

Financial Statements and Statistics  
2012 - 2013



**Financial Statements for the year ended 31 July 2013**

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## Operating and Financial Review

The University achieved a surplus in the year to 31 July 2013 of £5.8 million (1.3% of income). In 2012/13 the University's research income increased by 8% to exceed £100 million for the first time and international student fee income also increased by 8%. There has been substantial progress on the new Engineering Centre of Excellence and the redevelopment of our Boldrewood Campus which will open in 2014 and we have secured significantly increased capacity to offer an additional 1,500 halls room to our students from 2014 onwards.

In the increasingly volatile world of UK Higher Education the result is satisfactory. It reflects significant growth in income from research and international students. However, the surplus generated was lower than 2011/12 (£14.2 million) because the financial year was heavily influenced by a significant reduction in our student intake in 2012 compared with 2011. In the light of this reduction, the University acted quickly and with considerable agility to reduce spending for the year and to accelerate income growth for future years. This response has helped ensure that our 2013 student intake has been restored to 2011 levels and is better than our plans.

The major changes to UK/EU undergraduate funding mean that we expect the University to lose over 60% of its state support for teaching in the period between 2011/12 and 2015/16. Together with the loss of HEFCE capital funding streams and our investment in our OFFA agreement we consider that the new fee regime should be financially neutral for the University in the medium term provided we are able to maintain student recruitment broadly in line with 2013/14 levels.

### Income and Expenditure

The University produced a surplus of £5.8 million (£14.2 million in 2011/12), which represents 1.3% of income (3.2% in 2011/12). This is a satisfactory financial performance in the context of the turbulence of the first year of the new funding regime; cash generated was at a similar level to 2011/12.

University income increased by 2.1% to £447 million.

The new funding arrangements for teaching have had an immediate impact with significant reductions in both the main HEFCE teaching/research grants and the specific grants supporting individual time limited projects. This trend will run until at least 2015/16 with the full implementation of £9,000 fee paying students and the associated decline in grant support. The main teaching grant reduced by £11 million in 2012/13 on top of the £7 million reduction in 2011/12.

Research grants and contracts income has increased by 8% to £102 million boosted by our success in securing major grants for capital investment in equipment and further growth in our European portfolio. The contribution to indirect costs increased by £1.5 million to £30.6 million despite still being suppressed below sustainable levels by the efficiency savings imposed on UK Universities following the Research Councils UK (RCUK) Wakeham Review. The savings reduce real cash funding to institutions by limiting both allowances for future inflation on multi-year grants and the contribution to meet indirect costs. This is counter to the pronounced UK policy of full economic cost funding and further lowers the real price paid for our work. HEFCE Research grant funding has remained flat following the 2011/12 changes whereby HEFCE increased the concentration of research funding in the very highest quality 4\* and 3\* areas.

Home/EU student fee income increased by 15% to £100 million and international fee income increased by 8% to £53 million, with 3,960 full time equivalent International students registered on programmes (2011/12: 3,900). This is despite the fact that after a sustained period of growth in our Home/EU undergraduate and international postgraduate taught student numbers there was a halt in 2012/13 with student numbers falling by 3% to 21,000 full time equivalent students. Last year we amended our accounting policy to reflect all tuition fees net of any fee waivers given and both 2012/13 and 2011/12 numbers are now on this basis.

Other operating income fell back to £90 million (2011/12 £93 million) but the prior year included recognition of the non-cash value of the £6 million Broadlands Archives acquisition.

Endowment income and interest receivable increased to £5 million (2011/12 £4.4 million) due to the sale of over £10 million of quoted shares and securities that realised a £1.4 million surplus over the book value of the investments. We continue to achieve returns above our benchmarks for our equities and, in a market with record low interest rates, for our cash investments.

University expenditure increased by 4.2% to £441 million.

Staff expenditure increased by 6.5% to £251 million. The 2012 national pay award was 1% (and the majority of staff are contractually entitled to annual pay scale increments of 3%). The University increased its average staff numbers by 5% over the year in line with a planned investment in academic

## Operating and Financial Review (continued)

staff and the gradual filling of support vacancies following a major restructuring programme that finished in the autumn of 2011. The planned investment in academic staff in 2011/12 and 2012/13 has been focused on improving the student experience and the staff:student ratio and optimising our submission to the 2014 Research Excellence Framework (REF). During these two years we have increased the number of education, research and enterprise staff by 195 full time equivalents (8.3%).

Other operating expenditure increased by 1.9% to £161 million.

The expenditure includes the operations of our new campus in Johor, Malaysia where teaching commenced for a first year cohort in October 2012. The project is being delivered by our new Malaysian subsidiary company, USMC Sdn Bhd (University of Southampton Malaysia Campus), 100% owned and funded by the University. Students will undertake the first two years of undergraduate study in Malaysia and then transfer for their two final years to Southampton. The company operates from a leased building with a mixture of staff seconded from the University and staff directly employed by the subsidiary company. The building lease was signed in September 2012 and has its first break in 2018. The University is currently looking at the feasibility of greatly expanding this operation and Council is scheduled to consider the options during 2013/14. The operation is planned to make deficits in the initial years as student numbers build up and new programmes come on stream (2012/13: deficit of £1 million).

### Balance Sheet

The University spent £75 million acquiring or constructing capital assets. The new data centre opened in 2012/13 and provides substantial improvement in resilience for our IT operations. Current projects include the development of our new Engineering Centre of Excellence on the Boldrewood Campus, a partnership development with Lloyds Register, which will open in 2014. The University's tangible fixed assets increased from £422 million to £475 million, excluding heritage assets.

Despite the very considerable capital expenditure, the University has maintained a strong liquidity position. Our cash and near cash decreased by £38 million to finish the year at £116 million, and the net current assets stand at £18 million, down £49 million, reflecting the year's capital investment with no external financing.

The pension liability of the PASNAS fund has improved by £21.5 million to a deficit of £45.7 million; this is primarily due to changes in assumptions including an increase in the discount rate used to estimate the present value of future cash flows, higher than expected returns on assets and lower than expected salary increases. The liability attributed to the University from the Hampshire County Council (HCC) fund has decreased by £0.1 million to £2.2 million. In the previous year, reduced discount rates had been the primary cause of increases in the pension liabilities of £20.8 million for the PASNAS fund and £0.5 million for the HCC fund. This demonstrates the volatility that the retirement benefits accounting standard, FRS 17, can bring to the balance sheet as a result of changes in highly sensitive assumptions.

The total net assets increased by £33 million to £365 million: £22 million of this increase is due to the decrease in FRS 17 pension deficits and £11 million to the net effect of the movement in all other asset and liability groups.

### Performance of Investments

The continuation of historically low interest rates has again impacted on the performance of our investments. Interest rates being offered on deposits have dropped considerably over the last year and in particular for longer term deposits. As such there has been little benefit in placing funds long term so we have reduced the average longevity of deposits. This approach to managing our risk has also reduced the average rate of return – shorter deposits have returns closer to bank base rate and stronger rated banks can attract sufficient deposits whilst offering lower interest rates. We have closely monitored our deposit counterparties throughout the year.

Given the market conditions, the University considers that an average return rate of over 2% is a good outcome for the year.

As reported above, it was decided to sell the general fund investments managed by Lazard and HSBC earlier in 2012/13. Our remaining equity investments are our endowment funds with Lazard and some miscellaneous shareholdings. The sale of the investments yielded a surplus of £1.4 million over their book value.

The University of Southampton Science Park continues to trade strongly in a market for corporate lettings which has been difficult for several years. The net asset value on the balance sheet of the company is £17 million (2012: £16 million).

## Operating and Financial Review (continued)

### University Financial Results and Key Performance Indicators

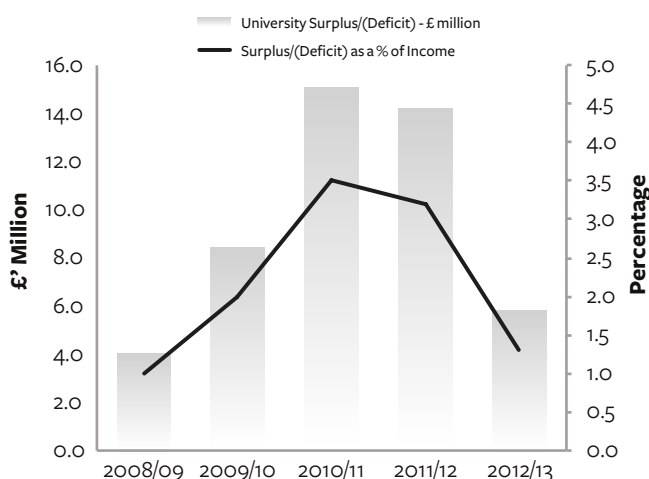
The University Strategy established high level expectations for financial performance in our Strategic Plan. For 2012/13 the issues referred to earlier in this statement meant that three of these medium term targets were not achieved. We did however exceed our revised budget for the year.

The University will continue to set budgets and make financial decisions in the future in the context of the following financial measures. For 2012/13 our strategic targets were increased to reflect the new funding regime and the 75% reduction in our HEFCE capital grants.

Financial Measure	Strategic Plan Target	2012/13 Achievement
Surplus on Ordinary Activity	5% of turnover	1.3% of turnover
Cash Generation from Ordinary Activities (ex capital grants)	8% of turnover	5.1% (£23 million)
Maximum (Net Debt) as % of Turnover	(15% Maximum)	Net Cash 2.5%
Salary Costs as % of Turnover	56% Maximum	56.1%

### University Surpluses on Ordinary Activity 2008/09 – 2012/13

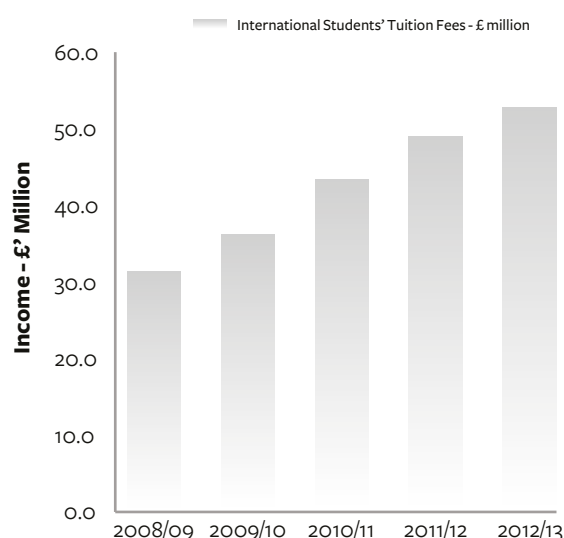
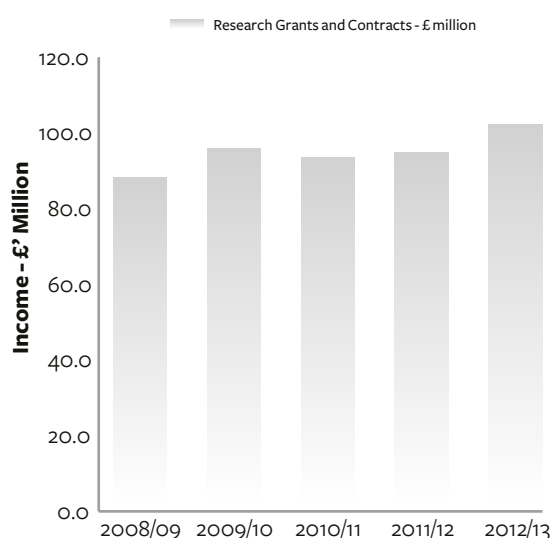
The surplus in 2012/13 represented 1.3% of turnover and continues a long term trend of sound financial performance. The volatility of recruitment in the first year of the new fee regime for Home/EU undergraduates impacted on our ability to generate surpluses at the level we are targeting for future strategic investments; we did however exceed our revised budget targets for the year.



## Operating and Financial Review (continued)

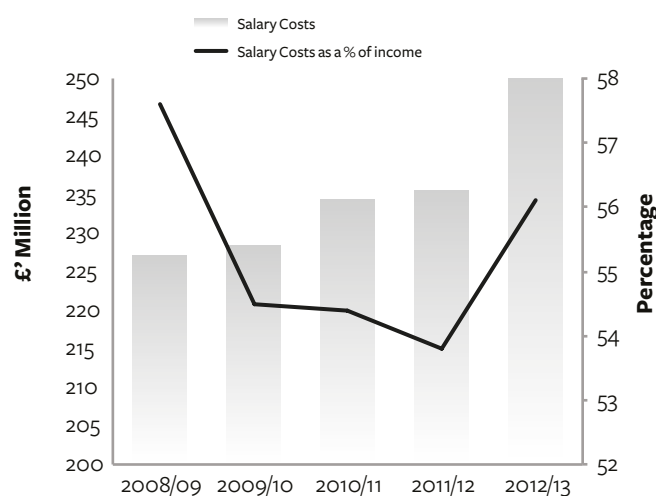
### Research Grants and Contracts and International Students' Tuition Fees 2008/09 – 2012/13

We identified research grant and contract earnings and international students' tuition fees as the two key sources of income where significant growth could be achieved quickly through the University's efforts. The 2012/13 results are very much in line with the medium term trend. We take considerable confidence from recent levels of research awards, which show further very strong growth. The success in increasing awards in the last three years is already feeding through into research income and will do for future years. The transfer into the University of the Medical Research Council Lifecourse Epidemiology Unit from May 2013 will also enhance our capacity to grow our research activity further.



### Salary Costs as Proportion of Income 2008/09 – 2012/13

Growth in staff numbers has been controlled and targeted in the last three years and we are just above our strategic target as we approach the REF submission date. It is likely that salary costs as a percentage of turnover across the whole English higher education sector will also show a peak this year for the same reason. The increase in 2012/13 is more a function of the slow growth in income than weakness in spending controls.

