

Financial statements

2017/2018



University of Surrey

Financial statements for the year ended 31 July 2018

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Vice-Chancellor's introduction



I am pleased to introduce the 2017/18 financial statements. These reflect a further year of growth, with higher student numbers driving a 9% increase in total income to almost £300m.

2017/18 marked the first year of our new five year corporate strategy, 'The Surrey Advantage', and the launch of various new supporting strategies. These include a new education strategy which will guide us in providing students with a rounded education in order to succeed in their working lives.

Undergraduate student numbers in 2017/18 were just over 13,000, a 30% rise in four years. This reflected both the popularity of existing courses and expansion of the academic offering. Following completion of our £12.5m Innovation for Health building, 2017/18 saw the first intakes to five new undergraduate courses across the traditional boundaries of health and engineering. At the same time, the School of Veterinary Medicine admitted its fourth undergraduate cohort, increasing the School's undergraduate headcount to over 400.

We remain focused on growing our research base in line with the government's industrial strategy priorities. The value of research income and bids has continued to rise with 2017/18 research awards of £45m matching the previous year's figure – a strong result given that the previous year's figure included an exceptional £10m award for 5G research.

The excellence of our research and teaching was recognised in November 2017 by receipt of a fourth Queen's Anniversary Prize - the highest accolade for any UK academic institution. The latest award recognised half a century of pioneering work in the field of food and nutrition, work that has brought about major changes in government policy and helped transform consumer perception.

2017/18 saw further success for our 5G Innovation Centre, with successful delivery of our £10m part of the government contract to deliver the basis of a national framework for 5G test bed developments around the UK; hosting of the country's first Transport on Demand (ToD) demonstration of an autonomous vehicle; and the

announcement, in July 2018, that the University's unique 5G test bed was able to support one million users.

We continue to undertake a significant programme of capital investment to increase capacity for academic work and support the student experience. The rate of capital spend increased to £68m in 2017/18, driven by further investment in the £80m Manor Park student residences project. This project has delivered 480 new rooms for the 2018/19 academic year, with a further 670 rooms due to come on stream in September 2019.

The results of the 2018 National Student Survey presented a mixed picture. Some departments performed strongly, but we were disappointed to see overall satisfaction levels fall by 3% to 84% and are focused on taking appropriate action at both departmental and University levels.

We continue to operate in a challenging and competitive environment. We will need to be adaptive and agile to respond to the challenges and make the most of future opportunities. We remain committed to our strategy and to delivering a first-class student experience.

I would like to express my thanks to all members of the University Council, staff, students and supporters for their individual and collective contributions over the past year both to the University and to wider society.

Professor G Q Max Lu
President and Vice-Chancellor

Strategic report

Introduction

This strategic report seeks to set the 2017/18 financial results of the University and its subsidiary companies in the context of the University's strategy and operations.

University overview

The University was established on 9 September 1966 with the grant of its Royal Charter, though its roots go back to 1891 with the founding of the Battersea Polytechnic Institute. It became a college of advanced technology in 1956 and moved from London to its present location in Guildford in the late 1960s.

Although founded as a science and engineering focused institution, the University's educational, research and other activities now cover a broad range of disciplines. The University is organised into three academic faculties, each led by an Executive Dean:

- Faculty of Arts & Social Sciences (FASS)
- Faculty of Engineering & Physical Sciences (FEPS)
- Faculty of Health & Medical Sciences (FHMS)

In addition to its core academic activities (which include the activities of Surrey Sports Park Limited), the University owns and manages Surrey Research Park. Since its establishment in the mid-1980s Surrey Research Park has developed as a major centre of excellence in technology, science, health and engineering. Although not a requirement, some tenants are spinouts from the University and others benefit from close links with the University's academic activities.

Operating environment

The University continues to operate in a challenging environment with uncertainties around the outcomes of the government's post-18 education and funding review, Brexit, immigration policy and pensions.

The major review of post-18 education continues with a report expected in early 2019. While the outcomes are uncertain, a shift in funding from higher education to further education is a possibility, with the potential introduction of differentiated undergraduate fees, or a significantly reduced basic fee possibly with a government grant top-up for high cost science, technology, engineering and maths (STEM) subjects.

The higher education sector, like many others, is concerned about the consequences of a possible 'no deal' Brexit. It is also concerned about any deal that restricts access to (and influence over) the next round of EU framework funding for research or restricts the movement of talent. However, there may be new opportunities through the development of relationships with other governments. Further to the Brexit context, the current immigration policy, despite recent changes, presents challenges for the attractiveness of the UK as a destination for work or study, which in turn has the potential to affect the University's ability to recruit.

There are also considerable uncertainties regarding the future costs and benefits of the Universities Superannuation Scheme (USS). With the March 2017 valuation still not finalised, the Rule 76 cost sharing agreement has been triggered. This has set member institutions on a path that will see employer contributions rise from the current 18% to 24.9% by April 2020. The recommendations of USS's Joint Expert Panel (formed following industrial action in early 2018) would, if accepted, mean lower contribution increases. However, there would be an increase in risk for employers and some benefit reductions.

On a more positive note, the UK government's intention to raise R&D spending as a percentage of GDP from 1.7% to 2.4% by 2027, and the accompanying UK Industrial Strategy, present opportunities for the sector and new impetus for engagement with industry.

Strategy

In autumn 2017 the University launched its new five year corporate strategy. '[The Surrey Advantage](#)' sets out a clear direction for the future, highlighting the University's priorities and the ways in which it will ensure resilient, agile, and sustainable growth in order to strengthen its position as a prominent global university.

The strategy identifies four strategic priorities. Progress in these areas is described later in this report.

1. Teaching, learning and student experience

Consolidate our excellent teaching and continue to improve the student experience to respond to students' growing expectations of enhanced academic quality, support services, facilities, accommodation and pathways to employment.

2. Research, impact and innovation

Enhance our excellent research and increase its impact to respond to an ever more competitive environment by improving the quality of research and by retaining and attracting top talent.

3. Regional and global engagement

Build a global reputation and diverse resource base through engagement and partnerships to allow us to reach our education and research goals.

4. People and culture, finance, infrastructure and digital

Be financially sustainable, attract and retain talented staff, enhance our digital and physical infrastructure, and increase operational efficiency and effectiveness in response to rising expectations and competition.

2017/18 has seen the development of various sub-strategies and associated implementation plans. Further information on these is provided in the relevant sections below.

Strategic report (continued)

The University routinely monitors its performance through a balanced scorecard. This comprises eight core academic KPIs (four each for teaching and research), plus additional KPIs for people & culture and finance & sustainability. Wherever possible, the balanced scorecard uses established sector definitions in order to facilitate external benchmarking. Relevant metrics are included in this report.

Review of operations

Learning and teaching

The University aims to provide the highest quality education that combines academic rigour with personal and professional development and employability skills.

Education strategy

During 2017/18 the University launched its new Education Strategy 2018-2022. This will guide the University in providing students with a rounded education in order to succeed in their working lives. The strategy emphasises three interconnected elements of students' development:

- knowledge and skills
- cultural and global intelligence
- resilience and resourcefulness.

The strategy includes a number of specific objectives and actions. These relate, inter alia, to professional training and support for employment; pedagogical development; and digital enablement including virtual learning, digital assessment and captured content.

Learning and teaching developments

The University continues to seek to expand its academic offering in response to the changing needs of society and student demand.

Following completion of the £12.5m Innovation for Health building, 2017/18 saw the first intakes to five new undergraduate courses across the traditional boundaries of health and engineering.

In September 2017 the School of Veterinary Medicine admitted its fourth undergraduate cohort, comprising 135 students. This increased the School's total undergraduate headcount to 422. The tariff score for the 2017 intake (177) was again the highest in the University and module evaluation scores are consistently high.

