(15)**	**(15)**	**15**	**-**	-
Expenditure	**(9,310)**	**(3)**	**(9,313)**	**(87)**	**(9,400)**	(10,105)
	-	**(12)**	**(12)**	**270**	**258**	344
Decrease in market value of investments	**(18,342)**	**(20)**	**(18,362)**	**(74)**	**(18,436)**	(14,238)
At 31 July 2009	**46,255**	**252**	**46,507**	**2,278**	**48,785**	66,963
Represented by:						
Capital	**46,255**	**243**	**46,498**	**2,092**	**48,590**	66,843
Income	**-**	**9**	**9**	**186**	**195**	120
	46,255	**252**	**46,507**	**2,278**	**48,785**	66,963

University

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2008/2009 Total £000	2007/2008 Total £000
Balances at 1 August 2008						
Capital	**64,597**	**274**	**64,871**	**1,972**	**66,843**	80,759
Accumulated income	**-**	**10**	**10**	**110**	**120**	98
	64,597	**284**	**64,881**	**2,082**	**66,963**	80,857
New endowments	**-**	**-**	**-**	**56**	**56**	444
Investment income	**9,310**	**6**	**9,316**	**80**	**9,396**	10,005
Transfer	**-**	**(15)**	**(15)**	**15**	**-**	-
Expenditure	**(9,310)**	**(3)**	**(9,313)**	**(67)**	**(9,380)**	(10,105)
	-	**(12)**	**(12)**	**84**	**72**	344
Decrease in market value of investments	**(18,342)**	**(20)**	**(18,362)**	**(66)**	**(18,428)**	(14,238)
At 31 July 2009	**46,255**	**252**	**46,507**	**2,100**	**48,607**	66,963
Represented by:						
Capital	**46,255**	**243**	**46,498**	**1,931**	**48,429**	66,843
Income	**-**	**9**	**9**	**169**	**178**	120
	46,255	**252**	**46,507**	**2,100**	**48,607**	66,963

26 Reserves

	Consolidated 2008/2009 £000	University 2008/2009 £000
Income and expenditure reserve		
At 1 August 2008	**63,958**	**58,113**
Surplus for the year	**34,048**	**38,001**
Add back pension deficit	**406**	**406**
Share-based payment in subsidiary company	**12**	**-**
Decrease in restricted reserves	**194**	**-**
At 31 July 2009	**98,618**	**96,520**

Notes to the financial statements (continued)

26 Reserves (continued)

	Consolidated 2008/2009 £000	University 2008/2009 £000
Pension reserve		
At 1 August 2008	(18,141)	(18,141)
Actuarial losses in respect of pension schemes (Note 37)	(15,125)	(15,125)
Deficit retained within reserves	(406)	(406)
At 31 July 2009	(33,672)	(33,672)
Revaluation reserve		
At 1 August 2008	98	98
Revaluation of investments in year	(24)	(24)
At 31 July 2009	74	74
Restricted reserve		
At 1 August 2008	194	-
Movement in year	(194)	-
At 31 July 2009	-	-

27 Reconciliation of Surplus Before Taxation to Net Cash Inflow from Operating Activities

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
(Deficit)/surplus before tax	(4)	3,867
Depreciation and amortisation	14,111	13,480
Deferred grants released (note 24)	(4,860)	(4,618)
Investment income	(1,149)	(1,285)
Interest payable (excluding net charge on pension scheme)	4,236	5,959
Decrease/(increase) in stocks	157	(136)
(Increase)/decrease in trade debtors	(2,650)	8,273
Increase/(decrease) increase in creditors and accruals	4,631	(5,667)
Increase in provisions	152	52
Loss on disposal of property	361	560
Endowment income (note 25)	(9,401)	(10,005)
Impairment of investments	62	265
Loss/(profit) on sale of fixed asset investments	1	(398)
Revaluation of investments	-	(111)
Net income from joint arrangement	(66)	-
Pension cost less contributions payable (note 37)	406	124
Share-based payment in subsidiary company	12	74
Net cash inflow from operating activities	5,999	10,434

28 Returns on Investments and Servicing of Finance

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
Income from endowments	9,402	10,005
Other interest received	1,122	1,287
Interest element of finance lease rental payments	(873)	(905)
Interest paid	(3,792)	(4,906)
	5,859	5,481

Notes to the financial statements (continued)