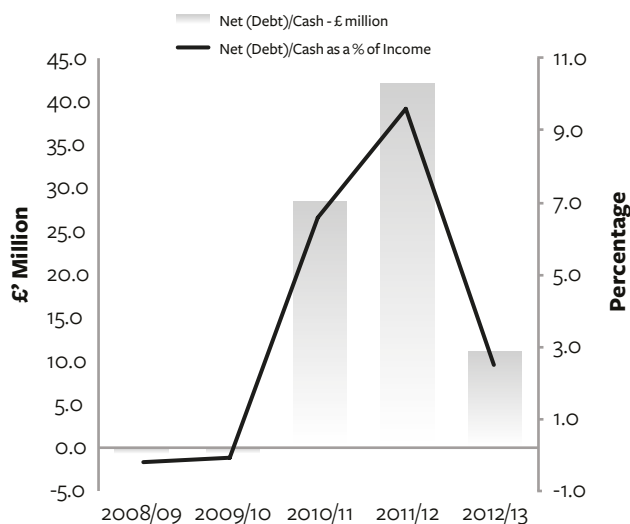




## Operating and Financial Review (continued)

### Movement of (Net Debt)/Net Cash 2008/09 – 2012/13

The University cash holdings exceed outstanding debt by £11 million, the reduction from 2011/12 is mainly due to our capital programme being supported from cash balances as a result of the decline in HEFCE capital funding.



### “Changing the World” – University Strategy 2010 - 2015

The University has set itself a challenging and demanding set of targets that if achieved would transform the University and our standing in the UK and within world higher education. University Council deliberated over a number of meetings about the strategy and the targets for change, and concluded that given the inherent strengths of the institution and the obvious ambition and expertise of University staff, these were realistic goals for the next five years. The strategy was approved by Council in July 2010.

Progress towards the achievement of our strategic aims is monitored closely by Council and is reviewed in the context of the changed funding for higher education.

#### University Strategy and Ambitions

**As a University Community we will change the world for the better through our research, education, innovation and enterprise.**

**Delivering research excellence** – We aspire to be a world-leading research university, clearly ranked in the top 10 in the UK.

**Transforming education** – We will attract the most talented students, irrespective of background, and prepare them to be confident citizens and potential leaders in an increasingly globalised work environment.

**Leadership in enterprise and innovation** – We will deliver distinctive economic impact and achieve international leadership in enterprise and innovation.

**Making an impact on society and the economy** – Recognising our social responsibility, and the capacity of our education and research to improve the lives of individuals and society, we will strengthen the positive impact we have on our local community, region and country.

## Operating and Financial Review (continued)

### Major Financial Risks

University Council and Audit Committee review the University risk register at regular intervals and consider that it is consistent with their knowledge of the University's activities and addresses the key aspects of the University's Strategic Plan.

A comprehensive financial risk assessment was considered by Council in setting the 2013/14 University budget. The major risk area focussed around the recruitment and retention of students – both Home/EU undergraduates in the new complex recruitment regime with competition regulated by the Higher Education Funding Council (HEFCE), and International students, where there are external influences outside our control e.g. UK Border Agency policy and practices. Another risk area for the University is the planned expansion and investment in academic staff in the lead up to the 2014 REF and how quickly this group can have a beneficial quality and financial impact on the student experience and in the research performance of the University.

### Student Recruitment

The two autumn enrolment intakes since the major funding policy changes in 2012 have provided ample proof that the recruitment environment for this University and the sector is volatile, difficult to predict and subject to social policy and political interference. The strategy of the University remains that it will grow overall student numbers, both in the UK and globally, but not at the price of a diminution in the quality of the student intake and the student experience. This growth will require significant investment in facilities, information technology and new locations for study abroad.

### Salary and Pensions Costs

The risk that salary costs would increase faster than the rate of income growth has reduced, with a flat rate increase on salaries of 1% in August 2012 as the national pay award. Government ministers signalled to universities that, while higher education is *not formally* part of the two year public pay freeze, it is expected that there will be very little growth in pay levels in the next few years. Our salary cost increases in 2012/13 have been planned and targeted towards the optimisation of our return to the Research Excellence Framework.

Despite the reduction in the PASNAS deficit this year, the continuation of large estimated deficits (driven by historically low discount factors applied to future payments) in both the USS and PASNAS schemes remains a concern. The next triennial valuation of USS is as at 31 March 2014 and we should

anticipate significant changes since the last valuation, driven by gilt yields and discount factors. Overall the risks posed by salary and pension costs to the University's strategic aims have not increased over the past year but remain a concern into the future.

### Research Funding

The funding arena for research activity in the UK is increasingly competitive as all major funding sources are targeted by multiple organisations. Recent demand control measures by RCUK have delivered mixed success. The University is heavily reliant on Engineering and Physical Sciences Research Council (EPSRC) and European Commission (EC) funding, where future funding levels and policy changes have been announced. In addition it is clear that RCUK are pursuing a value for money agenda that is eroding the real financial support to the full costs of providing top quality research.

The current EC funding framework (FP7) ceased taking new applications in summer 2013 and income from it is expected to tail off by 2018. FP7 is proposed to be replaced by Horizon 2020 which will accept applications from 2015-2021 with the associated income tail of another five years from 2021. It is, on paper, the largest and longest funding framework offered by the EC and Southampton will be a major bidder. The Horizon 2020 funding rules have yet to be completely finalised but we are satisfied that they will maintain a reasonable contribution to the real costs of the research. Unless UK funding for research generates new sources, much of our medium term growth will depend on our performance in Horizon 2020.

In common with all other research active institutions, the University is preparing for our submission to the Research Excellence Framework (REF), the replacement for the Research Assessment Exercise (RAE), with the census and submission dates in autumn 2013. The results of the REF will have important financial consequences and will also be a major factor in the national and international perception of the University's reputation.

### Cost Control and Income Generation

The University has demonstrated it has the ability and structures in place to control costs as shown by the success of a revised budget prepared in a few weeks in autumn 2012 to reduce costs within the financial year in response to a marked reduction in the expected student tuition fee income. We continue to expand our international fee income, with growth of over 200% in the last five years. Research income has grown by 21% in the last five years in an increasingly competitive market.

## Operating and Financial Review (continued)

### Quality Assurance Agency Institutional Review

The Quality Assurance Agency undertook a scheduled Institutional Review of the University in October 2012. The Institutional Review is intended to be a rigorous sector wide process and enabled us to further clarify areas for improvement in the University's internal procedures for quality assurance and quality enhancement. Following scrupulous adherence to published QAA procedures the University submitted a formal appeal against the draft findings of the Review. As a result of the appeal the QAA set aside the entire Review on the grounds that there had been a deficiency of process and that the review team's conclusions were unreasonable and disproportionate in the light of the available evidence. The QAA will undertake a fresh review of the University with a new review team in spring 2015.

### Capital Developments

The capital plan in 2012/13 has been dominated by the work on the Boldrewood Campus, developing the buildings for Lloyd's Register and the University's Faculty of Engineering and the Environment. The Lloyd's Register and initial Faculty buildings will be completed by early 2014, and there will be a gradual occupation of the site in the following months. Lloyd's Register will become a long term tenant of the University and will relocate over 300 staff from its premises in Central London. The University should be operating from its own new building by the beginning of academic session 2014/15. As well as being on time, the projects are well within budget. The next development at Boldrewood will be the construction of new experimentation facilities. These will accelerate the development of the site considerably and add great academic value to our work at Boldrewood from 2014/15. The completed campus will have a significant effect on the research and industrial collaboration capacity of the University and, in the longer term, free up areas of the main Highfield campus that would benefit from redevelopment to enhance the student experience further.

The other major standalone project in the year was the fit out of a new off campus primary data centre. Our major IT services are now migrating to this data centre with the existing centre acting as a secondary facility until it can be replaced. Our new high performance computer facility was installed directly into the new data centre early in 2013. The new centre offers greater resilience, with capacity to support the University as it expands and the possibility for us to host third parties in a shared service model. A robust IT infrastructure is essential to our business needs but is also necessary to support and complement our academic research activities in computer

science, computational work and our work with 'open data' and 'big data'.

Our Student Accommodation Strategy is based on a mixed economy model of University and private provider owned Halls. In the past year the University has entered into two long term agreements for the use and management of 1,100 bedrooms in Southampton city centre and 350 bedrooms in Swaythling with two private sector companies, with the University taking a long leasehold interest in the new properties. These developments are in construction and are scheduled to be available for occupation by our students from the start of academic year 2014/15.

Given our current financial strength and our significant level of cash resources, we aim to fund our current capital commitments and agreed plans from our own cash resources until 2015/16. With Boldrewood coming close to completion we are now looking at planning the next major investments to support the University Strategy.

### Future Plans

Within the University Strategic Plan we have established targets for our financial performance, and these are set out above in the section describing key performance indicators. These will be increasingly challenging, as the new student fee regime and loss of HEFCE revenue and capital funding have an increasing impact over the coming three years. Unless the University generates significant surpluses and cash from our normal operations at our target levels, it will not be possible to make the academic and infrastructure investments necessary to achieve our ambitions for students and the University.

The next few years will continue to see fundamental changes to higher education, and University Council is intent on pursuing our strategy to Change the World for the better through education, research and enterprise which will see the University generate growth in activity and income through the distinction of all our work and an increasingly international outlook.

The University strategy actively promotes a more global approach. Our campus in Malaysia is an important part of our international operations and we have a range of collaborative partnerships including our partnership in China for undergraduate Arts teaching with Dalian Polytechnic University. In 2013/14 we will expand our partnerships in Singapore initially through major research collaboration with the Southampton Marine and Maritime Institute. To this end,

## **Operating and Financial Review (continued)**

after the balance sheet date we established Southampton International Singapore Limited as a 100% owned subsidiary company of the University registered in Singapore.

### **Conclusion**

After a difficult start with student intake in 2012 being down on target, the University community has responded well to the competitive challenges arising from the new funding regime. A strong cash position is enabling it to fund an ambitious capital programme to support the University's strategic objectives to change the world for the better through our research, education, innovation and enterprise. We continue to view the future with confidence.

Mike Killingley  
University Treasurer

## Public Benefit

### Introduction

The University of Southampton has a long and distinguished history. Its roots date back to 1862, to the Hartley Institution, which was established in the city centre following a bequest to the Corporation of Southampton by Henry Robinson Hartley, the heir to a family of local wine merchants. The University received its Royal Charter on 29 April 1952, making it the first university to be created in the reign of HM Queen Elizabeth II. In October 2012, the University marked the 150th anniversary of the opening of the original Hartley Institution, with a series of public events.

Today, more than 21,000 students benefit from Southampton's world-class educational offering and the University makes a notable contribution locally, nationally and internationally in both education and research.

### Charitable status

The University has charitable status as one of the exempt charities listed in the Charities Act. It is responsible to the Higher Education Funding Council for England, its principal regulator, which is charged with monitoring compliance with charity law obligations. The University reports annually on the ways in which it has delivered charitable purposes for the public benefit.

The University Council, in setting and reviewing the University's objectives and activities, has had due regard to the Charity Commission's guidance on public benefit requirements.

### Mission statement

Southampton is a research-led institution in which teaching and learning take place in an active research environment. We are committed to:

- **The advancement of knowledge:** through critical and independent scholarship and research of international significance
- **The communication of knowledge:** in an active learning environment involving staff at the forefront of their disciplines
- **The application of knowledge:** for the benefit of society, both directly and by collaboration with other organisations

As a University community we will change the world for the better through our research, education, innovation and enterprise.

To realise our ambition, we are committed to achieve:

- a step change in the scale and performance of our research in ways that fully exploit our capabilities and infrastructure;
- transformation in the structure, quality and flexibility of our educational programmes to offer our students a distinctive Southampton educational experience;
- tangible economic impact through our international leadership in enterprise, knowledge transfer and business engagement;
- significant social impact locally and globally through public debate, community outreach and cultural engagement.

### Student education, admissions and widening participation

The University of Southampton offers a distinctive education in a modern learning environment underpinned by three core elements: world-class research that directly influences the education we offer; choice and flexibility in study options; and preparation for employment and life after university. Our programmes are designed to challenge our students, and to develop the critical thinking and independent learning they will need in their careers.

The University has a strong track record of improving access from disadvantaged sections of society. The year 2012/13 marked the start of a new framework to support students financially through their time at the University. Historically the University has offered bursaries but in 2012/13 we initiated a new entitlement to fee waivers, based on household income. All Home and EU full time undergraduate students are able to defer the payment of tuition fees until after they start employment through the government sponsored Student Loans Company, when the fee and any living cost loans are repaid gradually through the tax system depending on their earnings.

Students entering the University before 2012/13 from less well-off backgrounds were eligible to receive grants from government sources, and the University supplements the grants with non-repayable bursaries, which in 2012/13 totalled £3.06 million (2011/12 £4.4 million) paid to 4,830 students. The bursaries reduced in total because our 2012/13 entry students were supported through a more generous system of fee waivers. These bursaries are administered centrally and bursary decisions are entirely separate from decisions over admissions – the University operates a 'needs blind' admissions policy. Students in health care disciplines may be supported by non-repayable bursaries from the NHS.

## Public Benefit (continued)

We have committed in our current Office for Fair Access (OFFA) agreement to partial fee waivers of up to £3,000 per annum for new students from low income households entering in 2012/13 and 2013/14. Over one third of our undergraduate students in 2012/13 benefited from these arrangements (to the value of £2.2 million) and this general support scheme is still supplemented by a range of targeted bursaries. Currently we estimate that 25% of our Home undergraduate students come from households with an income of £25,000 or less, and a further 13% from households with an income of £42,600 or less. Therefore the overall total for student support has risen in 2012/13 to £5.26 million (2011/12 £4.4 million), now delivered by a mixture of fee waivers and bursaries.

In addition, the University supported 1,840 postgraduate students through paying their tuition fees and other financial support. In 2010/11 we established a new Scholarship fund to increase the number of postgraduate research students supported by the University and this initiative has also been supplemented by financial donations from our alumni. The fund has been successful in attracting high quality individuals from a variety of backgrounds and now helps to support 260 students.

The University works closely with schools, colleges and local communities to encourage prospective students to consider higher education. Ambitious local school children are able to make better choices about higher education through programmes developed by our Student Recruitment and Outreach office. In Southampton's primary and secondary schools and local Sixth Form colleges the University's outreach programme delivers workshops and seminars on a wide range of practical life skill topics.

The University encourages school children to delve into science through Life Lab, a health literacy programme that engages students from local schools with the science behind chronic disease. Life Lab educates young people on diet, exercise, stress, alcohol and smoking, in order to help prevent potential diseases in the future. We anticipate around 5,000 pupils from Southampton's schools will participate in its education modules each year.