The University was disappointed to learn, in March 2018, that its bid to establish a new medical school had been unsuccessful. Although it submitted a strong bid, priority was given to universities in parts of the country where doctor shortages are more acute. Despite not being awarded medical school places, the University is confident of growing its health sciences teaching and research in other ways, drawing on multi-disciplinary opportunities such as increasing the use of technology in healthcare.

Employability

The University continues to maintain its reputation as an institution focused on supporting its students into graduate-level jobs and/or further study.

The Professional Training Year (PTY), which is available to almost all undergraduate students, remains a significant selling point for the University in terms of enhancing prospective students' prospects of obtaining graduate-level employment. 1,038 students undertook a placement year in 2017/18 (2016/17: 1,199 students).

Significant investment in the Directorate of Employability has enabled it to increase its student-facing presence and a new IT system 'Surrey Pathfinder' was launched in February 2018. This online platform provides a wealth of career development tools to students and, for the first time, a single online vacancy portal to advertise all placement opportunities and graduate jobs. The partnership with the Widening Participation and Outreach team has led to support for a new employability award and specialist careers support for widening participation and black & minority ethnic students.

The results of HESA's 2017 'Destination of Leavers from Higher Education' (DLHE) survey, released in 2018, showed an improvement in the percentage of leavers in work and/or further study six months after graduation at 94.2% (2017: 93.0%), also in the number in graduate-level jobs at 80.1% (2017: 76.9%).

Student experience

During 2017/18 the University continued to invest in an £80m project to provide 1,150 additional student rooms on its Manor Park campus by September 2019. 480 of these were completed in time for the September 2018 intake. The University also delivered on a number of other initiatives to enhance the student experience. These included additional access to study spaces, enhancement of student communications, improvements to timetabling, assistance in finding private accommodation and improvements to catering provision. The sector-wide rise in demand for wellbeing support was recognised through the launch of a new wellbeing strategy accompanied by increased investment.

Many of the improvements made were positively acknowledged by students in the free-text comments in the 2018 National Student Survey (NSS). The NSS scores for certain departments were strong, with Psychology achieving an overall satisfaction score of 94% and Physics 92%. Nevertheless, the overall result of 84% of Surrey students expressing satisfaction with the quality of their course was disappointing when compared with the results achieved in recent years.

Chart 1: National Student Survey (NSS)

	2013/14	2014/15	2015/16	2016/17	2017/18
Overall satisfaction	91%	92%	90%	87%	84%
Position	=8/135	=5/139	=17/140	=33/131	=71/137

Strategic report (continued)

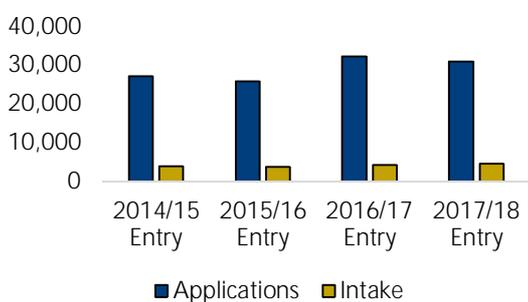
The results were highly nuanced by department and there was no single driver for the decline. Actions are being taken as appropriate, with some specific to individual academic departments and others spanning the University.

Student numbers

The University's much enhanced reputation over recent years has led to a significant increase in student demand for places, although this softened in line with national trends in 2017.

Applications for 2017/18 undergraduate entry were broadly in line with the previous year at just over 31,000. The undergraduate student intake increased to 4,625 from 4,416 the previous year.

Chart 2: Undergraduate applications and student intake

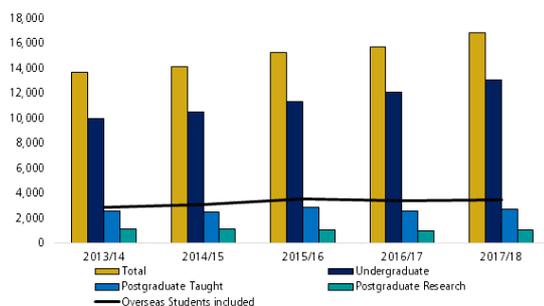


Note: Applications data is taken from Surrey Business Intelligence and is only available for 2014/15 entry onwards

The 2017/18 entry tariff of 158, under the new UCAS definition, equated to 410 under the old definition. This was marginally lower than for the previous year's entry.

The total student headcount has risen steadily in recent years from 13,706 in 2013/14 to 16,878 in 2017/18. This growth has been driven by the increase in undergraduate intake numbers, with the undergraduate headcount rising from 9,977 in 2013/14 to 13,057 in 2017/18.

Chart 3: Student numbers (headcount at 1 December)



Research

The University continues to focus on growing its research base in line with the government's industrial strategy priorities, developing its unique capabilities in areas such as space engineering, 5G communications, signal processing and other digital enablers.

In January 2018 Professor David Sampson joined the University as Vice-Provost, Research and Innovation from the University of Western Australia. He took on an expanded role that embraces all aspects of the University's research portfolio, including impact and innovation, as well as commercial enterprise and strategic partnerships.

Research strategy

The new corporate strategy includes a five year goal of reaching £60m of research income by 2022. Under the leadership of the new Vice-Provost, the research strategy has been revised and underlying structures and processes are being revisited to support the planned growth in research activities. Plans include centrally managed revenue and capital expenditure budgets to aid recruitment of high-quality research academics in strategically important fields, grow postgraduate research (PGR) student numbers and support the development of key areas aligned to the government's industrial strategy priorities.

Research income, bids and awards

The financial statements show total research income for 2017/18 of £42.7m (2016/17: £40.3m).

Chart 4: Research income

	2017/18	2016/17
	£m	£m
Operational research income	38.8	33.9
5GIC programme contributions in kind	3.9	6.4
Total	42.7	40.3

In addition to growth in core operational research income, the 5G Innovation Centre (5GIC) programme is attracting significant in-kind contributions from industrial partners for the development of research services and capacity. These contributions (valued at £3.9m in 2017/18) have no impact on the financial surplus for the year as income and expenditure are reported at the same values. Trends in research bids, awards and extensions are shown in the table below.

Chart 5: Research bids, awards & extensions

	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m
Research awards and extensions	32.5	43.0	38.2	45.0	44.5
Research bids	140.8	164.9	130.1	166.8	175.8

The value of new research awards (i.e. the order book for future research activity) announced during 2017/18 was £44.5m (2016/17: £45.0m). This was a strong result as the previous year's figure included an exceptional £10.0m award from the Department for Digital, Culture, Media and Sport (DCMS) for 5G research.

Strategic report (continued)

£8.9m of new awards were from the European Commission. This was significantly higher than the previous year's total of £5.8m, reflecting improved success rates. Awards from the UK Research Councils totalled £18.3m compared with £14.8m in 2016/17. £11.1m of this came from the Engineering and Physical Sciences Research Council (EPSRC) (2016/17: £9.3m). Awards from industry were lower at £4.9m (2016/17: £7.5m), with the previous year's figure including two significant awards of £1.1m and £0.6m.

Improving success rates for research bids is a major component of the research strategy. In value terms there were year-on-year improvements in the success rates for both European Commission and UK Research Council bids, with the former seven points higher at 22% and the latter three points higher at 32%. Nevertheless, overall success rates (in value terms) were two points lower in 2017/18 at 31% due to the shift towards European Commission bids, which have lower success rates than UK Research Council bids.