29 Capital expenditure and financial investment

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
Purchase of tangible fixed assets	**(52,933)**	(22,103)
Purchase of long term investments	**(338)**	-
Proceeds from sale of fixed assets and investments	**730**	67
(Decrease)/increase in investment in Research Park	**(652)**	98
Deferred capital grants received (note 24)	**8,054**	5,533
Endowments received	**-**	444
	(45,139)	(15,961)

30 Management of liquid resources

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
Cash withdrawn from short term deposits	**14,000**	4,000
	14,000	4,000

31 Acquisitions and disposals

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
Net proceeds from sale of subsidiary undertaking (note 16)	**39,172**	-
Net cash disposed of on sale of subsidiary (note 16)	**(2,955)**	-
Cash and overdraft acquired on purchase of subsidiary undertaking	**89**	-
	36,306	-

32 Financing

	Consolidated 2008/2009 £000	Consolidated 2007/2008 £000
New long term loans	**34,231**	5,967
Repayment of long term loans	**(4,001)**	(3,019)
Repayment of revolving credit facility	**(21,685)**	-
Capital element of finance lease payment	**(551)**	(504)
Net cash flow from financing	**7,994**	2,444

33 Analysis of Changes in Net Debt

Consolidated	**At 1 Aug 2008 £000**	**Cash flows £000**	**Non-cash changes £000**	**At 31 July 2009 £000**
Cash at bank and in hand	17,114	25,019	-	42,133
Short-term investments (note 19)	14,059	(14,000)	-	59
Debts due within one year (note 20)	(3,306)	(76)	212	(3,170)
Debts due after one year (note 21)	(109,895)	(7,740)	(698)	(118,333)
Finance leases (note 22b)	(13,918)	551	(729)	(14,096)
Total	(95,946)	3,754	(1,215)	(93,407)

Notes to the financial statements (continued)

34 Capital Commitments

	Consolidated		University	
	2008/2009	2007/2008	**2008/2009**	2007/2008
	£000	£000	**£000**	£000
Commitments contracted at 31 July	**26,594**	24,215	**26,594**	22,552
Authorised but not contracted at 31 July	**9,225**	46,553	**9,225**	46,553
	35,819	70,768	**35,819**	69,105

35 Lease Obligations

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

Consolidated	**2008/2009**		2007/2008	
	Land & Buildings	**Plant & Equipment**	Land & Buildings	Plant & Equipment
Expiry date:	**£000**	**£000**	£000	£000
Within one year	**1,124**	**-**	955	53
Between two and five years	**7**	**381**	143	304
Over five years	**19**	**-**	-	-
	1,150	**381**	1,098	357

University	**2008/2009**		2007/2008	
	Land & Buildings	**Plant & Equipment**	Land & Buildings	Plant & Equipment
Expiry date:	**£000**	**£000**	£000	£000
Within one year	**1,089**	**-**	955	-
Between two and five years	**-**	**381**	-	238
Over five years	**-**	**-**	-	-
	1,089	**381**	955	238

36 Contingent Assets and Liabilities

As part of the agreement for the sale of Surrey Satellite Technology Limited on 31 December 2008, the University gave certain standard warranties and indemnities. Of the warranties and indemnities in place at the balance sheet date, the majority expire on 30 June 2010, with the IPR indemnity expiring on 31 December 2011 and tax warranties expiring on 31 December 2015.

There have been no claims to date in respect of any of these warranties and indemnities and the possibility of a future claim is considered unlikely.

There are no other known contingent assets or liabilities.

Notes to the financial statements (continued)

37 Pension Schemes

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

	2008/2009	2007/2008
	£000	£000
USS contributions paid	7,946	7,415
Local Government Pension Scheme charge to the income and expenditure account	1,760	2,376
Contributions paid to other pension schemes	219	426
Total pension cost (note 7)	9,925	10,217

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

	2008/2009	2007/2008
	£000	£000
USS	1,015	921
Local Government Pension Scheme curtailments and settlements	194	353
	1,209	1,274

a) Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum, (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members mortality	PA92 MC YoB tables - rated down 1 year
Female members mortality	PA92 MC YoB tables - No age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

Notes to the financial statements (continued)

37 Pension Schemes (continued)

a) Universities Superannuation Scheme (USS) (continued)

The following amounts were measured at the valuation date:

	£000
Value of scheme assets	28,842,600
Value of scheme technical liabilities	(28,135,300)
Surplus	707,300

The assets were therefore sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the schemes historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necesssary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The University's contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the University's contribution rate from 14% to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS 17 basis, using a bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment.