The South East Physics network (SEPnet), of which the University is a founder member, and the Higher Education Funding Council for England (HEFCE) have announced plans to invest £13.1 million to sustain physics undergraduate and postgraduate teaching provision, and world-class research facilities, staff and doctoral training over the five years up to

2018. This has been a very successful response to falling demand from school leavers and a potential national shortage of physics graduates.

## Research impact

Southampton is recognised as one of the top 100 universities in the world (QS World Rankings) and has a global reputation for the quality, depth and breadth of its research. It is a world leader in a diverse range of disciplines, from ocean exploration to understanding the internet and from sustainable energy to finding medical solutions to major diseases.

Our researchers are tackling the most pressing challenges facing society today and make a significant contribution to the public benefit through their work.

The University makes the most of its location in one of Britain's most important port cities and has long been distinguished by its leadership in the maritime sciences. It also contributes greatly to improvements in global health and wellbeing. We have worked closely with local hospitals for many years and patients in the region regularly come into contact with University medical professionals. The University's medical, nursing and midwifery and allied health professions students undertake part of their training through placements at hospitals and other health providers; and our clinical academic staff members contribute to clinical services provided by University Hospital Southampton NHS Foundation Trust within the NHS. Allied to this our staff undertake cutting-edge research in areas as diverse as cancer, osteoporosis, asthma and nutrition. We lead innovative learning and discovery across the life course from before birth to advancing years, by investing in multidisciplinary research teams, creative educational programmes and initiating external partnerships and collaborations.

Specific examples of our world-class research and its impact on society include:

- Underpinning the information highway: Southampton's optical fibre research has led the world for five decades. Fibre optic cables have transformed the delivery of internet services with their ability to transmit data over greater distances and at much faster speeds than traditional copper wire. This year, researchers at our Optoelectronics Research Centre announced that hollow-core optical fibres have brought data transmission rates within touching distance of the speed of light.
- The Institute of Sound and Vibration Research marked its 50th anniversary this year. The Institute is internationally



## Public Benefit (continued)

acknowledged for its contributions to reducing noise and vibration in engineering applications – including rail and aircraft noise – but also for fundamental work on understanding how humans hear sounds and process this information; research which leads to technical innovations such as improved cochlear implants and hearing devices which transform the quality of life for the hearing impaired and profoundly deaf.

- Research by the University of Southampton into reducing railway noise has created new technology that has allowed railway networks in Europe and Australia to be expanded, while preserving citizens' quality of life. Under a licence agreement with Tata Steel, patented rail dampers have been fitted on around 150 km of track in 13 countries and proved critical to a new route in New South Wales. They have enabled operators to save tens of millions of pounds that would have been spent on expensive noise barriers.
- Our research has been crucial to the development, pre-clinical verification and European wide conformity marking (CE marking) of a revolutionary hip-replacement system. In the wake of growing concerns over some previous implant designs, over 9,800 patients have received the new implants with excellent early clinical results at two years' follow-up. This award-winning knowledge transferring research has been widely acknowledged as an example of best practice, and has increased appreciation of science and technology further through outreach.
- In 2013, the Open Data Institute (ODI) was formally established in Shoreditch under the leadership of Sir Tim Berners-Lee and Sir Nigel Shadbolt, both of whom are from Electronics and Computer Science (ECS) at the University. As well as significant academic input from ECS, the University supported the establishment of the ODI through estates, legal and other professional services. The ODI will facilitate and promote the use of data to improve public services and to create new business and entrepreneurial opportunities.

The University has six decades of experience working with companies, both large and small, helping to solve their most challenging problems using our knowledge and world-class facilities. We also run a successful business incubation programme to support high-tech, high-growth companies.

Over 40% of our annual research is conducted with industry. As the top UK University in terms of working with SMEs, industrial partnerships are strategically very important to us and are a proven route for wider benefit and impact of our research activities.

An example of the University's collaboration with business is its support for the aerospace industry. Research carried out at the University of Southampton has enabled major organisations in the aerospace industry – among them Rolls-Royce, Airbus, and Boeing – to produce more fuel efficient, longer lasting engines and aircraft at reduced cost. The research has provided the aerospace industry with modelling tools and software enabling companies to explore complex new designs quickly whilst managing product risk in a competitive market.

### Values

The University of Southampton's aspirations to improve fairness and equality for women have been rewarded through the Athena SWAN (Scientific Women's Academic Network) Charter administered by the Equality Challenge Unit.

### Public and community engagement & culture

Each year, the University hosts a popular annual festival of science and engineering as part of national Science and Engineering Week in March. Events include a Science and Engineering Day at our Highfield Campus and an Ocean and Earth Day at the National Oceanography Centre Southampton.

The Bringing Research to Life roadshow has been taking the University's cutting-edge research on the road since 2009, so that the general public can learn more about what our researchers do. Annual attendance at the formal events exceeds 10,000.

In June, the University's Medical Research Council Lifecourse Epidemiology Unit (MRC LEU) showcased its research as part of a wider national programme to mark the MRC's 100th anniversary. These scientists undertake ground breaking health research that benefits our everyday lives, from reducing hip fracture rates to improving the health of mothers and children across the South.

The University has excellent sports facilities and arts venues. Public access to our sports facilities is encouraged in a number of ways, from school trips to a partnership with Eastleigh Borough Council to allow mass public use of our sports fields, particularly at weekends.

Our three internationally acclaimed arts venues, the Nuffield Theatre, Turner Sims Concert Hall and John Hansard Gallery, have made the University's Highfield Campus a major cultural hub in the region over many decades. There are advanced plans for the John Hansard Gallery to relocate to central

## Public Benefit (continued)

Southampton as a key part of Southampton's New Arts Centre project which will expand our ability to interact with a wider public audience. The University has worked actively with Southampton City Council in preparation for the establishment of the New Arts Centre.

With over 5,000 members of staff, the University is one of the largest employers in Southampton and offers a wide variety of employment opportunities. Many of our students contribute to the city through their volunteering activities, and many remain in the region after graduation, providing a skilled workforce and contributing to many of the professions.

### Access to world-leading knowledge

Recognising the links between the University and the wider community in our area, members of the public are invited to use the University library for reference, without charge. As well as giving borrowing rights to a number of community groups, individual borrowing rights can also be arranged.

The University houses a large and valuable collection of archives. In August 2011, we completed the acquisition of the Broadlands Archives, a large collection of original documents relating to the lives and work of, among others, the Seventh Earl of Shaftesbury, Viscount Palmerston and Earl Mountbatten of Burma, to ensure permanent public access. The national importance of this collection is evidenced by the substantial financial support of the National Heritage Memorial Fund. The balance of the acquisition costs was provided from donations to the University from individuals and corporate and charitable bodies, and University funds.

The University hosts a regular series of lectures by distinguished speakers. Over the years, this has seen some of the most respected and influential thinkers in their fields give intellectually stimulating presentations on a broad range of topics.

### Environmental policy & sustainability

As a University we strive to change the world through our research, education, innovation and enterprise. Our vision is to embed the principles of sustainability into all aspects of our work, including reducing carbon emissions and minimising our environmental impact.

The University aims to achieve a 20% reduction in carbon dioxide equivalent emissions by 2020 (based on a 2005/06 baseline), and has a strategic carbon management plan. The

University recognised that this was a very challenging target, as we had already established plans for significant growth from 2005/06 levels of activity and many of our areas of greatest research strength – opto-electronics, engineering disciplines, large scale computational sciences, medicine – are characterised by high energy use. As an indication of the scale of the growth in our activity between 2005/06 and 2012/13, our student full time equivalent numbers have increased by 19%. By 2012/13, our carbon dioxide equivalent emissions were calculated as being 5% above the 2005/06 baseline. While this would represent a real terms improvement based on units of activity, it will be a considerable challenge for the University to reach the absolute reduction target by 2020.

In 2012, we ran our first campus-wide energy audit, 'Blackout', for which 250 staff and students came together to switch off all non-essential electrical equipment on our Highfield campus. The event raised the profile of energy saving and delivered a 6% reduction in our electricity use over that weekend. The audit and activity was repeated in 2013. While the actual energy saving was relatively modest, the impact on the attitudes and thinking of staff and students has been greatly beneficial, and the large scale participation and commitment of staff and students is a testament to the organisers of the event.

The University continues as a partner in the very successful UniLink buses. The buses travelling across Southampton and serving all major University sites in Southampton and linking the major public transport hubs within the city, now deliver over 4 million passenger journeys per annum.

The University's Environment and Sustainability Policy and Strategy reflect HEFCE's Sustainable Development Strategy<sup>1</sup> and the Government's definition of sustainable development, published in 'Securing the Future'<sup>2</sup>:

*'The goal of sustainable development is to enable all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations.'*

The University has an Environment and Sustainability Strategy that sets out the priority areas for the period 2011 to 2015 and identifies targets for measuring progress.

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1 Sustainable development in higher education: 2008 update to strategic statement and action plan (2009)

2 Securing the future: delivering UK sustainable development strategy (2005)



### Public Benefit (continued)

In terms of **economic dimensions** the University reports annually on its financial sustainability following HEFCE's implementation of the Wakeham review which recommended that Funding Councils introduce a series of metrics into the accountability process around sustainability.

Sustainability work is already underway in the following **environment/social/economy** contexts:

- *Environment – Estate and operations*: carbon management; energy reduction; recycling; sustainable travel; biodiversity; sustainable buildings; Eco Campus
- *Economy*: sustainability accounting; procurement; Fairtrade
- *Environment/Social/Economy – Research*: sustainability
- *Environment/Social/Economy – Curriculum*: work of Sustainability Action Programme on mapping sustainability teaching; social enterprise module
- *Social – Staff and student experience*: health and safety; wellbeing; sport and recreation; work-life balance; personal development; equality and diversity
- *Social – Community engagement*: student volunteering; schools outreach; public engagement; student business engagement (Business Ethics and Environment Students project); student social enterprise (ENACTUS).

## Corporate Governance

### Summary of Corporate Governance

The University of Southampton is an exempt charity under the terms of the Charities Act 2011.

The University was established in 1952 by Royal Charter which, together with the Statutes that came into force at the same time, provides the framework for the corporate governance of the institution. The Council is the governing body of the University, and is charged by the Charter with responsibility for “...the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University...” (Article 11 of the Charter). In carrying out its functions, the Council is bound by the terms of the Financial Memorandum with the Higher Education Funding Council for England (HEFCE), which is updated annually, and the acceptance of which is a precondition for the receipt of HEFCE grants. The Senate is the other principal decision-making body.

The University has complied with the key recommendations of the Code of Governance, as set out in the Committee of University Chairs’ ‘Guide for Members of Higher Education Governing Bodies in the UK’. The Statement of Primary Responsibilities adopted by the University’s governing body can be viewed at:

[www.southampton.ac.uk/aboutus/councilmembers/council\\_operations/Statement\\_of\\_primary\\_responsibilities\\_Council.pdf](http://www.southampton.ac.uk/aboutus/councilmembers/council_operations/Statement_of_primary_responsibilities_Council.pdf)

Council has a membership of 25 people, consisting of *ex officio* members, lay members, representatives of the academic and other staff and the President of the Students’ Union (see below for Council membership). The Chair and Vice-Chair of Council are appointed from among the lay membership which forms a majority on the Council.

Whilst the Chancellor is the titular head of the University, the Vice-Chancellor is the University’s principal academic and administrative officer, and Accountable Officer. The Treasurer is a lay and non-executive member of the Council whose remit is to advise generally on matters relating to the University economy, and to satisfy himself as to the soundness of the University’s financial position and the integrity of its financial transactions. The Registrar is Secretary to the University Council.

The Council meets at least six times a year, and receives reports on the functioning of the University and of its subsidiary companies. These include the critical assessment of agreed Key Performance Indicators. Matters specifically reserved for

Council decision include the Mission and strategic direction of the University, and the approval of budgetary allocations and of major new developments. Whilst the Council is the ultimate authority within the University, it cannot be directly involved in decision making on all matters for which it is formally responsible: the range of business undertaken inevitably means that some delegation of powers to individuals and to committees is necessary.

The Audit Committee meets four times a year. Meetings are attended by the External Auditors, to discuss audit findings, and also by the Internal Auditors, to discuss detailed internal audit reports and recommendations for the improvement of the University’s systems of financial control, together with management’s response and implementation plans. The Committee also considers reports from HEFCE relating to the conduct of business and monitors adherence to the regulatory requirements. The Committee reviews the University’s annual financial statements together with the accounting policies. Whilst senior executives are in attendance at meetings, they are not members of the Committee, which reserves the right to meet separately with the External and Internal Auditors for independent consultations.

The Nominations Committee is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University. The Committee also appoints the lay members of the Audit Committee and Senior Salaries Committee.

The Senior Salaries Committee determines the salaries of University Executive Group members and maintains an overview of the salary costs of senior professorial and administrative staff. Lay members of the Committee determine the Vice-Chancellor’s salary.

All these committees are formally constituted with terms of reference and comprise lay and academic members, one of whom is in the chair. All members of the Council and of the committees, together with the executive officers, are subject to Standing Orders, which *inter alia* require the maintenance of a Register of Interests. Members may not be present at any discussion in which they have a direct or indirect financial interest.

## Corporate Governance (continued)

### Statement of Internal Control

The Council is responsible for maintaining a sound system of internal control which supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible.

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

- clear definition of the responsibilities and delegated authority of heads of academic and administrative groups;
- a medium and short-term planning process, supplemented by detailed annual income and expenditure and capital budgets;
- regular reviews of performance and at least termly reviews of financial performance and updates of forecasts of out-turns;
- clearly defined and formalised requirements for control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations, amended most recently in March 2012, approved by the Audit Committee and Council;
- a professional internal audit service, whose responsibilities cover the entire internal control systems of the institution.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system. Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council last reviewed the University risk register in July 2013 alongside the University Key Performance Indicators.

Council's review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the External Auditors in their management letter and other reports.

### Role of Council in the Preparation of the Financial Statements

The Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the financial statements are prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education' and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Council of the University, Council, through the Vice-Chancellor, is required to ensure the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

Council has, through its committees and officers, ensured that in the preparation of the financial statements:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 has been used in the preparation of the financial statements.