Significant research awards announced during 2017/18 included the following:

- An award of £3.0m from the EPSRC representing the University's share of the FAIR-SPACE award. The University will lead a consortium of five other universities and 28 other project partners on the establishment of a national hub for space-focused artificial intelligence and robotics research. Total funding to establish 'The Future AI and Robotics for Space (FAIR-SPACE) Hub' is circa £30m. The 28 project partners drawn from industry, research, commercial and governmental organisations include the University's former subsidiary company Surrey Satellite Technology Limited.
- An award of £1.6m from the EPSRC for the University's Advanced Technology Institute and 5GIC to establish a hub that will produce electronics for future smart consumer and industrial products. The £4.2m project, supported by 32 partner organisations, was co-developed with QinetiQ and the National Physical Laboratory (NPL).
- An award worth up to €2m from the European Commission for the School of Veterinary Medicine. The University will undertake interdisciplinary research as part of a €90m pan European project embracing the 'One Health' concept which recognises that human health is interconnected with the health and welfare of animals and the environment. This award increased the total value of awards secured by the School of Veterinary Medicine since its establishment in 2014 to over £6m.
- Three awards totalling £2.0m from DCMS to support the first phase of the UK National 5G Test Beds and Trials Programme. The University will work closely with three new test beds that will provide major showcases for applications of 5G in important sectors of the UK economy. All three will connect to the 5G

testbed at the University for end-to-end trials of 5G. This work follows the University's successful completion of its £10m part of a £16m DCMS contract to deliver, in just nine months, the basis for a national framework for 5G test bed developments around the UK.

The value of bidding increased by £9.0m (5%) in 2017/18 to £175.8m. This increase was driven by an increase in bids to the European Commission, Innovate UK and charities, with bids to the UK Research Councils remaining broadly level.

Postgraduate research students

The research strategy recognises that postgraduate research students (PGRs) and early career researchers (ECRs) have a pivotal role to play in enabling the University to realise its research ambitions.

Thesis submission rates have been rising steadily and are comfortably above the upper Research Council expectation of 80% submitting within four years. Since establishing the doctoral college in 2016/17 the University has invested in a number of activities, both to support its plans to increase the number of PGR students to a level more comparable with its peers and to improve their experience while at the University. With respect to the latter, significant progress has been seen with Surrey ranked seventh out of 63 reported institutions in the 2018 Postgraduate Research Experience Survey (PRES).

In December 2017 it was announced that the University had been awarded £1.0m by the Leverhulme Trust to establish the world's first doctoral training centre for quantum biology. The grant will fund fifteen doctoral scholarships, five in each of the three years commencing autumn 2018. The PhD students will engage in a three year interdisciplinary training and research programme working on projects ranging from photosynthesis to nanotechnology.

Innovation

The University has a number of USPs related to innovation - the Surrey Research Park, the SETsquared incubator (a partnership of the universities of Surrey, Bath, Bristol, Exeter and Southampton) and the Surrey 100 Club (an angel investment network).

In February 2018 SETsquared was once again ranked the world's top university-managed business incubator by UBI Global. SETsquared has held this world-leading position since 2015. Earlier in the financial year SETsquared became one of the first round winners of HEFCE's Connecting Capability Fund competition, receiving £5m of the £20m awarded. The Connecting Capability Fund, which was announced in the government's industrial strategy green paper, aims to support universities in working together to commercialise research, help deliver the strategy, and share good practice and capacity. SETsquared will use its £5m funding to launch a new programme for scale-up businesses from the most innovative sectors across the South of England.

Strategic report (continued)

The University is also a beneficiary of the Connecting Capability Fund's second round of awards. In April 2018 it was announced that the Space Research and Innovation Network for Technology (SPRINT), of which the University is a part, had been awarded a grant of £4.8m. Led by the University of Leicester, the consortium of five universities and other agencies will use this grant to fund major national initiatives to enable small and medium size businesses to engage with higher education institutions in order to enhance research and innovation in the UK space industry.

Strategic partnerships

Collaboration is one of the University of Surrey's major strengths and values. The University has become a key driver of economic growth with strong collaborative links with entities such as other academic institutions, public sector establishments and major industry partners.

5G Innovation Centre (5GIC)

With 26 corporate members, the University's 5GIC brings together leading academics and key industry partners in a shared vision to help define and develop the 5G infrastructure that will underpin the way we communicate, work and live our everyday lives in the future.

In May 2018 5GIC announced the selection of its first seven SME technology partners. This represented the first step on its SME engagement programme aimed at widening the 5G opportunities to smaller enterprises.

In July 2018 the University announced that its testbed was able to support more than one million users, making it the largest capacity 5G test network for research, innovation and development in the world. The testbed is now open for business to companies wanting to test their advanced applications and their readiness for 5G usage. The 5GIC will use Spirent's Landslide test system to stimulate large numbers of customers using its network. This enables researchers to test the performance of new 5G applications in an environment as close to 'in-market' as possible.

National Physical Laboratory (NPL)

March 2018 marked the third anniversary of the signing of the partnership agreement between the Universities of Surrey and Strathclyde, NPL and The Department for Business, Energy and Industrial Strategy (BEIS). Significant achievements to date have included the development of a network of regional hubs (including NPL South of England based at the University of Surrey) and establishment of the Postgraduate Institute for Measurement Science.

Good progress has been made on joint NPL/Surrey activity, especially in the field of future communications technology including 5G. Nine joint appointments (including six academic appointments) have been established and there were 77 jointly published research outputs in 2017.

The new UK science and innovation landscape provides significant opportunities for the partnership.

Engagement with industry will be a key priority for the partnership's next phase, with the government's Industrial Strategy Challenge Fund providing an ideal support and funding mechanism for this activity.

Global engagement

During 2017/18 the University launched its new Global Strategy 2018-2022 with the aim of ensuring that the University capitalises on its advantages and realises its aspiration to become a truly global University with an ever-increasing international reputation.

In terms of global engagement activities, there was a particular focus in 2017/18 on China, Latin America and India.

The University Global Partnership Network (UGPN), launched in 2011, continues to expand in both breadth of collaboration and quality. In 2018/19 Beihang University in Beijing, considered to be one of the top 10 engineering universities in China, will become the fifth member alongside the University of Surrey, the University of Sao Paulo, North Carolina State University and the University of Wollongong, Australia.

In December 2017 the University celebrated the 10th anniversary of its membership of Santander Universities - a global network supported by Santander Bank which links over 1,200 universities in more than 20 countries. Funding from Santander Universities has supported inward and outward international student mobility, research links, internships, enterprise initiatives and language teaching.

The University is pleased to see the positive impact of the various initiatives it has undertaken being reflected in the international league tables. The University is now ranked 248th in QS (up 16 places from the previous year) and 256th in the THE (up 26 places).

Student engagement

The University recognises the importance of student engagement. The Students' Union sabbatical officers, as representatives of the student body, are involved in the general management of the University (through formal membership of committees) and in key decisions regarding the University's future development.

During 2017/18 the Students' Union sabbatical officers were involved in the development of a number of the sub-strategies to the new corporate strategy, most notably the new education and student experience strategies. They are also engaged in the development of key initiatives such as the student engagement platform and the one-stop shop.

The University and Students' Union Committee provides a forum for members of the University senior management to meet formally three times a year with the Students' Union President, Vice-Presidents and Chief Executive to discuss key strategic issues for the University and the Students' Union. The Student Voice Forum, run by the Students' Union and restructured during 2017/18, enables course representatives

Strategic report (continued)

and other student representatives to ask questions directly of senior members of the Executive Board.

People and culture

The University continues to carry out an annual staff survey in order to gain a comprehensive view of issues which impact on engagement levels, staff satisfaction and business performance. Key indicators from the survey are included on the University's balanced scorecard.