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

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

Notes to the financial statements (continued)

37 Pension Schemes (continued)

b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund)

The Surrey Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contributions being determined by the trustees on the advice of the actuaries. In the intervening years, the actuary reviews the progress of the scheme. The contribution payable by the employer was increased from 17.9% to 19.3% from April 2008.

Under the definitions set out in FRS17, the Surrey Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2009.

The pension scheme assets are held in a separate trustee-administered fund to meet long term liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the scheme after consultation with professional advisers.

The material assumptions used by the actuary at 31 July 2009 were:

	2008/2009	2007/2008
Inflation	**3.7%**	3.8%
Pension increase rate	**3.7%**	3.8%
Salary increase rate	**5.2%**	5.3%
Expected return on assets	**6.7%**	7.2%
Discount rate	**6.0%**	6.7%

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

	Males	Females
Current Pensioners	21.5 years	24.4 years
Future Pensioners	22.6 years	25.5 years

An allowance is included for 25% of future retirements to elect to take additional tax-free cash up to HMRC limits.

The University's estimated share of the assets in the scheme and the expected rates of return were:

	2008/2009	2007/2008
	£000 (%)	£000 (%)
Equities	**31,758 (7.3%)**	32,814 (7.8%)
Bonds	**7,499 (5.3%)**	9,237 (5.7%)
Property	**1,764 (5.3%)**	2,962 (5.7%)
Cash	**3,088 (4.3%)**	1,481 (4.8%)
	44,109 (7.0%)	46,494 (7.2%)

The following amounts at 31 July 2009 were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	2008/2009	2007/2008
	£000	£000
Fair value of employer assets	**44,109**	46,494
Present value of funded liabilities	**(76,859)**	(64,047)
Net underfunding in funded plans	**(32,750)**	(17,553)
Present value of unfunded liabilities	**(1,521)**	(1,375)
Net liability	**(34,271)**	(18,928)

Notes to the financial statements (continued)

37 Pension Schemes (continued)

b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) (continued)

Analysis of amounts recognised in the income and expenditure account

	2008/2009 £000	2007/2008 £000
Current service cost	1,860	1,821
Interest cost	4,408	3,798
Expected return on employer assets	(3,392)	(3,815)
Past service cost	1	555
Losses on curtailments and settlements	194	353
	3,071	2,712
Actual return on plan assets	(3,617)	(5,524)

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	2008/2009 £000	2007/2008 £000
Actuarial loss	(14,822)	(5,484)

Changes in the present value of the defined benefit obligation

	2008/2009 £000	2007/2008 £000
Opening defined benefit obligation	65,422	64,841
Current service cost	1,860	1,821
Interest cost	4,408	3,798
Contributions by members	797	717
Actuarial losses/(gains)	7,803	(4,529)
Past service costs	1	555
Losses on curtailments	194	353
Estimated unfunded benefits paid	(91)	(87)
Estimated benefits paid	(2,014)	(2,047)
Closing defined benefit obligation	78,380	65,422

Changes in the fair value of employer assets

	2008/2009 £000	2007/2008 £000
Opening fair value of employer assets	46,494	51,573
Expected return on assets	3,392	3,815
Contributions by members	797	717
Contributions by the employer	2,459	2,449
Contributions in respect of unfunded benefits	91	87
Actuarial (losses)/gains	(7,019)	(10,013)
Estimated unfunded benefits paid	(91)	(87)
Estimated benefits paid	(2,014)	(2,047)
Closing fair value of employer assets	44,109	46,494

Notes to the financial statements (continued)

37 Pension Schemes (continued)

b) Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) (continued)

Amounts for the current and previous accounting periods

	2009	2008	2007	2006	2005
	£000	£000	£000	£000	£000
Fair value of employer assets	**44,109**	46,494	51,573	45,218	38,582
Present value of defined benefit obligation	**(78,380)**	(65,422)	(64,841)	(64,656)	(57,679)
Deficit	**(34,271)**	(18,928)	(13,268)	(19,438)	(19,097)
Experience (losses)/gains on assets:	**(7,019)**	(10,013)	1,866	2,465	4,416
Experience (losses)/gains on liabilities:	**(67)**	2,846	40	(89)	4,342
Actuarial (losses)/gains	**(14,822)**	(5,484)	6,809	131	3,148
Cumulative actuarial (losses)/gains	**(10,361)**	4,461	9,945	3,136	3,005

c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund)

The University participates in the Pensioner Sub-fund of the London Pensions Fund Authority LGPS. The LPFA Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method. In the intervening years, the actuary reviews the progress of the scheme.