The Council has taken reasonable steps to:

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

Members of Council have had regard to the Charity Commission's guidance on public benefit.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such

## Corporate Governance (continued)

system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

### Members of the Council

There are five classes of Council membership.

Class 1: Officers

Class 2: Lay members appointed by the Council

Class 3: Members of University staff appointed by the Senate

Class 4: Members of University non-teaching staff

Class 5: Representatives of the Union of Students

Membership for the period 1 August 2012 – 13 November 2013

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 13 Nov 2013	Attendance Aug 2012 – Jul 2013	Membership of other Committees of Council (including joint committees)
Dr G Rider	Class 1 Chair	August 2012	July 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Dr M P Read CBE	Class 1 Vice-Chair	August 2008	July 2014	5/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Mr M S Killingley	Class 1 Treasurer	August 2009	July 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor D Nutbeam	Class 1 Vice-Chancellor	October 2009		6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor A A Wheeler	Class 1 Provost and Deputy Vice-Chancellor	August 2007	July 2015	5/6	Standing Committee of Council Senior Salaries Committee Nominations Committee
Mr J B Boyer	Class 2	August 2011	July 2013	5/6	
Mr M C Burrow	Class 2	May 2010	May 2016	4/6	Audit Committee
Rear Admiral P D Greenish CBE	Class 2	March 2011	April 2014	4/6	
Ms S Kumar	Class 2	March 2012	March 2015	5/6	
Mr T P O'Brien CBE	Class 2	April 2009	March 2015	6/6	
Dr D J Price CBE	Class 2	October 2010	September 2016	6/6	Senior Salaries Committee

## Corporate Governance (continued)

Ms R C Rivaz	Class 2	August 2006	July 2015	4/6	Health and Safety Audit and Assurance Committee
Mr G N Spittle CBE	Class 2	August 2008	September 2013	4/6	Nominations Committee
Mr J A Trewby CB	Class 2	October 2009	July 2015	6/6	
Professor J Falkingham	Class 3	May 2011	July 2014	4/6	
Professor D McGhee	Class 3	August 2012	July 2015	6/6	
Professor P G Smith	Class 3	May 2011	July 2014	6/6	
Professor J A Vickers	Class 3	March 2012	July 2015	6/6	
Mrs H E Smith	Class 4	April 2010	March 2016	6/6	
Mr S O Ling	Class 5	July 2011	June 2013	5/5	
Mr D Galani	Class 5	July 2013	July 2014	1/1	

## INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF THE UNIVERSITY OF SOUTHAMPTON

We have audited the group and parent institution financial statements (the "financial statements") of the University of Southampton for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Parent Institution Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Corporate Governance, the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with the Accounts Direction of the Charters and Statutes of the institution and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and institution's affairs as at 31 July 2013 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice –Accounting for Further and Higher Education.

### Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the institution's statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group.

Mazars LLP  
Chartered Accountants and Statutory Auditors  
Clifton Down House  
Beaufort Buildings  
Bristol  
BS8 4AN

13 November 2013

**Consolidated Income and Expenditure Account for the year ended 31 July 2013**

	Notes	2013 £000	2012 £000
<b>Income</b>			
Funding Council grants	2	97,655	109,833
Academic fees and support grants	3	152,604	135,825
Research grants and contracts	4	102,376	94,685
Other operating income	5	89,587	93,146
Endowment income and interest receivable	6	4,999	4,384
<b>Total income</b>		<b>447,221</b>	<b>437,873</b>
<b>Expenditure</b>			
Staff costs	7	250,770	235,483
Depreciation	10	22,120	22,251
Other operating expenses	8	161,276	158,288
Interest payable	9	7,329	7,621
<b>Total expenditure</b>	10	<b>441,495</b>	<b>423,643</b>
<b>Surplus after depreciation of assets</b>		<b>5,726</b>	<b>14,230</b>
Deficit/(surplus) for the year transferred to accumulated income in endowment funds	20	109	(75)
<b>Surplus for the year</b>		<b>5,835</b>	<b>14,155</b>

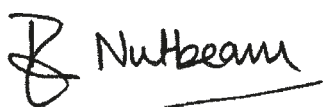
All income and expenditure is in respect of continuing operations.

# University of Southampton and Subsidiary Undertakings

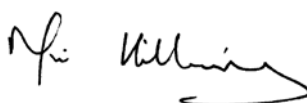
## Balance Sheets as at 31 July 2013

	Notes	Consolidated		University	
		Restated		Restated	
		2013	2012	2013	2012
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	11	481,261	428,255	452,405	402,174
Investments	12	1,575	1,732	2,372	2,526
		<u>482,836</u>	<u>429,987</u>	<u>454,777</u>	<u>404,700</u>
<b>Endowment asset investments</b>	13	11,802	9,982	11,802	9,982
<b>Debtors: amounts falling due after more than one year</b>	14	503	435	17,493	16,353
<b>Current assets</b>	15	161,130	198,586	159,764	196,311
<b>Creditors: amounts falling due within one year</b>	16	(143,208)	(131,787)	(140,640)	(129,706)
<b>Net current assets</b>		<u>17,922</u>	<u>66,799</u>	<u>19,124</u>	<u>66,605</u>
<b>Total assets less current liabilities</b>		<u>513,063</u>	<u>507,203</u>	<u>503,196</u>	<u>497,640</u>
<b>Creditors: amounts falling due after more than one year</b>	17	(99,863)	(105,587)	(90,392)	(95,465)
<b>Provisions for liabilities and charges</b>	18	(744)	(658)	-	-
<b>Net assets excluding pension liability</b>		<u>412,456</u>	<u>400,958</u>	<u>412,804</u>	<u>402,175</u>
<b>Pension liability</b>	26	(47,940)	(69,589)	(47,940)	(69,589)
<b>Total net assets</b>		<u>364,516</u>	<u>331,369</u>	<u>364,864</u>	<u>332,586</u>
Represented by:					
<b>Deferred capital grants</b>	19	166,783	167,235	166,783	167,235
<b>Endowments</b>					
Permanent	20	9,962	8,434	9,962	8,434
Expendable	20	1,840	1,548	1,840	1,548
		<u>11,802</u>	<u>9,982</u>	<u>11,802</u>	<u>9,982</u>
<b>Reserves</b>					
Revaluation reserve	21	4,666	4,434	-	-
Pension reserve	26	(47,940)	(69,589)	(47,940)	(69,589)
Income and Expenditure account	22	229,205	219,307	234,219	224,958
		<u>185,931</u>	<u>154,152</u>	<u>186,279</u>	<u>155,369</u>
<b>Total funds</b>		<u>364,516</u>	<u>331,369</u>	<u>364,864</u>	<u>332,586</u>

The financial statements on pages 21 to 58 were approved by the Council on 13 November 2013, and signed on its behalf by:



Professor Don Nutbeam  
Vice-Chancellor



Mike Killingley  
Treasurer



Sarah Pook  
Director of Finance

**The notes on pages 25 to 58 form part of these financial statements**



**Consolidated Cash Flow Statement for the year ended 31 July 2013**

	Notes	2013 £000	Restated 2012 £000
Net cash inflow from operating activities	27	34,702	47,580
Returns on investments and servicing of finance	28	102	(607)
Capital investment and financial investment	29	(64,664)	(34,861)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(29,860)</b>	<b>12,112</b>
Management of liquid resources	31	60,878	(15,561)
Net financing	30	(7,696)	(4,065)
<b>Increase/(decrease) in cash</b>	<b>31</b>	<b>23,322</b>	<b>(7,514)</b>

**Reconciliation of Net Cash Flow to Movement in Net Debt**

	Notes	2013 £000	2012 £000
<b>Increase/(decrease) in cash in period</b>	<b>31</b>	<b>23,322</b>	<b>(7,514)</b>
(Decrease)/increase in liquid resources	31	(60,885)	15,560
New loans and debt movement	30	(250)	(3,620)
Exchange rate (loss)/gain	30	(1,194)	1,473
Repayment of debt	30	7,946	7,685
<b>Change in net debt</b>		<b>(31,061)</b>	<b>13,584</b>
Net cash at 1 August 2012	31	42,129	28,545
<b>Net cash at 31 July 2013</b>	<b>31</b>	<b>11,068</b>	<b>42,129</b>

**Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 July 2013**

	Notes	2013 £000	Restated 2012 £000
Surplus after depreciation of assets and taxation		5,726	14,230
Net movement on deferred capital grants	19	(452)	4,139
Unrealised appreciation/(depreciation) on endowment asset investments	20	1,142	(170)
Realised gains on endowment asset investments	20	(35)	(32)
Endowments received in year	20	748	207
Unrealised gain/(loss) on revaluation of University of Southampton Science Park	21	232	(1,601)
Actuarial gain/(loss) on defined benefit pension schemes		25,786	(18,968)
<b>Total recognised gains/(losses) relating to the year</b>		<b>33,147</b>	<b>(2,195)</b>
<b>Total funds as per balance sheet:</b>			
At 1 August 2012		331,369	333,564
Total recognised gains/(losses)		33,147	(2,195)
<b>At 31 July 2013</b>		<b>364,516</b>	<b>331,369</b>

The notes on pages 25 to 58 form part of these financial statements

## Notes to the Financial Statements for the year ended 31 July 2013

### 1. Statement of principal accounting policies

#### a. Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and investment properties in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (SORP) and applicable accounting standards.

#### b. Basis of consolidation

The consolidated financial statements consolidate the financial statements of the University and all its subsidiary undertakings.

Where the financial statements of subsidiary companies are denominated in foreign currency, income and expenditure are converted to sterling for consolidation on the basis of the average exchange rate for the accounting period and the balance sheet is converted as per the rate at the balance sheet date. Any resulting exchange rate differences are recognised in the income and expenditure account.

The consolidated financial statements do not include those of the University of Southampton Students' Union as it is a separate entity over which the University does not exercise control or significant influence over policy decisions.

A 20% minority interest exists in Southampton Asset Management Ltd, a subsidiary company. The value of this minority interest is insignificant and it has therefore not been disclosed within the financial statements.

#### c. Recognition of income

Government basic and other recurrent grants are included in the year to which they relate. Specific grants are brought into income to the extent of expenditure in the year.

Fee income is credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursary payments are accounted for gross as expenditure and not deducted from income.

Income from specific donations, research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect

costs.

Income from restricted endowments is credited to the income and expenditure account on a receivable basis. Any excess or shortfall of income compared to expenditure is then transferred to or from the balance sheet before the surplus or deficit for the year is struck.

Income from short-term investments, deposits and general endowment asset investments is accrued up to the balance sheet date.

Major external contracts and rental income are accounted for under the accruals basis. Income from other external contracts, consultancies and services rendered is credited to the income and expenditure account to the extent of amounts invoiced during the year.

The University acts as agent on behalf of the Higher Education Funding Council for England with regard to the disbursement of Access funds. Receipts and payments are therefore not included in the income and expenditure account.

National College for Teaching and Leadership bursaries are administered on behalf of the Funding Council and are therefore not included in the income and expenditure account.

#### d. Pension schemes

Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The operating costs of providing retirement benefits to employees are recognised in accounting periods in which the benefits are earned by employees, and the related finance costs and other changes in value of the assets and liabilities are recognised in the period in which they arise.

In addition, the University has introduced the NEST scheme to comply with the Pensions Act 2008, which gives all University workers access to a qualifying pension scheme.

#### e. Foreign currencies

Transactions denominated in foreign currencies are recorded in the income and expenditure account at the actual rate of exchange on conversion to sterling. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

## Notes to the Financial Statements for the year ended 31 July 2013

### f. Leases

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

### g. Land and buildings

Capitalised expenditure on land and buildings is included in the balance sheet at historical cost.

Buildings under construction within the University 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.

Depreciation is charged on the following bases:

- (i) Buildings acquired after 1 August 1989 - on a straight line basis over 50 years, with the exception of certain special purpose buildings with shorter useful lives.
- (ii) Buildings acquired before 1 August 1989 - on a straight line basis over 30 years commencing in August 1989.

Land is not depreciated.

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

University of Southampton Science Park, an investment property, is accounted for at market value. It is revalued annually and any surplus or deficit arising is taken to a revaluation reserve in general funds. No provision is made for depreciation of this property in accordance with SSAP19.

In accordance with SSAP4 and the SORP, grants received from governmental sources and restricted capital funds are held as deferred capital grants and released to the income and expenditure account over the estimated life of the asset.

### h. Equipment

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Equipment capitalised by the University is generally stated at cost and depreciated over three years. Large scale items of

equipment and computer infrastructure are depreciated over a period equal to their expected useful economic life. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods of between 3 and 10 years.

Depreciation is charged to the income and expenditure account on a straight line basis.

### i. Deferred capital grants

Where tangible fixed assets are acquired with the aid of specific grants they are capitalised and depreciated. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

For equipment items this represents a change in policy from 2012/13 which has resulted in prior year adjustments being applied. These changes had no effect on the Income and Expenditure reserves.

### j. Heritage assets

Artefacts held and conserved principally for their contribution to knowledge and culture, obtained since 1 August 2010, costing over £25,000, are capitalised and held at the lower of cost or net realisable value. Where assets are fully or substantially donated, they are capitalised and held at the lower of valuation at the time of acquisition or net realisable value.

Heritage assets are not depreciated as their long economic lives mean that any depreciation would be immaterial but they are regularly reviewed for impairment.

Income received to support the purchase of heritage assets is recognised in the year the assets are acquired.

The University holds a number of heritage assets obtained before 1 August 2010 that are not capitalised as the historical cost or valuation at the time of acquisition cannot be determined in a cost beneficial manner.

### k. Gifts in kind

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

## Notes to the Financial Statements for the year ended 31 July 2013

### **l. Investments**

Endowment asset investments are included in the balance sheet at market value. Other investments are included at the lower of cost and net realisable value.

### **m. Stocks**

The stocks are centrally held items for cleaning, maintenance and resale, and cochlear implants awaiting issue to patients. They are stated at the lower of cost and net realisable value.

### **n. 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 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, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

### **o. Maintenance**

In line with FRS 12 the University charges long term maintenance costs to the income and expenditure account as they are incurred.