Against the backdrop of pay and pensions disputes, the 2018 staff survey results were encouraging. The University secured a 68% response rate (2016/17: 74%) and an engagement score of 74% (equalling the University's best result over the last eight years). The University's response and engagement levels again compared very favourably with those from the circa 25 other HEIs who work with the same survey provider (ORC International). 17 of the University's questions scored above the benchmark, 11 were in line with the benchmark and no questions scored below the benchmark.

As in previous years institutional level and local action plans have been drawn up in response to the staff survey scores and free-text comments, with actions in the institutional level plan grouped under four headings – campus, jobs, people and organisation.

Following the introduction of the Trade Union (Facility Time Publication Requirements) Regulations 2017, the University has published its first annual facility time publication (defined as 'the paid or unpaid time off from an employee's substantive role to undertake duties and activities as a trade union representative'). This covers the 12 months to 31 March 2018 and shows that 31.03 FTE employees were relevant trade union officials with a facility time spend of £45,356 (0.03% of the pay bill). A copy of the full report is available at www.surrey.ac.uk/about/our-policies

UK league table performance

The Global Engagement section above describes the recent progress made by the University in the international league tables. The international rankings are largely driven by research performance and are therefore more stable than the domestic league tables which are heavily weighted towards NSS outcomes. Recent trends in UK league table performance are shown below.

Chart 6: League table rankings

	Publication date				
	2014	2015	2016	2017	2018
The Guardian	6	4	4	10	21
The Times/ The Sunday Times	11	8	14	19	23
The Complete University Guide	12	8	11	13	19
THE Table of Tables	9	7	10	14	20

Financial review

Introduction

In order to reduce volatility created by FRS 102, the University has adopted the accrual model for accounting for government capital and revenue grants, and hedge accounting for qualifying interest rate swaps. It remains exposed to volatility in respect of the following, which were not previously accounted for through the income and expenditure account and over which the University has little, if any, control:

- movements on the provision for payments under the USS deficit recovery plan
- movements in the fair value of interest rate swaps which do not qualify for hedge accounting
- changes in the market value of Surrey Research Park.

The University cannot budget for these items, which may be subject to significant volatility as a result of changes in market conditions. It therefore monitors performance against an underlying operating surplus which excludes these items.

Income and expenditure

The statement of comprehensive income and expenditure on page 20 shows a consolidated surplus for 2017/18 of £13.5m. This compares with the 2016/17 surplus of £4.2m.

The 2017/18 underlying operating surplus, after removing the volatility introduced by FRS102, was £8.0m. The increase from the previous year's figure of £4.8m was largely due to delayed spend on strategic initiatives.

Chart 7: Reconciliation to underlying operating surplus

	2017/18	2016/17
	£m	£m
Consolidated surplus for the year	13.5	4.2
Movement on USS provision	(2.0)	0.8
Decrease in interest rate swaps liability	(0.4)	(1.2)
(Gain) / loss on Surrey Research Park revaluation	(2.9)	1.1
Other investment losses / (gains)	0.8	(0.2)
Endowment and restricted income (net of expenditure)	(1.0)	0.1
Underlying consolidated operating surplus	8.0	4.8

Consolidated income rose in 2017/18 by £25.7m (9%) to £297.5m, driven by a £18.8m increase in tuition fee income (from £137.3m to £156.1m). As described earlier in this report, research income increased by £2.4m to £42.7m.

2017/18 expenditure of £286.2m was £19.6m higher than the previous financial year. The main change was in operational staff costs which increased by £12.9m (9%) to £154.1m. Other operating costs increased by £5.3m (6%) to £96.5m. Net endowment and restricted income of £1.0m included a £0.9m legacy for the School of Veterinary Medicine.

Strategic report (continued)

The underlying operating surplus can be further analysed between the University's core activities and Surrey Research Park as shown below.

Chart 8: Analysis of underlying operating surplus

	2017/18	2016/17
	£m	£m
Core activities:		
University	3.4	(0.2)
Surrey Sports Park Limited (SSPL)	(0.8)	(0.0)
Surrey Research Park	5.4	5.0
Underlying consolidated operating surplus	8.0	4.8

As shown above, Surrey Research Park generated a surplus, after interest costs, for 2017/18 of £5.4m (2016/17: £5.0m). 2017/18 income of £10.9m was £0.8m higher than the previous financial year. This reflected, inter alia, lower void rates and a backdated rent review. 2017/18 expenditure was £0.4m higher than the previous year.

Surrey Sports Park was designed primarily to encourage and enable student participation in sport at all levels as a complement to academic study. As the student population has grown and participation levels have increased, this has restricted SSPL's ability to generate commercial income to subsidise the cost of student (and staff) sport which was close to £1m for 2017/18. In particular, there were no major events in 2017/18, in contrast to 2016/17 when the Sports Park hosted the World Lacrosse Championships.

Net assets

Consolidated net assets increased by £26.2m in 2017/18 to £502.5m. The main contributory factors, apart from the underlying operating surplus of £8.0m, were:

- local government pension scheme actuarial gains
- a decrease in the interest rate swaps liability (reflecting an increase in long term interest rates)

Chart 9: Movement in consolidated net assets

	2017/18	2016/17
	£m	£m
Opening consolidated net assets	476.3	454.4
Underlying operating surplus	8.0	4.8
Local Government Pension Scheme (LGPS) actuarial gains	8.2	10.8
Movement on USS provision	2.0	(0.8)
Decrease in interest rate swaps liability	4.9	8.1
Surrey Research Park revaluation	2.9	(1.1)
Other investment losses	(0.8)	0.2
Endowment and restricted income (net)	1.0	(0.1)
Closing consolidated net assets	502.5	476.3

The recent trend in pension provisions (USS and LGPS) is shown below.

Chart 10: Pension provisions at 31 July

	2014	2015	2016	2017	2018
	£m	£m	£m	£m	£m
Obligation to fund USS pension deficit	13.7	30.1	34.3	33.8	30.5
LGPS pension liability – funded	35.4	38.0	45.6	35.3	26.8
LGPS pension liability - unfunded	1.5	1.4	1.4	1.4	1.3
Total	50.6	69.5	81.3	70.5	58.6

While the figures for both USS and LGPS show a downward trend since 2016, it should be noted that the USS figure reflects the deficit recovery plan implemented after the March 2014 triennial valuation. As explained in the Operating Environment section above, the March 2017 USS valuation has not yet been finalised. Requirements for future funding of both the deficit recovery and the ongoing costs of the scheme present a significant risk.

The University has partly de-risked the future cost of the LGPS by closing the scheme to new members with effect from January 2016. It remains exposed to future service costs for current members and to deficit recovery costs in respect of past service of current, deferred and retired members.

Surrey Research Park is included on the balance sheet as an investment property asset. The recent trend in the Park's value, taking into account development expenditure on new and existing buildings, is shown below. Completed investment properties and development land are shown at valuation, properties under development are shown at cost.

Chart 11: Surrey Research Park valuation at 31 July

	2014	2015	2016	2017*	2018*
	£m	£m	£m	£m	£m
Completed investment properties	91.2	105.9	110.0	111.7	115.9
Properties under development	1.0	4.1	1.3	0.1	0.0
Development land	6.2	9.9	8.1	7.5	7.3
Total	98.4	119.9	119.4	119.3	123.2

* Excludes 30 Priestley Road which is held as a fixed asset from 2017

Cash flow

The consolidated cash flow statement on page 23 shows an increase in cash and cash equivalents in the year of £29.7m. Taking into account the withdrawal of cash deposits to fund the Manor Park student residences project and other capital spend, available cash (defined as cash and cash equivalents plus short term deposits) fell by £30.2m in the year to £131.7m, as shown below.