Under the definitions set out in FRS17, the London Pensions Fund Authority LGPS is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2009. The pension scheme assets are held in a separate trustee-administered fund.

The material assumptions used by the actuary at 31 July 2009 were:

	2008/2009	2007/2008
Inflation	**3.6%**	3.8%
Pension increase rate	**3.6%**	3.8%
Salary increase rate	**5.3%**	5.3%
Expected return on assets	**4.8%**	4.9%
Discount rate	**6.0%**	6.7%

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

	Males	Females
Retiring today	21.0 years	23.4 years
Retiring in 20 years	22.0 years	24.2 years

An allowance is included for 20% of future retirements to elect to take additional tax-free cash up to HMRC limits.

The University's estimated share of the assets in the scheme and the expected rates of return were:

	2008/2009	2007/2008
	£000 (%)	£000 (%)
Cashflow matching	**1,591 (4.5%)**	1,785 (4.6%)
Equities	**168 (7.7%)**	173 (7.8%)
Cash	**12 (3.0%)**	94 (4.8%)
	1,771 (4.8%)	2,052 (4.9%)

Notes to the financial statements (continued)

37 Pension Schemes (continued)

c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund) (continued)

The following amounts at 31 July 2009 were measured in accordance with the requirements of FRS 17:

Analysis of the amounts shown in the balance sheet

	2008/2009 £000	2007/2008 £000
Fair value of employer assets	**1,771**	2,052
Present value of funded liabilities	**(2,693)**	(2,640)
Net underfunding in funded plans	**(922)**	(588)
Present value of unfunded liabilities	**(179)**	(173)
Net liability	**(1,101)**	(761)

Analysis of amounts recognised in the income and expenditure account

	2008/2009 £000	2007/2008 £000
Expected return on employer assets	**(96)**	(100)
Interest cost	**180**	148
Net charge	**84**	48
Actual return on plan assets	**(86)**	195

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	2008/2009 £000	2007/2008 £000
Actual return less expected return on employer assets	**(182)**	124
Experience gains/(losses) arising on the scheme liabilities	**0**	(49)
Changes in assumptions underlying the present value of the scheme liabilities	**(121)**	(192)
Actuarial loss recognised in the STRGL	**(303)**	**(117)**

Changes in the present value of the defined benefit obligation

	2008/2009 £000	2007/2008 £000
Opening defined benefit obligation	**2,813**	2,692
Interest cost	**180**	148
Actuarial losses	**121**	241
Estimated unfunded benefits paid	**(12)**	(13)
Estimated benefits paid	**(230)**	(255)
Closing defined benefit obligation	**2,872**	2,813

Changes in the fair value of employer assets

	2008/2009 £000	2007/2008 £000
Opening fair value of employer assets	**2,052**	2,048
Expected return on assets	**96**	100
Contributions by the employer	**35**	35
Contributions in respect of unfunded benefits	**12**	13
Actuarial (losses)/gains	**(182)**	124
Estimated unfunded benefits paid	**(12)**	(13)
Estimated benefits paid	**(230)**	(255)
Closing fair value of employer assets	**1,771**	2,052

Notes to the financial statements (continued)

37 Pension Schemes (continued)

c) London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund) (continued)

Amounts for the current and previous accounting periods

	2009	2008	2007	2006	2005
	£000	£000	£000	£000	£000
Fair value of employer assets	**1,771**	2,052	2,048	2,186	2,349
Present value of defined benefit obligation	**(2,872)**	(2,813)	(2,692)	(2,877)	(2,969)
Deficit	**(1,101)**	(761)	(644)	(691)	(620)
Experience (losses)/gains on assets:	**(182)**	124	(32)	(22)	115
Experience losses on liabilities:	**-**	(49)	(7)	(8)	(5)
Actuarial (losses)/gains	**(303)**	(117)	22	(63)	(3)
Cumulative actuarial losses	**(719)**	(416)	(299)	(321)	(258)

38 Access Funds

	University	
	2008/2009	2007/2008
	£000	£000
Balance at 1 August	**7**	19
Funding Council Access funds	**219**	260
	226	279
Interest earned	**1**	1
Disbursed to students	**(221)**	(266)
Administration costs	**(6)**	(7)
Balance unspent at 31 July	**(0)**	7

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.