### **p. Provisions**

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **q. Comparatives**

Where accounting practice has changed, the prior year comparatives have been revised accordingly. From 2012/13 onwards, the capital element of revenue grants have been treated as deferred capital grants. This was a change of accounting policy and therefore the prior year accruals and deferred capital grants balances have been restated for 2011/12 to reflect this change in treatment. This had the impact of reducing the figures for short-term and long-term accruals and deferred income by a total of £5,891,000 and increasing the value of deferred capital grants by £5,891,000.

Where new Financial Reporting Standards have been implemented, or notes have been enhanced to provide additional information, comparative figures have been amended accordingly.

### **r. Taxation**

The Institution is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471 and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The Institution 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.

**Notes to the Financial Statements for the year ended 31 July 2013****2. Funding Council grants**

	2013 £000	2012 £000
Recurrent grants:		
Higher Education Funding Council for England (HEFCE)	85,262	95,415
National College for Teaching and Leadership	585	2,405
Specific grants:		
HEFCE	6,536	6,445
Deferred capital grants released in year (note 19)	5,272	5,568
	<u>97,655</u>	<u>109,833</u>

**3. Academic fees and support grants**

	2013 £000	2012 £000
Full-time Home/EU students	79,351	66,537
Full-time international students	52,297	48,506
Part-time Home/EU students	2,738	2,602
Part-time international students	542	471
Research training support grants	13,297	13,402
Special and short course fees	4,379	4,307
	<u>152,604</u>	<u>135,825</u>

Included in the above is £18,928,000 (2012: £19,559,000) of NHS Teaching Contract Income in respect of full and part time fees.

Other income from health authorities is disclosed under note 5.

Fee income is stated net of waivers and discounts.

**4. Research grants and contracts**

	2013 £000	2012 £000
<b>Income</b>		
Research councils	44,818	41,285
UK based charities	14,729	13,539
UK Central Government/local authorities/health authorities and hospitals	12,483	11,085
UK public corporations/industry and commerce	7,778	7,760
EU Government	15,350	12,870
EU other sources	2,329	3,506
Other overseas sources	3,747	3,526
Other sources	1,142	1,114
	<u>102,376</u>	<u>94,685</u>

## Notes to the Financial Statements for the year ended 31 July 2013

### 4. Research grants and contracts (continued)

	2013 £000	2012 £000
<b>Expenditure - direct costs</b>		
Salaries and wages	41,570	38,840
Equipment	3,065	2,732
Depreciation	3,751	2,391
Other costs	23,342	21,600
	<u>71,728</u>	<u>65,563</u>
<b>Contribution to indirect costs</b>	<u>30,648</u>	<u>29,122</u>

Included within income above are deferred capital grants released in the year of £3,751,000 (2012: £2,391,000) (see note 19).

### 5. Other operating income

	2013 £000	Restated 2012 £000
Residences, catering and conferences	27,056	26,623
Consultancies, trading and services rendered	35,456	36,451
Health authorities	8,035	8,671
Grants and donations for Broadlands Archives acquisition (note 11)	-	5,558
Other donations and subventions	2,519	1,638
Deferred capital grants released in year (note 19)	362	429
Other income	16,159	13,776
	<u>89,587</u>	<u>93,146</u>

### 6. Endowment income and interest receivable

	2013 £000	2012 £000
Income from permanent endowment asset investments (note 20)	368	232
Income from expendable endowment asset investments (note 20)	7	103
Income from short term deposits and investments	4,624	4,049
	<u>4,999</u>	<u>4,384</u>

**Notes to the Financial Statements for the year ended 31 July 2013**
**7. Staff**

	2013 £000	Restated 2012 £000
Staff costs :		
Salaries and wages	203,496	192,152
Social Security costs	16,159	15,396
Other pension costs	30,419	26,587
Severance and early retirement	696	1,348
	<u>250,770</u>	<u>235,483</u>
	2013 Number	Restated 2012 Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:		
Education, research and enterprise	2,539	2,408
Management, specialist and administrative	1,841	1,730
Technical and experimental	362	357
Community and operational	448	447
	<u>5,190</u>	<u>4,942</u>
	2013 £000	2012 £000
Emoluments of the Vice-Chancellor	294	277

The emoluments of the Vice-Chancellor are shown excluding employer's pension contributions. The University's pension contributions to Universities Superannuation Scheme Limited (USS) amounted to £39,615 (2012: £37,600).

The Vice-Chancellor donated £1,000 (2012: £1,000) to the University during the year as a member of the Hartley Circle.



## Notes to the Financial Statements for the year ended 31 July 2013

### 7. Staff (continued)

#### Higher Paid Staff:

Remuneration of higher paid staff, excluding employer's pension contributions, but including NHS distinction awards where appropriate:

	2013		2012	
	Number		Number	
	Total	Clinical	Total	Clinical
£100,000 - £109,999	26	8	30	14
£110,000 - £119,999	30	16	21	10
£120,000 - £129,999	11	4	9	3
£130,000 - £139,999	9	5	9	3
£140,000 - £149,999	10	7	9	9
£150,000 - £159,999	8	7	7	7
£160,000 - £169,999	5	5	4	4
£170,000 - £179,999	1	1	1	1
£180,000 - £189,999	2	2	2	2
£190,000 - £199,999	-	-	-	-
£200,000 - £209,999	1	1	1	1
£210,000 - £219,999	2	2	2	2
£220,000 - £229,999	-	-	-	-
£230,000 - £239,999	-	-	-	-
£240,000 - £249,999	-	-	-	-
£250,000 - £259,999	-	-	-	-
£260,000 - £269,999	-	-	-	-
£270,000 - £279,999	-	-	1	-
£280,000 - £289,999	-	-	-	-
£290,000 - £299,999	1	-	-	-

Salaries and wages, emoluments of the Vice-Chancellor and higher paid staff numbers are stated before salary sacrifice deductions.

#### Compensation for loss of office:

No compensation was paid for loss of office in respect of higher paid employees (2012: £0).

**Notes to the Financial Statements for the year ended 31 July 2013**
**8. Other operating expenses**

	2013	2012
	£000	£000
Non capitalised equipment	18,020	19,108
Gain on disposal of equipment	(73)	(7)
Loss on disposal of land and buildings	82	64
Impairment of property value	(2)	163
Consumables and laboratory expenditure	16,649	16,796
Office expenses and professional fees	20,360	21,570
Travel costs	13,135	11,817
Repairs, refurbishment and scheduled maintenance	19,986	21,828
Heat, light, water and power	8,398	7,906
Books and periodicals	4,690	4,459
Bursaries, fellowships, scholarships and prizes	26,119	25,262
External agencies and staff secondments	8,828	8,375
Rents, rates and hire of facilities	5,240	5,887
Catering supplies	2,054	1,961
Conference fees	2,531	2,131
Grant to Students' Union	2,434	2,579
Loss on disposal of current asset investments	128	125
Diminution of current asset investments valuation below historic cost	7	1
External auditors' remuneration	61	69
Auditors' remuneration in respect of other services	106	70
Other expenses	12,523	8,124
	<b>161,276</b>	<b>158,288</b>

**Payments to members of the Council**

Lay members and non University staff officers of the Council were reimbursed for expenses totalling £823 (2012: £1,201) during the year.

No payments were made to members of the Council for serving as Council members.

**Notes to the Financial Statements for the year ended 31 July 2013****9. Interest payable**

	2013 £000	2012 £000
Loans not wholly repayable within five years	4,246	4,760
Loans wholly repayable within five years	593	707
Net finance cost of defined benefit pension schemes	2,490	2,154
	<u>7,329</u>	<u>7,621</u>

**10. Analysis of 2013 expenditure by activity**

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	2013 Total £000	2012 Total £000
Academic departments	134,930	2,819	29,148	-	166,897	159,672
Academic services	17,907	2,332	15,514	-	35,753	32,000
Research grants and contracts (note 4)	41,570	3,751	26,407	-	71,728	65,563
Residences, catering and conferences	5,877	1,646	12,352	2,805	22,680	23,493
Premises	8,705	10,910	22,292	-	41,907	46,775
Administration and central services	22,819	43	36,660	-	59,522	55,423
Consultancies, trading and services rendered	17,260	619	13,322	328	31,529	33,078
Other activities	1,702	-	5,581	4,196	11,479	7,639
	<u>250,770</u>	<u>22,120</u>	<u>161,276</u>	<u>7,329</u>	<u>441,495</u>	<u>423,643</u>

The depreciation charge has been funded by:

Deferred capital grants released (note 19)	9,385
General income	12,735
	<u>22,120</u>

**Notes to the Financial Statements for the year ended 31 July 2013****11. Tangible assets****Consolidated**

	Land and buildings		Assets in		Furniture	Heritage	Total
	Completed	Completed	course of	Investment	fittings and	Assets	
	freehold	leasehold	construction	properties	equipment		
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 August 2012	369,149	71,359	47,474	25,586	101,983	6,000	621,551
Additions at cost	1,184	8,813	53,708	(15)	11,280	-	74,970
Transfers at cost	-	4,869	(7,474)	1,891	714	-	-
Revaluation	-	-	-	232	-	-	232
Disposals at cost	-	(349)	-	-	(1,018)	-	(1,367)
Assets written down at cost	(2)	-	-	-	1	-	(1)
At 31 July 2013	370,331	84,692	93,708	27,694	112,960	6,000	695,385
<b>Depreciation</b>							
At 1 August 2012	(85,371)	(26,461)	-	(118)	(81,346)	-	(193,296)
Charge for year	(9,167)	(3,827)	-	(12)	(9,114)	-	(22,120)
Eliminated on disposal	-	268	-	-	1,018	-	1,286
Eliminated on assets written down at cost	6	1	-	-	(1)	-	6
At 31 July 2013	(94,532)	(30,019)	-	(130)	(89,443)	-	(214,124)
<b>Net book value</b>							
At 31 July 2013	275,799	54,673	93,708	27,564	23,517	6,000	481,261
At 1 August 2012	283,778	44,898	47,474	25,468	20,637	6,000	428,255

**Notes to the Financial Statements for the year ended 31 July 2013****11. Tangible assets (continued)****University**

	Land and buildings		Assets in		Heritage	Total
	Completed freehold £000	Completed leasehold £000	course of construction £000	Equipment £000	Assets £000	£000
<b>Cost or valuation</b>						
At 1 August 2012	369,149	71,359	47,029	101,356	6,000	594,893
Additions at cost	1,184	8,813	51,831	10,367	-	72,195
Transfers at cost	-	4,869	(5,583)	714	-	-
Disposals at cost	-	(349)	-	(1,018)	-	(1,367)
Assets written down at cost	(2)	-	(3)	1	-	(4)
At 31 July 2013	370,331	84,692	91,144	111,420	6,000	665,717
<b>Depreciation</b>						
At 1 August 2012	(85,371)	(26,461)	-	(80,887)	-	(192,719)
Charge for year	(9,166)	(3,827)	-	(8,892)	-	(21,885)
Eliminated on disposal	-	268	-	1,018	-	1,286
Eliminated on assets written down at cost	6	1	-	(1)	-	6
At 31 July 2013	(94,531)	(30,019)	-	(88,762)	-	(213,312)
<b>Net book value</b>						
At 31 July 2013	275,800	54,673	93,274	22,658	6,000	452,405
At 1 August 2012	283,778	44,898	47,029	20,469	6,000	402,174

At 31 July 2013, completed freehold land and buildings included £6,231,000 (2012: £5,472,000) in respect of land, which is not depreciated.

Included in the balances for leasehold land and buildings is expenditure of £28,000,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £12,700,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2013 by Vail Williams LLP. In accordance with SSAP 19, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £232,000 during the year. The historical cost of these assets at 31 July 2013, net of assistance grants, amounted to £21,467,000 (2012: £19,591,000).

In addition to the above expenditure on tangible assets a further £99,969,000 has been committed by the University and its subsidiary undertakings (note 24).

**Notes to the Financial Statements for the year ended 31 July 2013****11. Tangible assets (continued)****Heritage assets**

	2013 £000	2012 £000
At 1 August	6,000	-
Additions purchased with grants and donations (note 5)	-	5,558
Additions purchased with University funds	-	442
At 31 July	<u>6,000</u>	<u>6,000</u>

The University holds and conserves a significant number of rare books and manuscripts within the Special Collections Division of the Hartley Library. This includes over 6 million items in approximately 2,500 collections that have been obtained by the University and its predecessors since the 1860s. The University also maintains a significant number of paintings, drawings, sculptures, silverware and life science specimens. Items and collections obtained before 1 August 2010 have not been capitalised as the cost or valuation at the time of acquisition cannot be economically determined.

In August 2011, the University completed the acquisition of the Broadlands Archives, a significant collection of manuscripts dating from the sixteenth century to the present. Comprising more than 4,500 boxes of documents, the Broadlands Archives include correspondence of the Victorian Foreign Secretary and Prime Minister Lord Palmerston and approximately 250,000 papers and 50,000 photographs of Earl Mountbatten of Burma, including the foundation archives for the states of India and Pakistan. The collection also includes the diaries of the 19th-century social reformer and philanthropist, the 7th Earl of Shaftesbury and material regarding the Temple and Ashley estates in Hampshire.

An open market valuation of the Broadlands Archives was obtained in September 2012 from Bernard Quaritch Ltd, specialists in the valuation and sale of archives and manuscript collections. The valuer considered the separate collections that comprise the Broadlands Archives and took account of restrictions under the terms of associated grants and contracts in reaching an overall valuation of £6 million. The Archives have been capitalised at this value.

Further information regarding the Broadlands Archives and the other collections held within the Hartley Library, including access details, can be found on the Special Collections website at [www.southampton.ac.uk/archives](http://www.southampton.ac.uk/archives).

**Notes to the Financial Statements for the year ended 31 July 2013****12. Fixed asset investments**

	Consolidated £000	University £000
<b>Cost</b>		
At 1 August 2012	2,039	2,526
Additions	-	-
Disposals	(154)	(154)
At 31 July 2013	<u>1,885</u>	<u>2,372</u>
<b>Impairment</b>		
At 1 August 2012	(307)	-
Additions	1	-
Disposals	(4)	-
At 31 July 2013	<u>(310)</u>	<u>-</u>
<b>Net Book Value</b>		
At 31 July 2013	<u>1,575</u>	<u>2,372</u>
At 1 August 2012	<u>1,732</u>	<u>2,526</u>
<b>Investments comprise:</b>		
Investment in subsidiary undertakings at valuation/cost	-	1,233
Other investments	1,575	1,139
	<u>1,575</u>	<u>2,372</u>

As at the balance sheet date, the University had invested £1,000,000 in the Wyvern Seed Fund Limited Partnership (Wyvern). The University is a limited liability partner in Wyvern, which offers venture capital to spin-out companies originating at the Universities of Bristol and Southampton.