Strategic report (continued)

Chart 12: Movement in consolidated available cash

	2017/18	2016/17
	£m	£m
Opening consolidated available cash	161.9	69.0
Net cash inflow from operating activities	31.4	25.5
Net income from Surrey Research Park	5.7	7.2
Capital expenditure – University	(67.9)	(49.9)
Capital expenditure – Surrey Research Park	(1.7)	(1.2)
Capital grants received	15.8	4.4
Loan drawdowns	0.0	120.0
Financing (net interest and capital repayments)	(15.4)	(13.5)
Endowments received	1.0	0.1
Other movements	0.9	0.3
Closing consolidated available cash	131.7	161.9
<i>Movement</i>	<i>-30.2</i>	<i>+92.9</i>

Included in the closing cash balance of £131.7m was £74.3m from the £120m private placement funds received in 2016/17. This is earmarked for completion of the Manor Park student residences project and other transformative projects, giving an underlying available cash balance at 31 July 2018 of £57.4m.

Net cash inflow from operating activities strengthened from £25.5m in 2016/17 to £31.4m in 2017/18, driven by an increase in the underlying operating surplus. Despite this increase, the ability to generate sufficient cash to support the University's strategic goals remains the University's top risk. With significant debt servicing commitments, as well as the need to fund core capital requirements from operating cash, the University remains focused on further increasing this cash generation figure in future years.

Net debt rose in 2017/18, in line with expectations, as the University applied the private placement funds to the Manor Park student residences project. The net increase was £22.5m, with borrowings at 31 July 2018 of £286.1m exceeding, by £154.4m, the available cash of £131.7m.

Capital investment

There is a significant programme of ongoing capital investment to increase capacity for academic work and support the student experience.

The consolidated cash flow statement on page 23 shows an increase in the rate of capital investment from £49.9m in 2016/17 to £67.9m in 2017/18. This increase was driven by £35.3m of spend on the Manor Park student residences project, an £80m investment by the University in student accommodation. 480 student rooms became operational at the start of the 2018/19 academic year with a further 670 rooms due to come on stream in September 2019. This will increase the total number of student rooms on the Manor Park campus to circa 3,000 and the total across the two campuses (Manor Park and Stag Hill) to circa 6,000.

Treasury management

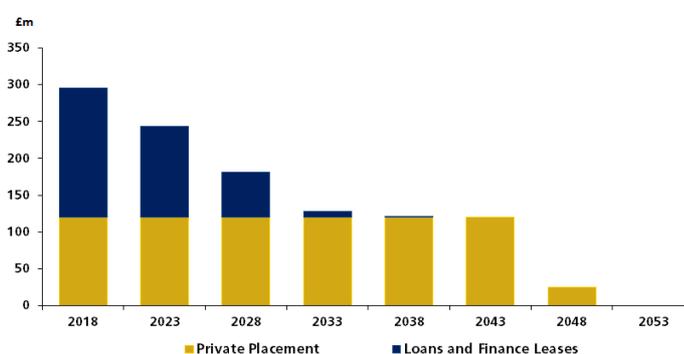
The University's investment, borrowing and hedging strategies are determined by its Finance Committee in accordance with a Treasury Management Policy approved by the University Council.

As stated above, outstanding borrowings and finance lease obligations at 31 July 2018 totalled £286.1m. This compared with £293.8m 12 months previously. Both figures exclude undrawn bank loan facilities of £10.0m.

The University recognises that it has a relatively high gearing ratio. However, the University has borrowed to fund assets which produce a strong income stream and contribute to the strategic ambitions of the University. The University benefits from competitive margins and relatively light financial covenants. It manages the risk of interest rate rises on its bank borrowings through standalone hedging instruments and a fixed rate of interest on £30m of loan finance. The University's policy is to fix the interest rate on at least 70% of its total bank term debt, allowing cash balances to act as a natural hedge against a portion of the debt.

The weighted average cost of capital on all drawn funds (bank debt plus private placement funds) at 31 July 2018 was 3.62%. This was little changed from the 31 July 2017 figure of 3.59%.

Chart 13: Debt profile at 31 July (including undrawn funds)



The main objective in making investments is to achieve a reasonable rate of return while minimising risk. The University places short term monies in accordance with criteria approved by its Finance Committee. These are based on minimum counterparty credit ratings or other key metrics, with limits on the amount placed with any one provider.

The weighted average return on short term deposits for 2017/18 was 0.59% (2016/17: 0.58%).

Philanthropy

The scale and scope of advancement activities showed a marked increase in 2017/18 following additional investment and the appointment of a new Director of Advancement.

Strategic report (continued)

Total philanthropic income raised (cash gifts plus new pledges) increased by 66% to £5.2m in 2017/18 (2016/17: £3.1m). This £5.2m figure included the £1.0m Leverhulme Trust grant to establish a doctoral training centre and the £0.9m legacy to support Vet School activities referred to above. Also included was a £1m gift from the Hong-Kong based UCF Group to support activities aligned with the UCF Group's core businesses of financial technology, healthcare and financial services.

Philanthropic income for specific research projects is reflected in the financial statements as research income with other philanthropic income reflected as donations or under other headings as appropriate. The Leverhulme Trust grant and the UCF donation will be reflected in future years' financial statements.

Risks and uncertainties

The University's approach to risk management is described in the corporate governance statement on pages 15 to 16.

Taking into account the challenges described in the Operating Environment section above and increasing competition within the higher education sector, the following are considered to be the most significant areas of risk:

- generating sufficient cash to support the University's strategic goals
- ability of the infrastructure to support strategic objectives and growth
- maintaining excellence of the student experience, progression and outcomes
- ability to recruit sustainable numbers of students.

Cash generation

The potential outcomes of the government's post-18 education review and continuing uncertainties regarding the cost of pension provision pose significant risks to the University's ability to generate cash to support ongoing operations and strategic development.

In addition to the external pressures, the University is pursuing a number of projects which will ultimately enhance its position and in many cases will contribute positively to cash generation. However, in the short to medium term these are consuming resources. The University Council, Executive Board and its sub-committees meet regularly to review project proposals and alignment with strategy and to make prioritisation decisions accordingly. The University is increasing its focus on continuous improvement to ensure it optimises the cash available for its core activities.

Campus infrastructure

Core capital needs are projected to increase in the coming years as the Stag Hill campus infrastructure and several buildings approach 60 years of age. The University also

needs to build capacity to support growth in student numbers and research activity.

The University continues to be guided by an approach whereby long term maintenance of the estate, IT infrastructure and academic equipment are financed from operational cash flows, while strategic and transformational capital spend is financed by specific borrowings.

Capital expenditure is underway for the refurbishment of a University-owned building on the Surrey Research Park. The School of Health Sciences will relocate to this building in spring 2019, unlocking space on the Stag Hill campus. This will allow the reorganisation and repurposing of space to take place, providing room for further expansion of student numbers on high-demand courses.

The University's capital expenditure plans are revisited on an ongoing basis against cash availability, strategic direction and operational needs.

Student experience, progression and outcomes

The University continues to prioritise the student experience (both academic and non-academic) as a core part of its strategy.

As part of its digital strategy it will introduce technology and toolsets to support new ways of teaching, with a move towards personalised learning. It will also digitise assessments and feedback, taking into account the outcomes from a pilot study carried out in 2017/18.

The University is currently undertaking two major projects to improve the student service experience both physically and digitally. The one-stop shop project aims to enable students to bring any student-life related query to one physical location for immediate support and advice, or have an appropriate appointment made for them with an expert. The student engagement platform, a user friendly mobile phone/device interface, will make it much easier for students to access information electronically.

Student numbers

Increasing competition within the sector presents a growing risk to student numbers. Further risk could come from the funding review, with students deferring if they believe fees could reduce in the future. Visa requirements remain a challenge to international student recruitment.