39 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.

Max Taylor, chairman of the University's Council provides consultancy services to Aon Limited. Aon Limited provides insurance brokerage services to the University for a fee of approximately £31,000 per annum.

No other transactions have been identified which should be disclosed under FRS8 'Related Party Disclosures'.

Council Members for 2008/2009

Chairman
Mr M Taylor

Vice Chairman
Mr D Eustace

Ex-officio members

Vice-Chancellor & Chief Executive
Professor C M Snowden

Treasurer
drs J Derwig

Senior Deputy Vice-Chancellor
Professor N Seaton (from June 2009)
Professor J A Turner (to May 2009)

Deputy Vice-Chancellors
Professor N Seaton (Academic Development)
(from September 2008 to May 2009)
Professor S Williamson (Research and Innovation)
(from February 2009)

Chairman, Academic Assembly
Professor M E H Olssen

President, Students' Union
Miss E Simos

Elected by the Senate
Professor J Hay
Mr C Howard (from December 2008)
Professor I Kitchen

Elected by Non-Academic Staff
Vacancy

External Members
Mr T Chambers
Dr J Forrest
Mr A Herman
Ms D Langston
Mr D Rogers
Dr R Shaw
Mr K Taylor
Professor Lord Winston (from September 2008)
Vacancies (2)

Clerk to the Council
Mr P Henry

Finance Committee Members for 2008/2009

University Treasurer
drs J Derwig (Chairman ex officio)

Vice-Chancellor & Chief Executive
Professor C M Snowden

Chairman of Council
Mr M Taylor

Vice Chairman of Council
Mr D Eustace

Senior Deputy Vice-Chancellor
Professor N Seaton (from June 2009)
Professor J A Turner (to May 2009)

Deputy Vice-Chancellors
Professor N Seaton
(from September 2008 to May 2009)
Professor S Williamson
(from February 2009)

Chairman of the Academic Assembly
Professor M E H Olssen

Nominated Dean of Faculty
Professor J Hay

Lay Members appointed by Council
Mr T Chambers
Mr D Rogers
Vacancy

Co-opted Members
Mr R Hawksworth
Mr I Robertson

Audit Committee Members for 2008/2009

Chairman
Mrs D Langston

Lay Members of Council
Dr R Shaw
Mr K Taylor

Co-opted Members
Ms L Benson
Mr G Stratford

Officers of the University for 2008/2009

Chancellor
HRH The Duke of Kent, KG,GCMG,GCVO

Pro-Chancellors Emeritus
Sir Eric Ash, CBE, FREng, FRS
Sir Idris Pearce, CBE, TD, DL, FRICS, FRSA
Mr J D M Robertson, CBE, DL, FRICS, FIMgt, FRSA

Pro-Chancellors
The Rt. Hon Baroness Bottomley of Nettlestone
Dr J R Forrest, CBE, FREng, FIET
Miss Penelope Keith, CBE, DL
Sir William Wells, FRICS

Vice-Chancellor & Chief Executive
Professor C M Snowden, FRS, FREng, FIET, FIEEE, FCGI

Treasurer
drs J Derwig, RA

Chairman of Council
Mr M Taylor

Senior Deputy Vice-Chancellor
Professor N Seaton, FIChemE (from June 2009)
Professor J A Turner, FRHistS (to May 2009)

Deputy Vice-Chancellors
Professor N Seaton, FIChemE
(from September 2008 to May 2009)
Professor S Williamson, FCGI, FIET, FREng
(from February 2009)

Pro-Vice-Chancellors
Professor D W Airey, FHCIMA, FRSA, FTS, AcSS
Professor B G Evans, FREng, FIET, SMIEEE, FRSA
Professor W R Robertson, FRCPath (to April 2009)
Professor B L Weiss, FREng, FIET, FInstP

Director of Corporate Services
Mr G K Melly, CAIB

Director of Finance
Mr D J Sharkey ACA

Registrar and Secretary, Clerk to Council
Mr P Henry TD+, MCMI

University of Surrey
Guildford, Surrey GU2 7XH UK

T: +44 (0)1483 300800
F: +44 (0)1483 300803

E: information@surrey.ac.uk
www.surrey.ac.uk