**Notes to the Financial Statements for the year ended 31 July 2013**
**12. Fixed asset investments (continued)**

Additional information on shareholdings where the University or its subsidiaries exercise control or significant influence or where shares are listed and the University maintains a holding above 10% :

	Percentage holding	Nature of activity
<b>Held by the University</b>		
IT Innovation Limited	100.00	Dormant
IT Innovation Centre Limited	100.00	Dormant
Marinetech South Limited	21.43	Dormant
Photonic Innovations Limited	50.00	Investment company
USMC Sdn Bhd (Malaysia)	100.00	Education
Southampton University Services Limited	50.00 *	Dormant
University of Southampton Holdings Limited (USH Limited)	100.00	Holding company
<b>Investments held by USH Limited</b>		
ECS Partners Limited	100.00	Consultancy
Solent Synergy Limited	50.00 *	Consultancy
Southampton Asset Management Limited	80.00	Investment company
Southampton Innovations Limited (SI Limited)	100.00	Investment company
Southampton University Services Limited	50.00 *	Dormant
The University of Southampton Consulting Limited	100.00	Consultancy
The University of Southampton Science Park Limited	100.00	Science park management
<b>Investments held by SI Limited</b>		
Photonic Innovations Limited (PI Limited)	50.00	Optoelectronics

\* Company limited by guarantee, maximum liability £1.



**Notes to the Financial Statements for the year ended 31 July 2013**
**13. Endowment asset investments**

	Consolidated and University	
	2013 £000	2012 £000
Balance at 1 August	9,982	9,833
Additions to stocks, equities and managed funds	738	226
Increase/(decrease) in market value of investments	1,142	(170)
(Decrease)/increase in endowment fund cash balances	(60)	93
<b>Balance at 31 July</b>	<b>11,802</b>	<b>9,982</b>
Represented by:		
Equities	107	101
Unit trusts and managed funds	10,126	8,253
<b>Total stocks, equities and managed funds at market value*</b>	<b>10,233</b>	<b>8,354</b>
Short term deposits	1,569	1,628
<b>Total</b>	<b>11,802</b>	<b>9,982</b>
<b>*Total stocks, equities and managed funds at cost</b>	<b>8,282</b>	<b>7,562</b>

**14. Long term debtors and prepayments**

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
Prepayments	503	435	414	435
Amounts owed by subsidiary undertakings	-	-	17,079	15,918
	<b>503</b>	<b>435</b>	<b>17,493</b>	<b>16,353</b>

**Notes to the Financial Statements for the year ended 31 July 2013****15. Current assets**

	<b>Consolidated</b>		<b>University</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Stock	626	566	626	566
Debtors and prepayments:				
Grants from HEFCE	849	638	849	638
Student debtors	797	598	797	598
Research grants and contracts	22,972	24,398	22,972	24,398
Amounts due from group undertakings	-	-	2,009	3,180
Prepayments to group undertakings	-	-	99	102
Other prepayments	6,536	5,971	6,229	5,642
Trade and other debtors	13,259	12,761	11,627	11,444
	44,413	44,366	44,582	46,002
Short term deposits and investments	64,634	125,519	64,634	125,519
Cash at bank and in hand (redeemable within 24 hours)	51,457	28,135	49,922	24,224
	<b>161,130</b>	<b>198,586</b>	<b>159,764</b>	<b>196,311</b>

Short term deposits and investments are represented by:

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Quoted shares and securities *	75	9,879
Cash on deposit (not redeemable within 24 hours)	64,559	115,640
	<b>64,634</b>	<b>125,519</b>
* Market value of quoted shares and securities (held at lower of cost and net realisable value above)	<b>229</b>	<b>10,956</b>

**Notes to the Financial Statements for the year ended 31 July 2013****16. Creditors: amounts falling due within one year**

	Consolidated		University	
		Restated		Restated
	2013	2012	2013	2012
	£000	£000	£000	£000
Bank loans	6,991	7,872	6,360	7,282
Other loans – HEFCE	125	63	125	63
Advance income on research	42,771	36,664	42,771	36,664
Social Security and other taxation	10,999	9,220	10,987	9,221
Amounts owed to group undertakings	-	-	39	41
Trade and other creditors	26,727	24,779	25,810	24,103
Accruals and deferred income	55,595	53,189	54,548	52,332
	<u>143,208</u>	<u>131,787</u>	<u>140,640</u>	<u>129,706</u>

**17. Creditors: amounts falling due after more than one year**

	Consolidated		University	
		Restated		Restated
	2013	2012	2013	2012
	£000	£000	£000	£000
Bank loans	92,594	98,402	84,777	89,954
Other loans – HEFCE	5,313	5,188	5,313	5,188
Accruals and deferred income	1,956	1,997	302	323
	<u>99,863</u>	<u>105,587</u>	<u>90,392</u>	<u>95,465</u>

Loans are repayable as follows:

	Consolidated		University	
	2013	2012	2013	2012
	£000	£000	£000	£000
Bank loans:				
Between one and two years	6,835	6,967	6,166	6,336
Between two and five years	14,658	16,936	12,394	14,802
Over five years	71,101	74,499	66,217	68,816
	<u>92,594</u>	<u>98,402</u>	<u>84,777</u>	<u>89,954</u>
Other loans – HEFCE:				
Between one and two years	1,125	125	1,125	125
Between two and five years	3,188	3,063	3,188	3,063
Over five years	1,000	2,000	1,000	2,000
	<u>5,313</u>	<u>5,188</u>	<u>5,313</u>	<u>5,188</u>

**Notes to the Financial Statements for the year ended 31 July 2013****17. Creditors: amounts falling due after more than one year (continued)**

Additional information on bank loans repayable after more than one year:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2013 £000	Balance outstanding 2012 £000
University:					
HSBC	1993	2018	variable	2,684	3,374
HSBC	1995	2013	variable	-	89
National Westminster Bank	1996	2016	fixed	2,338	3,145
National Australia Bank	1997	2018	fixed	628	776
National Australia Bank	1997	2018	fixed	931	1,124
National Australia Bank	1997	2019	fixed	3,140	3,767
National Westminster Bank	1999	2019	fixed	2,431	2,731
Barclays Bank	1999	2020	fixed	1,719	1,994
Barclays Bank	2004	2015	fixed	663	1,546
Barclays Bank	2005	2015	fixed	1,084	2,171
Barclays Bank	2006	2026	variable	8,404	7,999
Barclays Bank	2006	2036	fixed	10,755	11,238
Barclays Bank	2007	2047	fixed	50,000	50,000
				<u>84,777</u>	<u>89,954</u>
Subsidiaries:					
Santander	2007	2023	fixed	7,817	8,448
				<u>92,594</u>	<u>98,402</u>

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 1.59% to 8.43%, and the variable rates are at margins of between 0.19% and 0.5% over UK Base Rate or Euribor. The bank and other loans are secured against specific assets and/or the general covenant of the University.

The University does not guarantee the borrowings of any subsidiary undertaking.

**18. Provisions for liabilities and charges**

	Consolidated and University Maintenance Fund £000
At 1 August 2012	658
Utilised during year	(59)
Transfer from Income and Expenditure account	145
At 31 July 2013	<u>744</u>

The maintenance fund (into which payments are made from landlord and tenants) provides funding for future maintenance of buildings, roadways and other common areas at Southampton Science Park, and includes payments from tenants who have since left the Science Park. The fund is held by University of Southampton Science Park Limited.

**Notes to the Financial Statements for the year ended 31 July 2013****19. Deferred capital grants**

	Consolidated and University		
	Funding Council £000	Other grants £000	Total £000
At 1 August 2012 – restated			
Buildings	142,434	18,910	161,344
Equipment	-	5,891	5,891
Total	142,434	24,801	167,235
Additions			
Buildings	5,000	808	5,808
Equipment	-	3,125	3,125
Total	5,000	3,933	8,933
Released to Income and Expenditure account			
Buildings	(5,272)	(1,002)	(6,274)
Equipment	-	(3,111)	(3,111)
Total	(5,272)	(4,113)	(9,385)
At 31 July 2013			
Buildings	142,162	18,716	160,878
Equipment	-	5,905	5,905
Total	142,162	24,621	166,783
Released to Income and Expenditure account			
Funding body grants (note 2)			(5,272)
Research grants and contracts (note 4)			(3,751)
Other income (note 5)			(362)
Total			(9,385)

**Notes to the Financial Statements for the year ended 31 July 2013****20. Endowments**

	Restricted Permanent £000	Unrestricted Permanent £000	Consolidated and University Total Permanent £000		Restricted Expendable £000	2013 Total £000	2012 Total £000
At 1 August							
Capital	5,310	2,027	7,337		1,510	8,847	8,791
Accumulated income	946	151	1,097		38	1,135	1,042
	<u>6,256</u>	<u>2,178</u>	<u>8,434</u>		<u>1,548</u>	<u>9,982</u>	<u>9,833</u>
Additions	587	-	587		161	748	207
Disposals	(3)	-	(3)		(32)	(35)	(32)
Appropriations from Income and Expenditure reserves	-	74	74		-	74	69
Investment income	295	73	368		7	375	335
Expenditure	(354)	(73)	(427)		(57)	(484)	(260)
	<u>(59)</u>	<u>-</u>	<u>(59)</u>		<u>(50)</u>	<u>(109)</u>	<u>75</u>
Increase/(decrease) in market value of investments	655	274	929		213	1,142	(170)
At 31 July	<u>7,436</u>	<u>2,526</u>	<u>9,962</u>		<u>1,840</u>	<u>11,802</u>	<u>9,982</u>
At 31 July							
Capital	6,571	2,305	8,876		1,851	10,727	8,847
Accumulated income	865	221	1,086		(11)	1,075	1,135
	<u>7,436</u>	<u>2,526</u>	<u>9,962</u>		<u>1,840</u>	<u>11,802</u>	<u>9,982</u>

**21. Revaluation reserve**

	Consolidated	
	2013 £000	2012 £000
At 1 August	4,434	6,035
Increase/(decrease) in year of University of Southampton Science Park valuation	232	(1,601)
At 31 July	<u>4,666</u>	<u>4,434</u>

**Notes to the Financial Statements for the year ended 31 July 2013****22. Reconciliation of Income and Expenditure reserves**

	Consolidated £000	University £000
Balance at 1 August 2012	219,307	224,958
Surplus for the year	5,835	5,198
Add back pension deficit	4,137	4,137
Transfer to endowments (note 20)	(74)	(74)
Balance at 31 July 2013	<u>229,205</u>	<u>234,219</u>
Attributable to:		
University departments	26,864	26,864
Central reserves	<u>202,341</u>	<u>207,355</u>
	<u>229,205</u>	<u>234,219</u>

The above reserves have arisen from accumulated annual surpluses. A total of £216,294,000 (2012: £161,875,000) from within these sums has been applied to finance capital developments within the University.

**23. Related party transactions**

Due to the nature of the University's operations and the composition of the University Council, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of Council has an interest. All such transactions are conducted at arms length and in accordance with the University's Financial Regulations and Standing Orders on contracts.

A Register of Interests is maintained for members of the University Council and associated committees. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2013 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Director of Finance. There were two related party transactions during the year ended 31 July 2013 significant enough to warrant disclosure in the Financial Statements.

Mr John Trewby, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board. The University has a strong partnership with the Trust; most of the Faculty of Medicine's accommodation is on the Trust's Southampton General Hospital site, and the link with clinical services in the NHS is critical for the delivery of the Faculty's education, research and enterprise strategies.

## Notes to the Financial Statements for the year ended 31 July 2013

### 23. Related party transactions (continued)

Mr David Gilani and Mr Sam Ling were members of Council (Class 5 membership) as representatives of the Union of Students. Mr Gilani (Mr Ling for the period August 2012 to June 2013) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a block grant from the University, which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

In accordance with the exemptions contained within Financial Reporting Standard 8, no disclosure has been made for transactions between the University and fully owned group undertakings. Transactions between the University and spin-out companies in which minority shareholdings are held have not been disclosed as the University does not control or exercise any significant influence over the financial and operating policies of the companies.

### 24. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2013:

	Consolidated		University	
	2013	2012	2013	2012
	£000	£000	£000	£000
Commitments contracted for	39,175	65,357	39,175	65,357
Authorised but not contracted for	60,794	97,982	60,794	96,412
	<u>99,969</u>	<u>163,339</u>	<u>99,969</u>	<u>161,769</u>

In March 2011, University Council approved a capital programme for the period 2011-2015 with projects totalling an estimated cost of £170 million. The 2012 totals also include authorised and committed spend on conclusion of the previous capital programme.

### 25. Lease obligations

At 31 July 2013 the University was committed to making the following payments under non-cancellable operating leases in the next financial year:

	2013			2012		
	2 - 5 years	Over 5 years	Total	2 - 5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
Land and Buildings	80	877	957	142	366	508
Equipment	1,759	-	1,759	1,190	-	1,190
	<u>1,839</u>	<u>877</u>	<u>2,716</u>	<u>1,332</u>	<u>366</u>	<u>1,698</u>



**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes**

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS). These schemes are defined-benefit schemes.

The University also contributes to the National Health Service Pension Scheme (NHPS), the Teachers' Pension Scheme (TPS), the Medical Research Council Pension Scheme (MRCPS), Hampshire County Council (HCC) and National Employment Savings Trust (NEST).

Employer pension contributions for USS and PASNAS within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

Employer contributions in 2013/14 are expected to be:

	Rate %	£000
USS	16.00	23,808
PASNAS	17.25	5,952
TPS	14.10	76
NHPS	14.00	960
MRCPS	14.90	165
HCC	15.60	42
NEST	3.00	56

HCC contributions include a fixed fee of £23,000 which is payable over and above the salary based rate of 15.6%.