As described earlier in this report, the University is investing £80m in new student accommodation to increase its attractiveness to prospective students. Other risk mitigation factors include the establishment of the University's own domestic foundation year programme (first intake 2018/19).

2018/19 undergraduate recruitment is broadly in line with plan and the average tariff is consistent with expectations. Recruitment to the new domestic foundation year programme has been particularly strong. Recruitment to postgraduate taught programmes has been more challenging due to an increasingly competitive market.

Strategic report (continued)

Future outlook

The University faces a number of potentially significant headwinds in the next 12 to 18 months - the outcomes of the post-18 education and funding review, Brexit and decisions on USS pensions funding and benefits. While the challenges cannot be underestimated, the University has cash reserves to enable it to respond appropriately to any changes that may lie ahead. It remains committed to its strategy and to providing a first-class student experience.

Public benefit statement

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. It is therefore exempt from registration with the Charity Commission. Since 1 April 2018 its compliance with charity law has been monitored by the Office for Students (OfS) as principal regulator (previously by HEFCE).

The University's charitable purposes are defined in its Royal Charter as the advancement of education, learning and teaching. The University brings a wide range of benefits to individual students and to society as a whole through the quality of the education it offers and the quality of the graduates and postgraduates it produces, as well as through the dissemination and practical application of its research. This narrative describes how the University has delivered the two aspects of public benefit, namely:

- benefit aspect – a purpose must be beneficial
- public aspect – the purpose must benefit the public in general, or a sufficient section of the public.

In determining the University's strategic, operational and financial objectives, the members of Council, as trustees, have had due regard to the Charity Commission's guidance on public benefit.

Awards

Contributions to society, both by the University and by individual members of staff, are demonstrated by the receipt of prestigious awards.

In November 2017 it was announced that the University had been awarded a Queen's Anniversary Prize for Higher and Further Education in recognition of the excellence of its research and teaching in food and nutrition. This award recognises half a century of pioneering work on diabetes, obesity, osteoporosis and other dietary related issues. The University's work in this field has brought about major changes in government policy and helped transform consumer perception thorough media and public engagement activities. This was the fourth time, in 12 rounds of awards, that the University had received a Queen's Anniversary Prize - the highest accolade for any UK academic institution.

In May 2018 Professor Rahim Tafazolli, Director of the University's Institute for Communication Studies and 5G Innovation Centre, was appointed the University's first Regius Professor of Electronic Engineering. The Regius Chair in Electronic Engineering was awarded to the University by Her Majesty the Queen to mark her Diamond Jubilee, with the University becoming just one of just 25 institutions in the UK to hold such a Chair. Professor Tafazolli's appointment recognises his exceptional contribution to digital communications technology over the past thirty years.

Also in May 2018 it was announced that Professor Jim Al-Khalili, Professor in Physics and Professor of Engagement in Science, had been elected a Fellow of The Royal Society. Presenter of BBC Radio Four's 'The Life Scientific', Professor Al-Khalili was elected in recognition of his work on the neutron halo, as well as his service to public engagement.

Other notable awards in the year included Professor Ravi Silva's receipt of a prestigious James Joule Medal and Prize from the Institute of Physics for his work on carbon nanomaterials.

Research and public engagement

The University combines expertise from across the University, and works in partnership with external stakeholders, to undertake research focused on key global health, economic, environmental and social challenges.

In November 2017 the University demonstrated the reality of the 5G technology developed from its research when it hosted the country's first Transport on Demand (ToD) demonstration of an autonomous vehicle at its unique 5G testbed. Together with its partners (Huawei, Vodafone and Technical University of Munich) the 5GIC showed a fully operational Audi Q7 located on the Stag Hill campus in Guildford being operated from a control panel in the London ExCeL conference centre.

During 2017/18 the University continued its work with Surrey and Borders Partnership NHS Foundation Trust on the Technology Integrated Health Management (TIHM) research project. This uses a network of internet-enabled devices installed in the home, combined with artificial intelligence, to alert clinicians when a participant with dementia needs support. Following a successful first phase, involving more than 400 people with dementia and their carers, in September 2018 it was announced that the project would receive an extra £1 million in funding from NHS England and the Office for Life Sciences to fund further development.

The University is committed to open access and to making its research publications freely available online so that they can be enjoyed by a global audience. At the same time, with leading experts in a broad range of fields, Surrey academics frequently feature in high-profile media and contribute to global news headlines across online, print and broadcast.

The majority of media coverage is gained through proactive release of research findings. Stories with strong human interest ensure a spread of coverage in national news, lifestyle and broadcast titles, as well as providing trade titles with key scientific and academic context.

The University's continuing excellence in the field of nutrition was recognised in February 2018 when Professor Margaret Rayman presented an episode of BBC Radio 4's 'In Their Element', exploring why iodine is essential for health. Other health related coverage during the year included the results of research on how the symptoms of osteoarthritis can be lessened by simple changes to diet and why 'night owls' are more at risk of dying than 'morning larks'.

There was extensive coverage in April 2018 of the launch of the RemoveDEBRIS mission, the research for which has been led by the University and funded by the European Commission. Involving 10 partners, including Surrey Satellite Technology Limited (the University's

Public benefit statement (continued)

former subsidiary company), RemoveDEBRIS is aimed at demonstrating relatively simple, and therefore low-cost, technologies to clean up space. Following the commissioning period, there was further extensive coverage by the BBC, national press and others in September 2018 when the spacecraft successfully used its on-board net technology in orbit – the first ever demonstration of active debris removal (ADR) technology.

Professor Alan Woodward, a visiting professor at the University and expert in cyber security, was interviewed and quoted by the press and the BBC on numerous occasions. Other academics featuring extensively in the media included Dr Simon Usherwood, Reader in Politics, who commented on various subjects including Brexit.

Community engagement

The University strives to balance its global ambitions with engagement with its local community. It provides local residents with a range of opportunities to participate in its sporting, educational, cultural and social activities.

Surrey Sports Park continues to provide opportunities for the public both to participate in sport and to watch competitions of the highest level. Approximately 1,000 young people a week take part in some form of swim education, either via the Sports Park's 'Learn to Swim' academy or via curriculum swimming lessons. Surrey Scorchers (the Sports Park's basketball franchise) had its most successful year to date finishing fifth in the league. Family attendance at Surrey Storm (the netball franchise) matches remained strong.

The University continued its support of local events. It hosted the annual architecture lecture (with Guildford Society) and sponsored the Guildford Book Festival, the Mayor of Guildford's charity ball and Guildford in Bloom. It again had a significant presence at Guildford Borough Council's 'Innovate Guildford' event and nearly 500 people attended talks by the University's academics held at three local pubs in May 2018 as part of the national 'Pint of Science' festival.

Widening participation (WP) and student support

The University makes a significant investment in the WP, outreach and retention agendas to ensure that able students from any background are able to access the institution and do not face any barriers to progression. The University is situated within one of the most expensive areas of the country in which to study. It therefore ensures, through the [Access & Participation Plan](#) which it agrees with the OfS (previously the Office for Fair Access), that the financial aspects of studying at Surrey do not deter any student with the potential to succeed at the University.

The University monitors its performance against the main Higher Education Statistics Agency (HESA) widening participation benchmarks. The most recently published data (2016/17) shows the University exceeding the benchmarks for measures of participation of lower-represented groups, with participation of state schools remaining significantly higher than the benchmark.

Chart: 1 Widening participation

Participation of under-represented groups (young full time 1 st degree)	2016/17		2015/16	
	Surrey	Location benchmark*	Surrey	Location benchmark*
	%	%	%	%
State schools	91.4	85.5	92.1	85.4
Low participation areas	8.0	7.3	8.0	7.5

* The location benchmark takes account of the student's home region

The strategic report describes the new education strategy which was approved during 2017/18. One of the three groups established to oversee the implementation of the new strategy, the Student Progression and Learning Gain Group, has a particular remit to focus on factors and interventions affecting the success of students who meet WP criteria.

The University has a strong record in providing targeted undergraduate bursaries for students from lower income households, though the spend has fallen in recent years in line with guidance from the Office for Fair Access (OFFA) that universities should focus on outreach and retention instead. £2.8m was spent on bursaries for 2,444 students in 2017/18. This compared with spend of £3.7m on 2,306 students the previous financial year.

The University's latest access return (2016/17) showed a total spend on access, success/progression and financial support of £5.2m (including the £3.7m bursary spend).

During 2017/18 the University continued its support for Kings College School, Guildford (a non-selective academy). As part of a two-year commitment to raising attainment and aspiration of the pupils towards further study, the University has placed a WP outreach coordinator in the school for four days a week. Over 90% pupils have taken part in at least one activity supported by the University's 'Finding our Futures' programme and the partnership with the University was commended in the school's latest Ofsted report. Following an inspection in July 2018 the school was rated 'good' by Ofsted and removed from the special measures it had been placed in following its December 2016 inspection.

The In2Surrey Scholarship scheme, for students meeting specific WP criteria, has seen a significant increase in participation over the last few years. In 2017/18 the University spent £0.13m on scholarships for 88 students. This compared with spend of £0.09m for 70 students in 2016/17.

The University provides a range of resources to support students whilst they are at University. The dedicated student money team provides specific advice and support

Public benefit statement (continued)

to those students who experience financial difficulties. This includes the provision of hardship loans and grants.

The University also offers a wide range of support to students with disabilities or specific learning difficulties to enable them to participate fully in University life. Reflecting national trends in student mental health, the University launched a new wellbeing strategy during 2017/18 and increased its investment in student mental health services by £0.2m per annum.

Other examples of public benefit

The strategic report on pages 2 to 11 gives further examples of how the University is benefiting society and the economy through the advancement of its educational activities, high graduate employability rates and engagement with business.

Further examples of how the University's research activities are delivering public benefit can be found in the Annual Review at www.surrey.ac.uk/annual-review and on the University's dedicated research webpages at www.surrey.ac.uk/research.

Corporate governance statement

The University is a body incorporated by Royal Charter originally granted in 1966 and an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. Since 1 April 2018 its compliance with charity law has been monitored by the Office for Students (OfS) as principal regulator (previously by HEFCE).

The University is committed to exhibiting best practice in all aspects of corporate governance. It endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the Higher Education Code of Governance published by the Committee of University Chairs (CUC) in December 2014 and revised in June 2018.

Summary of the University's structure of corporate governance

The University's objects, powers and framework of governance are set out in the Charter and its supporting Statutes and Ordinances (the 'governing documents').

In accordance with the requirements of its governing documents, the Council comprises a majority of external members, together with ex officio and elected University representatives. The role of the Chair of Council is separated from the role of the Vice-Chancellor as Chief Executive.

The powers of the Council are set out in the Statutes and Ordinances of the University. Under the Terms and Conditions of Funding for Higher Education Institutions between the Office for Students (OfS) and institutions, and the Terms and Conditions of Research England Grant, the Council is collectively responsible and has ultimate responsibility that cannot be delegated for overseeing the University's activities, determining its future direction and fostering an environment in which its mission is achieved.

The Council has adopted the following Statement of Primary Responsibilities:-

- to approve the mission and strategic vision of the University and long term academic and business plans; to agree key performance indicators and annual budgets and to ensure that these meet the interests of stakeholders
- to ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment; and procedures for handling internal grievances and for managing conflicts of interest
- to ensure processes are in place to monitor and evaluate the performance and effectiveness of the University against its plans, previous performance and agreed key performance indicators which should be, where possible and appropriate, benchmarked against other comparable universities
- to appoint the Vice-Chancellor and to put in place suitable arrangements for monitoring his/her performance.

In addition, the Council cannot delegate responsibility for:

- varying the governing documents
- approving the annual audited accounts
- appointing the external auditor of the University.

The Council continually assesses its mix of skills, experience and diversity to ensure its appropriateness. New members receive an induction programme tailored to their specific needs. The effectiveness of the Council is reviewed regularly, with the most recent full effectiveness review having taken place in October 2017. This took the form of a half day, interactive session, facilitated by external consultants.

The Council meets formally five times a year. In addition, it holds a strategic away-day jointly with the Executive Board once a year. It has a number of committees, all of which are formally constituted with appropriate external membership and terms of reference. These include a Finance Committee, an Audit and Assurance Committee, a Nominations Committee and a Remuneration Committee.

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

The Audit and Assurance Committee meets three times a year with the external and internal auditors in attendance. It oversees the risk management process and considers detailed reports from the auditors, which include recommendations for the improvement of the University's systems of internal control together with management's responses and implementation plans. It also receives and considers reports from the OfS, Research England and other organisations, and ensures that processes are in place to ensure compliance with statutory regulations. It considers the draft annual financial statements from the point of view of factual presentation, compliance with general and University accounting policies, controls assurance and any identified control deficiencies.

Whilst senior executives attend meetings of the Audit and Assurance Committee as necessary, they are not members of the Committee, and the Committee may meet with the external and internal auditors on their own for independent discussions. The Chair of the Committee has direct access to the Chair of Council.

The Nominations Committee, under the chairmanship of the Chair of Council, meets as required to consider and make recommendations to the Council on the appointment of external members to the Council and on the appointment of external co-opted members to Council sub-committees. It also makes recommendations to the Council regarding the appointment of the Vice-Chancellor and the appointment of Pro-Chancellors.

The Remuneration Committee, under the chairmanship of the Vice-Chair of Council, meets twice annually with additional meetings at the discretion of the Chair.

Corporate governance statement

It monitors the performance of the Vice-Chancellor, and determines the salary and conditions of service of the Vice-Chancellor and members of the Executive Board. It ensures an effective succession plan is in place for Executive Board level posts and approves any severance payments made to staff earning over £100,000 per annum. The Vice-Chancellor is not a member of the Committee, but is in attendance at meetings except when the Committee is discussing his own salary and conditions of service. PWC act as advisors to the Committee and are also in attendance at Committee meetings.

The University has a Senate which meets four times a year and has responsibility, under the control and approval of the Council, for oversight and assurance of the academic endeavour of the University.

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

The University regularly reviews the terms of reference and membership of its senior committees. Following revisions to the Council committees' structure in 2017, a review was carried out of the terms of reference and membership of certain Executive Board sub-committees to ensure cohesion and effectiveness. Relevant changes were made and are effective from the start of the 2018/19 academic year.

Statement of internal control

The Council, as governing body, is responsible for ensuring that the University has a sound system of internal control and for reviewing its effectiveness. Such a system is designed to understand and manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key elements of the University's system of internal control include the following:

- a comprehensive Scheme of Delegation, approved by the Council, which records the reserved powers of the Council and the delegation of the Council's powers to its sub-committees; to the Vice-Chancellor; and to the Senate and its sub-committees
- clear definitions of the responsibilities of, and the authority delegated to, heads of academic faculties and administrative departments
- a comprehensive medium and short-term planning process supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure

being subject to formal detailed appraisal and review according to approval levels set by the Council

- Financial Regulations, approved by the Finance Committee, together with supporting financial policies and procedures
- a professional Internal Audit team whose annual programme is approved by the Audit and Assurance Committee.