The University has fully adopted the disclosure rules of FRS 17 'Retirement Benefits'. The notes that follow show the detailed valuations required by the standard. However, pension fund liabilities can be valued in a number of other ways, and the University will continue to support the schemes based on the principles of on-going operations, as advised by the scheme trustees and actuaries.

The actuaries' recommendations for contributions to USS and PASNAS are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. Pension costs, which have been calculated using the projected unit method, are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. Unless it is considered prudent to recognise deficiencies over a shorter period, variations from regular cost are spread over the expected average working lifetime of members of the schemes, after making suitable allowances for future withdrawals. The latest valuations of the schemes assets and liabilities for which results are available are:

	USS	PASNAS	HCC
Date of valuation	31 March 2011	31 July 2012	31 March 2010
Market valuation of assets	£32,434 million	£120 million	£3,238 million
Past service liabilities	£47,594 million	£156 million	£4,494 million
Deficit of assets	(£15,160) million	(£36) million	(£1,256) million

The USS and HCC valuations reflect the total assets and liabilities of the schemes, not just the element attributable to the University.

## Notes to the Financial Statements for the year ended 31 July 2013

### 26. University pension schemes (continued)

#### USS

The assets of USS are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS is a multi-employer defined benefit pension scheme which is contracted out of the State Second Pension. It is not possible to identify each institutional members' share of the assets and liabilities, and therefore this scheme has been accounted for as a defined contribution scheme. As a result the costs charged to the income and expenditure account represent the contributions payable to the scheme for the year.

The latest triennial actuarial valuation was at 31 March 2011. At this date, the assets were sufficient to cover 68% of the benefits which had accrued to members after allowing for expected future increases in earnings. Under the scheme funding regulations, the assets of the scheme at the valuation date were 92% of the scheme's technical provisions.

As at 31 March 2013, USS had over 148,000 active members and the University had 3,858 active members participating in the scheme.

The total pension cost for the year was £22,326,000 (2012: £20,813,000) which includes £1,945,000 (2012: £1,755,000) of contributions outstanding at the Balance Sheet date, payable in August 2013.

#### NHPS/TPS/MRCPS

The NHPS, TPS and MRCPS schemes are externally funded and contracted out of the State Second Pension. Each institutions' share of the underlying assets and liabilities of these schemes cannot be identified and therefore contributions to these schemes are accounted for as if they were defined contribution schemes. As a result the costs charged to the income and expenditure account represent the contributions payable to the schemes for the year.

The number of members of these schemes employed by the University as at 31 July 2013 was TPS 12; NHPS 112 and MRCPS 18.

The total pension costs due for the University and contributions outstanding at the Balance Sheet date were:

	Pension cost		Outstanding at 31 July	
	2013	2012	2013	2012
	£000	£000	£000	£000
NHPS	932	808	79	75
TPS	79	102	6	8
MRCPS	41	-	14	-

**Notes to the Financial Statements for the year ended 31 July 2013**

**26. University pension schemes (continued)**

**NEST**

From April 2013, the University introduced the NEST scheme to comply with the Pensions Act 2008. This gives all University workers access to a qualifying pension scheme.

The total pension cost for the year was £4,807 (2012: £0) which includes £4,582 (2012: £0) of contributions outstanding at the Balance Sheet date, payable in August 2013.

The number of members of this scheme as at 31 July 2013 was 92.

**Federated Superannuation Scheme for Universities (FSSU)**

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year a total of £5,819 (2012: £6,123) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

**PASNAS**

The University contributes to a self-administered pension and assurance scheme for non-academic staff (PASNAS). The scheme is a defined benefit scheme, funded by contributions made in accordance with the recommendations of the scheme's actuaries.

As at 31 July 2013 a total of 1,689 University employees were members of PASNAS.

The last full valuation on 31 July 2012 indicated that the scheme's assets represented 77% of the technical provisions.

The principal actuarial assumptions used at the Balance Sheet dates are:

	31 July 2013	31 July 2012
Increase in salaries	3.65% pa until 2014 then 4.15% pa	2.85% pa until 2014 then 4.10% pa
Increase in pensions – pre 01/10/10 (CPI)	2.65% pa	2.10% pa
Increase in pensions – post 01/10/10 (CPI max 2.5%)	2.15% pa	1.80% pa
Discount rate	4.75% pa	4.35% pa
Inflation (RPI)	3.65% pa	2.85% pa
Inflation (CPI)	2.65% pa	2.10% pa
Mortality	110% of SAPS with CMI 2011 projections and a long term rate of improvement of 1.25% pa	100% of SAPS with a medium cohort projection subject to a 1% minimum improvement pa

**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

The fair value and expected rate of return of assets held on behalf of PASNAS comprise:

	Long term rate of return expected at July 2013	Value 31 July 2013 £000	Long term rate of return expected at July 2012	Value 31 July 2012 £000	Long term rate of return expected at July 2011	Value 31 July 2011 £000
Gilts	3.8%	17,789	2.9%	16,581	4.5%	16,311
Bonds	4.8%	13,684	4.4%	13,028	5.6%	10,486
Equities	6.5%	69,786	5.6%	54,481	7.2%	57,090
Target return funds	4.5%	27,367	4.8%	26,056	4.8%	25,632
Property	6.5%	5,473	5.6%	5,922	7.2%	5,825
Cash deposits	3.7%	2,737	3.1%	2,369	4.0%	1,165
Total		<u>136,836</u>		<u>118,437</u>		<u>116,509</u>

	2013 £000	2012 £000
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**Analysis of the amount shown in the balance sheet**

Fair value of scheme assets	136,836	118,437
Present value of liabilities	(182,566)	(185,696)
Net liability on balance sheet	<u>(45,730)</u>	<u>(67,259)</u>

**Analysis of the amount charged to staff costs within operating surplus**

Current service cost	(7,115)	(5,053)
Total operating charge	<u>(7,115)</u>	<u>(5,053)</u>

**Analysis of the amount charged to interest payable within operating surplus**

Expected return on scheme assets	5,723	7,116
Interest on scheme liabilities	(8,183)	(9,220)
Net finance cost	<u>(2,460)</u>	<u>(2,104)</u>

**Analysis of amount recognised in the STRGL**

Experience gain/(loss) on assets	11,089	(5,482)
Experience gain on liabilities	1,066	2,428
Changes in assumptions underlying the present value of the scheme liabilities	13,481	(15,444)
Actuarial gain/(loss) recognised in the STRGL	<u>25,636</u>	<u>(18,498)</u>

**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

	2013 £000	2012 £000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year	(67,259)	(46,403)
Movement in the year:		
Current service cost	(7,115)	(5,053)
Contributions	5,468	4,799
Net finance cost	(2,460)	(2,104)
Actuarial gain/(loss) in the STRGL	25,636	(18,498)
Deficit in scheme at end of year	<u>(45,730)</u>	<u>(67,259)</u>
 <b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	118,437	116,509
Employer contributions	5,468	4,799
Employee contributions	2,069	1,854
Benefits paid	(5,950)	(6,359)
Expected return on scheme assets	5,723	7,116
Actuarial experience gain/(loss) on assets	11,089	(5,482)
Assets at end of year	<u>136,836</u>	<u>118,437</u>
 <b>Analysis of movement in present value of liabilities</b>		
Liabilities at beginning of year	(185,696)	(162,912)
Current service cost	(7,115)	(5,053)
Interest on scheme liabilities	(8,183)	(9,220)
Employee contributions	(2,069)	(1,854)
Benefits paid	5,950	6,359
Actuarial experience gain on liabilities	1,066	2,428
Changes in assumptions underlying the present value of the scheme liabilities	13,481	(15,444)
Liabilities at end of year	<u>(182,566)</u>	<u>(185,696)</u>

**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

	2013	2012	2011	2010	2009
<b>History of experience gains and losses</b>					
Experience gains/(losses) on assets (£000)	11,089	(5,482)	5,000	10,182	(12,089)
Percentage of scheme assets	8.1%	4.6%	4.3%	9.6%	13.2%
Experience gains/(losses) on liabilities (£000)	1,066	2,428	1,365	(352)	(215)
Percentage of scheme liabilities	0.6%	1.3%	0.8%	0.2%	0.2%
Total amount recognised in STRGL (£000)	25,636	(18,498)	11,552	(13,212)	(13,132)
Percentage of scheme liabilities	14.0%	10.0%	7.1%	8.2%	10.1%

**HCC**

HCC has been able to apportion a percentage of its funds assets and liabilities relating to the University and therefore the scheme has been treated as a defined benefit scheme in the accounts.

The main financial assumptions used at the Balance Sheet dates are:

	31 July 2013	31 July 2012
Increase in salaries	4.5% pa	4.4% pa
Increase in pensions	2.6% pa	1.9% pa
Discount rate	4.4% pa	4.0% pa
RPI inflation	3.5% pa	2.9% pa
CPI inflation	2.6% pa	1.9% pa

The current mortality assumptions include sufficient allowance for future improvements in mortality rates and are further adjusted to reflect the actual mortality experience of the Fund. The assumed life expectations in years on retirement at age 65 are:

	Retiring today	Retiring in 20 years
Male	24.0	25.7
Female	25.0	26.9

The number of members of this scheme employed by the University as at 31 July 2013 was 8.

**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

The fair value and expected rate of return of assets held, calculated in proportion to the entire fund comprise:

	Long term rate of return expected at July 2013	Value 31 July 2013 £000	Long term rate of return expected at July 2012	Value 31 July 2012 £000	Long term rate of return expected at July 2011	Value 31 July 2011 £000
Equities	7.8%	2,290	7.5%	1,966	7.9%	2,275
Government bonds	3.3%	974	2.5%	999	3.9%	868
Property	7.3%	299	7.0 %	289	7.4%	288
Corporate bonds	4.0%	48	3.2%	51	4.7%	65
Cash	0.9%	120	1.4%	123	1.5%	104
Other	7.8%	259	7.5%	192	7.9%	-
Total		<u>3,990</u>		<u>3,620</u>		<u>3,600</u>

	2013 £000	2012 £000
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**Analysis of the amount shown in the balance sheet**

Fair value of scheme assets	3,990	3,620
Present value of liabilities	(6,200)	(5,950)
Net liability on balance sheet	<u>(2,210)</u>	<u>(2,330)</u>

**Analysis of the amount charged to staff costs within operating surplus**

Current service cost	(60)	(60)
Total operating loss	<u>(60)</u>	<u>(60)</u>

**Analysis of the amount charged to interest payable within operating surplus**

Expected return on scheme assets	200	230
Interest on scheme liabilities	(230)	(280)
Net finance cost	<u>(30)</u>	<u>(50)</u>

**Analysis of amount recognised in the STRGL**

Experience gain/(loss) on assets	380	(90)
Experience loss on liabilities	(10)	(30)
Changes in assumptions underlying the present value of the scheme liabilities	(220)	(350)
Actuarial gain/(loss) recognised in the STRGL	<u>150</u>	<u>(470)</u>

**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

	2013	2012
	£000	£000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year	(2,330)	(1,820)
Movement in the year:		
Current service cost	(60)	(60)
Employer contributions	60	70
Net finance cost	(30)	(50)
Actuarial gain/(loss) in STRGL	150	(470)
Deficit in scheme at end of year	(2,210)	(2,330)
<b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	3,620	3,600
Employer contributions	60	70
Employee contributions	20	20
Benefits paid	(290)	(210)
Expected return on scheme assets	200	230
Actuarial experience gain/(loss) on assets	380	(90)
Assets at end of year	3,990	3,620
<b>Analysis of movement in present value of liabilities</b>		
Liabilities at beginning of year	(5,950)	(5,420)
Current service cost	(60)	(60)
Interest on scheme liabilities	(230)	(280)
Employee contributions	(20)	(20)
Benefits paid	290	210
Actuarial experience loss on liabilities	(10)	(30)
Changes in assumptions underlying the present value of the scheme liabilities	(220)	(350)
Liabilities at end of year	(6,200)	(5,950)



**Notes to the Financial Statements for the year ended 31 July 2013****26. University pension schemes (continued)**

	2013	2012	2011	2010	2009
<b>History of experience gains and losses</b>					
Experience gains/(losses) on assets (£000)	380	(90)	810	280	(580)
Percentage of scheme assets	9.5%	2.5%	22.5%	8.0%	18.1%
Experience (losses)/gains on liabilities (£000)	(10)	(30)	(380)	60	(20)
Percentage of scheme liabilities	0.2%	0.5%	7.0%	1.0%	0.3%
Total amount recognised in STRGL (£000)	150	(470)	280	410	(1,010)
Percentage of scheme liabilities	2.4%	7.9%	5.2%	7.0%	17.3%

**27. Reconciliation of consolidated operating surplus to net cash inflow from operating activities**

	2013 £000	Restated 2012 £000
Surplus after depreciation of assets and exceptional items	5,726	14,230
Depreciation	22,120	22,251
Loss on disposal of tangible fixed assets	3	235
Loss on disposal of fixed asset investments	134	-
Write down of fixed asset investments	3	-
Deferred capital grants released to income (note 19)	(9,385)	(8,388)
Non-cash donations	-	(3,150)
Current service cost of defined benefit pension schemes	1,647	244
Exchange rate loss/(gain) on loans	1,194	(1,473)
Investment income	(4,999)	(4,384)
Interest payable	7,329	7,621
Diminution of current asset investments valuation below historic cost	7	1
(Increase)/decrease in stock	(60)	254
(Increase)/decrease in debtors	(605)	776
Increase in creditors and accruals	11,502	19,320
Increase in provisions	86	43
Net cash inflow from operating activities	34,702	47,580

The 2012 increase in creditors and accruals includes the receipt of a £10 million donation for the creation of a cancer immunology centre which will be deferred until the project commences.

**Notes to the Financial Statements for the year ended 31 July 2013**
**28. Returns on investments and servicing of finance**

	2013 £000	2012 £000
Income from endowments	375	335
Income from short term deposits and investments	4,641	4,565
Other interest received	1	3
Interest paid	(4,915)	(5,510)
	<u>102</u>	<u>(607)</u>

**29. Capital investment and financial investment**

	2013 £000	Restated 2012 £000
Tangible assets acquired	(73,207)	(48,674)
Endowment asset investments acquired	(678)	(319)
	<u>(73,885)</u>	<u>(48,993)</u>
Total fixed and endowment asset investments acquired	(73,885)	(48,993)
Receipts from sales of fixed asset investments	20	-
Receipts from sales of tangible assets	73	-
Deferred capital grants received	8,415	13,957
Endowments received	713	175
	<u>(64,664)</u>	<u>(34,861)</u>

**30. Analysis of changes in consolidated financing during the year**

	2013 £000	2013 £000	2012 £000	2012 £000
Balance at 1 August		111,525		117,063
New loans and increased debt	250		3,620	
Exchange rate loss/(gain) on loans	1,194		(1,473)	
Capital repayments	(7,946)		(7,685)	
	<u></u>	(6,502)	<u></u>	(5,538)
Balance at 31 July		<u>105,023</u>		<u>111,525</u>

**Notes to the Financial Statements for the year ended 31 July 2013****31. Analysis of changes in net (debt)/cash**

	At 1 August 2012 £000	Cash flows £000	Other non cash changes £000	At 31 July 2013 £000
Cash at bank and in hand	28,135	23,322	-	51,457
Short term deposits and investments	125,519	(60,878)	(7)	64,634
Debt due within one year	(7,935)	7,946	(7,127)	(7,116)
Debt due after one year	(103,590)	(250)	5,933	(97,907)
	<u>42,129</u>	<u>(29,860)</u>	<u>(1,201)</u>	<u>11,068</u>

**32. Access funds**

	Consolidated and University	
	2013 £000	2012 £000
Balance at 1 August	-	65
Net HEFCE grant	<u>249</u>	<u>278</u>
	<u>249</u>	<u>343</u>
Disbursed to students	<u>(246)</u>	<u>(343)</u>
Balance at 31 July	<u>3</u>	<u>-</u>

The receipts and disbursements above are excluded from the income and expenditure account as the funds are administered by the University on an agency basis on behalf of HEFCE.

**33. National College for Teaching and Leadership (NCTL) bursaries**

	Consolidated and University				
	At 1 August 2012 £000	Income received £000	Disbursements £000	Returned to NCTL £000	At 31 July 2013 £000
Initial Teacher Training bursaries	(27)	2,630	(2,380)	-	223
	(27)	2,630	(2,380)	-	223

The receipts and disbursements above are excluded from the income and expenditure account as the funds are administered by the University on an agency basis on behalf of the NCTL.

**Notes to the Financial Statements for the year ended 31 July 2013****34. Linked charities**

	Consolidated and University					At 31 July 2013 £000
	At 1 August 2012 £000	Transfers £000	Income £000	Expenditure £000	Change in market value £000	
Miss Betty Evelyn Veal Will Trust	61	-	1	-	-	62
The Southampton University Development Trust	1,373	-	48	(35)	165	1,551
The Spitfire Mitchell Memorial Fund	215	-	2	(4)	-	213
	<u>1,649</u>	<u>-</u>	<u>51</u>	<u>(39)</u>	<u>165</u>	<u>1,826</u>

The Miss Betty Evelyn Veal Will Trust provides financial support for postgraduate students with physical disabilities studying at the University.

The Spitfire Mitchell Memorial Fund provides scholarships at the University with an emphasis on aeronautics and engineering.

The Southampton University Development Trust was formed in 1986 to raise funds for various University projects. Since November 2009 all donations have been received directly by the University but the Trust continues to process existing standing order arrangements and legacy gifts that are specifically directed to the Trust. The Trust is an independent entity which is not included within the consolidated University balance sheet or income and expenditure account.

## **Financial Statistics**

## Financial Statistics

Financial Indicators	2013	Restated 2012	2011	2010	2009
<b>Key financial metrics</b>					
Historical cost surplus as % of total income	1.3%	3.2%	3.6%	2.0%	10.3%
Net liquidity/ (total expenditure - depreciation) (days)	101	140	137	114	126
External borrowing as % of total income	23.5%	25.5%	27.2%	28.9%	32.4%
Discretionary reserves (excl. pension liability) as % of total income	51.7%	50.4%	47.5%	44.4%	44.0%
Net cash inflow from operating activities as % of total income	7.8%	10.9%	10.7%	8.5%	19.7%
Staff costs as % of total income	56.1%	53.8%	54.4%	54.5%	57.6%
Long term liabilities as % of income and expenditure reserves	43.6%	48.1%	55.6%	63.4%	71.3%
Net (cash)/debt as % of total income	(2.5)%	(9.6)%	(6.6)%	0.1%	0.2%
Current assets / Current liabilities	1.13:1	1.51:1	1.71:1	1.50:1	1.50:1
<b>Source of income</b>					
Funding Council grants	21.8%	25.1%	28.4%	28.9%	29.9%
Home/EU fees and support grants	22.3%	19.8%	18.9%	19.1%	18.2%
International fees	11.8%	11.2%	10.1%	8.6%	8.0%
Research grants and contracts	23.0%	21.6%	21.8%	23.0%	22.4%
Other operating income	20.0%	21.3%	19.8%	19.5%	20.2%
Endowment income and interest receivable	1.1%	1.0%	1.0%	0.9%	1.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013

From Research Councils	£000
Arts and Humanities Research Council	881
Biotechnology and Biological Sciences Research Council	2,836
British Academy	296
Economic and Social Research Council	3,990
Engineering and Physical Sciences Research Council	23,899
Medical Research Council	4,544
Natural Environment Research Council	6,049
Royal Society	1,349
Science and Technology Facilities Council	974
<b>Total Research Councils</b>	<b>44,818</b>
<b>From UK-based Charitable Bodies</b>	<b>£000</b>
AAIR Charity	28
Action Medical Research	51
Action on Hearing Loss	22
Alzheimer's Research UK	182
Alzheimer's Society	133
Arthritis Research UK	283
Association for International Cancer Research	39
Breast Cancer Campaign	268
Breast Cancer Research Trust	42
British Association of Oral and Maxillofacial Surgeons	21
British Council for Prevention of Blindness	60
British Heart Foundation	459
British Liver Trust	27
British Lung Foundation	35
British Retinitis Pigmentosa Society	52
British Skin Foundation	48
Bupa Foundation	168
Cancer Research UK	4,555
Colt Foundation	23
Crohn's in Childhood Research Association	50
Diabetes UK	111
Dunhill Medical Trust	76
Fight for Sight	43
Gerald Kerkut Charitable Trust	244
Institution of Occupational Safety and Health	35
Kay Kendall Leukaemia Fund	215
Kids Kidney Research	40
Leukaemia and Lymphoma Research	1,421
Leverhulme Trust	753

## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013 (Continued)

Lloyd's Register EMEA	110
Lloyd's Register Foundation	578
Macmillan Cancer Support	369
Marie Curie Cancer Care	23
Marine Biological Association of the UK	174
Meningitis UK	47
Multiple Sclerosis Society	75
National Eye Research Centre	40
Newlife Foundation for Disabled Children	63
Nuffield Foundation	45
Parkinson's UK	56
Parthenon Trust	30
Rosetrees Trust	58
Royal Academy of Engineering	405
Royal College of Anaesthetists	85
Royal College of Pathologists	30
Royal National Lifeboat Institution	100
Southampton Rheumatology Trust	34
Sparks	42
Swire Educational Trust	22
TFC Frost Charitable Trust	30
Wellcome Trust	2,067
Wessex Medical Research	380
Wolfson Foundation	29
World Cancer Research Fund	73
Others less than £20,000	280

#### Total UK-based Charitable Bodies

14,729

#### From Other Sources

£000

ABB Switzerland Ltd	49
Abbott Laboratories	29
Airbus Operations GmbH	33
Airbus Operations Ltd	40
Airbus Operations S.A.S.	342
Alcan International Ltd	27
Alderney Commission for Renewable Energy	24
AMC Medical Research B.V.	87
AMEC Environment & Infrastructure UK Ltd	64
Arkivum Ltd	48
ARM Ltd	153
AstraZeneca (UK) Ltd	55
AstraZeneca AB	62
ATD Bio Ltd	26



## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013 (Continued)

Avon Polymer Products Ltd	35
BAE Systems (Marine) Ltd	300
BAE Systems (Operations) Ltd	119
Bath Spa University	22
Bill & Melinda Gates Foundation	55
BioInvent International AB	89
Biomedical Sciences Institute (Singapore)	754
Biothera	46
BP Exploration Operating Ltd	100
British Council	20
British Telecom Plc	54
Calouste Gulbenkian Foundation	44
Cambridge University Hospitals NHS Foundation Trust	56
Central and North West London NHS Foundation Trust	27
CERN - The European Organization for Nuclear Research	39
Cetim	66
Chalmers University of Technology (Sweden)	85
Copper Development Association Inc.	50
Covesion Ltd	71
Cranfield University	20
Cytec Engineered Materials Ltd	56
Danone Research B.V. (Netherlands)	56
Department for Business, Innovation and Skills	30
Department for Environment, Food and Rural Affairs	120
Department for International Development	199
Department of Health	1,925
DePuy International Ltd	89
E.V. Analytics Ltd	32
EADS UK Ltd	94
EchoVista Systems Ltd	26
Edwards Ltd	30
Electronics and Telecommunications Research Institute (South Korea)	39
Energy Technologies Institute	107
English Heritage	26
Environment Agency	87
European Commission	14,924
European Food Safety Authority	24
European Organisation for Research and Treatment of Cancer	82
European Regional Development Fund	140
European Science Foundation	103
European Space Agency	147
F. Hoffmann-La Roche Ltd	37
Fiberight Ltd	68
Food and Agriculture Organization of the United Nations	171
Ford Motor Company Ltd	22

## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013 (Continued)

Forestry Commission	72
Forum Euromediterraneen des Instituts de Sciences Economiques	41
Fritz Thyssen Stiftung (Germany)	21
GE Global Research	127
Gillette Management LLC	24
GlaxoSmithKline Biologicals S.A.	568
GlaxoSmithKline Plc	105
Google Inc.	43
Griffon Hoverwork Ltd	47
Higher Education Funding Council for England	26
Hitachi Europe Ltd	26
Hitachi Rail Europe Ltd	20
Honeywell International Inc.	71
Huawei Technologies (UK) Co., Ltd	69
Hyundai Motor Group	39
IBM UK Ltd	267
Icon Genetics GmbH	68
Imperial College London	46
Informa UK Ltd	51
International Institute for Environment & Development	26
Invibio Ltd	41
Jaguar Land Rover Ltd	37
Janssen-Cilag Ltd	179
Jersey Community Relations Trust	21
John Templeton Foundation	105
Kajima Corporation (Japan)	28
Kent County Council	45
Lonza Biologics Plc	139
LSI Logic Europe Ltd	77
Makhteshim Chemical Works Ltd	22
Marine Current Turbines Ltd	32
Mead Johnson Nutrition	28
Merck Serono Ltd	195
Microsoft Ltd	89
Momenta	273
National Geographic Society	38
National Grid Electricity Transmission Plc	631
National Institute of Water & Atmospheric Research N.Z.	71
National Institutes of Health (USA)	48
National Organization for Rare Disorders (NORD)	27
National Physical Laboratory	24
Natural England	58
Netherlands Organisation for Scientific Research (NWO)	33
Network Rail	42

## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013 (Continued)

New Forest District Council	69
NHS National Institute for Health Research	5,591
NHS South Central Strategic Health Authority	306
Nissan Motor Co., Ltd	31
Nordic Research Council	45
Novartis Institutes for BioMedical Research	84
Office for National Statistics	134
Office National d'Études et de Recherches Aérospatiales (ONERA)	33
Ordnance Survey	25
Oxford Nanopore Technologies Ltd	21
Pfizer Inc.	142
Pfizer Ltd	89
Philips Electronics Nederland B.V.	59
Philips Oral Healthcare Inc.	62
Portsmouth Hospitals NHS Trust	47
QinetiQ Ltd	61
Railway Safety and Standards Board Ltd	31
Ramboll UK Ltd	23
Region Haute-Normandie	82
Roche Products Ltd	45
Rock Solid Images Plc	20
Rolls-Royce Plc	854
Royal Centre for Defence Medicine	110
Saint-Gobain Performance Plastics Rencol Ltd	20
SAIPEM Abu Dhabi	77
Samsung Electronics Co., Ltd	95
Schlumberger Ltd (USA)	43
SCITEK Consultants Ltd	66
Scottish Natural Heritage	38
Secure Meters (UK) Ltd	281
SELEX Galileo Ltd	68
Seren Photonics Ltd	59
Shared Access Ltd	28
Sharp Laboratories of Europe	159
Shell Global Solutions UK	28
Shell International Trading & Shipping Company Ltd	20
Shire Pharmaceuticals Ltd	35
Showa Denko K.K.	22
SNCF (France)	57
Southampton City Council	159
Southampton City Primary Care Trust	109
Southern Health NHS Foundation Trust	24
Space ConneXions Ltd	138
SPI Lasers UK Ltd	88

## Financial Statistics

### Income from sponsored research for the year ended 31 July 2013 (Continued)

Spire Healthcare Ltd	24
Staffordshire University	29
Star Financial Systems Ltd	33
Statoil (Norway)	35
Techimp S.p.A.	25
Technical University of Denmark	37
Technology Strategy Board	1,301
Tesco Plc	36
Tesco Stores Ltd	100
Toshiba Research Europe Ltd	55
Total Foundation	60
TWI Ltd	30
UCB Celltech	117
UK Sport	218
UM Cancer Research Institute	71
Unilever	223
University for the Creative Arts	28
University Hospital Southampton NHS Foundation Trust	666
University of Bath	29
University of Bern	27
University of Essex	26
University of Liverpool	26
University of Massachusetts	20
University of Minnesota	45
University of Reading	34
University of South Carolina	45
Van Oossanen Naval Architects B.V.	34
Vestas Wind Systems A/S (Denmark)	28
Vifor AG (Switzerland)	135
Vitacress Conservation Trust	20
Wartsila Italia S.p.A.	25
Waste and Resources Action Programme (WRAP)	47
Westminster City Council	30
World Anti-Doping Agency (Canada)	94
Others less than £20,000	3,733
<b>Total Other Sources</b>	<b>42,829</b>
<b>Total Income from Sponsored Research</b>	<b>102,376</b>





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