The University has an agreed Risk Management Policy and a Risk Management Strategy which have been approved by the Council. The Risk Management Strategy describes the University's strategy on, and approach to, risk management. It provides clarity as to why risk management should be undertaken and describes the nature and extent of risks the organisation is willing to take in achieving its strategic objectives. It aims to provide uniformity across risk management procedures, describing when and how to record and escalate risks, and the format and timing of reports. The Risk Management Strategy sets out the roles and responsibilities of the University Council, key committees and individuals. In accordance with the Risk Management Strategy:

- the Audit & Assurance Committee is charged by Council with keeping the integrity and effectiveness of the organisation's risk management under review
- the Vice-Chancellor has responsibility for implementing the policies and strategies on risk management and internal control
- the Executive Board supports the Vice-Chancellor in discharging the responsibility for the implementation of the Policy and Strategy as well as ensuring that risk management is embedded within the strategic decision-making process. It also ensures ownership of risk management throughout the organisation (including the identification and management of risks) and regularly reviews the strategic risk register.

The strategic risk register forms the basis of the internal audit programme.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the principal risks to achievement of the University's objectives; that it has been in place for the year ended 31 July 2018 and up to the date of approval of the financial statements; and that it accords with OfS and Research England guidance.

Responsibilities of the Council of the University of Surrey

The Council is responsible for preparing the financial statements in accordance with the requirements of the Office for Students' terms and conditions of funding for higher education institutions, the terms and conditions of Research England Grant and applicable law and regulations.

It is required to prepare group and parent University financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The terms and conditions of funding further require the financial statements to be prepared in accordance with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education* and in accordance with the requirements of the Accounts Direction issued by the Office for Students. The Council is required to prepare financial statements which give a true and fair view of the state of affairs of the group and parent University and of their income and expenditure, gains and losses and changes in reserves for that period.

In preparing each of the group and parent University financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

The Council is responsible for keeping proper accounts and proper records in relation to the accounts. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as is reasonably open to it to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The Council is also responsible for:

- ensuring that funds from whatever source administered by the group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation
- ensuring that funds provided by the Office for Students and Research England have been applied in accordance with the terms and conditions attached to them
- ensuring that funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them
- ensuring that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources
- securing the economical, efficient and effective management of the University's resources and expenditure.

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Council of the University of Surrey

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the University of Surrey ("the University") for the year ended 31 July 2018 which comprise the statement of comprehensive income and expenditure, statement of changes in reserves, balance sheet, consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2018, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- meet the requirements of the Accounts Direction dated 19 June 2018 issued by the Office for Students.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Council is responsible for the other information, which comprises the strategic report, the public benefit statement and the corporate governance statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Council responsibilities

As explained more fully in their statement set out on page 17, the Council is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

Report on other legal and regulatory requirements

We are required to report on the following matters under the Office for Students and Research England Audit Code of Practice issued under the Further and Higher Education Act 1992.

Independent auditor's report to the Council of the University of Surrey (continued)

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the University's Statutes;
- funds provided by the Office for Students and Research England have been applied in accordance with these conditions and the terms and conditions attached to them; and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them.

The purpose of our audit work and to whom we owe our responsibilities

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



Joanne Lees

**for and on behalf of KPMG LLP,
Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL

Statement of comprehensive income and expenditure for the year ended 31 July 2018

	Note	Consolidated		University	
		2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Income					
Funding council grants	2	32,856	30,674	32,856	30,674
Tuition fees and education grants	3	156,104	137,292	156,104	137,292
Research grants and contracts	4	42,729	40,313	42,729	40,313
Other income	5	53,306	52,261	49,590	47,582
Investment income	6	11,107	10,695	11,315	10,890
Donations and endowments	7	1,404	553	1,404	553
Total income		297,506	271,788	293,998	267,304
Expenditure					
Staff costs - operational	8	154,084	141,151	151,021	138,224
Staff costs - movement on USS provision	8	(2,037)	761	(2,037)	761
Other operating expenses	10	96,546	91,247	94,696	88,557
Depreciation and amortisation		28,748	25,320	28,728	25,306
Interest and other finance costs	11	8,867	8,091	8,850	8,064
Total expenditure		286,208	266,570	281,258	260,912
Surplus before other gains and losses		11,298	5,218	12,740	6,392
Loss on disposal of fixed assets		-	(97)	-	(97)
Gain/(loss) on investments	12	2,143	(882)	1,962	(1,053)
Surplus before taxation		13,441	4,239	14,702	5,242
Taxation	13a	98	(13)	107	(57)
Surplus for the year		13,539	4,226	14,809	5,185
Actuarial gain in respect of pension schemes		8,160	10,790	8,004	10,415
Change in fair value of hedging financial instruments		4,496	6,861	4,496	6,861
Total comprehensive income for the year		26,195	21,877	27,309	22,461
Represented by:					
Endowment comprehensive income for the year		801	(114)	801	(114)
Restricted comprehensive income for the year		168	-	168	-
Unrestricted comprehensive income for the year		25,226	21,991	26,340	22,575
		26,195	21,877	27,309	22,461

All income and expenditure relates to continuing operations.

Statement of changes in reserves for the year ended 31 July 2018

Consolidated

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2016	2,672	195	475,109	(23,591)	454,385
Surplus from the income and expenditure statement	273	223	3,730	-	4,226
Other comprehensive income	-	-	10,790	6,861	17,651
Release of restricted funds spent in year	(387)	(223)	610	-	-
	<u>(114)</u>	<u>-</u>	<u>15,130</u>	<u>6,861</u>	<u>21,877</u>
Balance at 1 August 2017	2,558	195	490,239	(16,730)	476,262
Surplus from the income and expenditure statement	1,133	403	12,003	-	13,539
Other comprehensive income	-	-	8,160	4,496	12,656
Release of restricted funds spent in year	(332)	(235)	567	-	-
Total comprehensive income for the year	<u>801</u>	<u>168</u>	<u>20,730</u>	<u>4,496</u>	<u>26,195</u>
Balance at 31 July 2018	<u>3,359</u>	<u>363</u>	<u>510,969</u>	<u>(12,234)</u>	<u>502,457</u>

University

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
Balance at 1 August 2016	2,672	195	482,784	(23,591)	462,060
Surplus from the income and expenditure statement	273	223	4,689	-	5,185
Other comprehensive income	-	-	10,415	6,861	17,276
Release of restricted funds spent in year	(387)	(223)	610	-	-
	<u>(114)</u>	<u>-</u>	<u>15,714</u>	<u>6,861</u>	<u>22,461</u>
Balance at 1 August 2017	2,558	195	498,498	(16,730)	484,521
Surplus from the income and expenditure statement	1,133	403	13,273	-	14,809
Other comprehensive income	-	-	8,004	4,496	12,500
Release of restricted funds spent in year	(332)	(235)	567	-	-
Total comprehensive income for the year	<u>801</u>	<u>168</u>	<u>21,844</u>	<u>4,496</u>	<u>27,309</u>
Balance at 31 July 2018	<u>3,359</u>	<u>363</u>	<u>520,342</u>	<u>(12,234)</u>	<u>511,830</u>

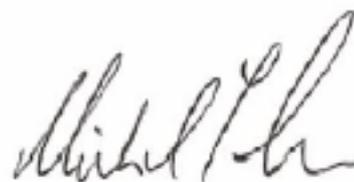
Balance sheets as at 31 July 2018

	Note	Consolidated		University	
		2018 £000	2017 £000	2018 £000	2017 £000
Non-current assets					
Intangible assets	14	2,366	1,910	2,366	1,910
Fixed assets	15	759,729	720,398	759,512	720,186
Investment properties	16	123,500	119,648	123,200	119,348
Other investments	17	1,900	1,850	6,675	6,055
		887,495	843,806	891,753	847,499
Current assets					
Stocks		4,326	3,951	449	427
Trade and other receivables	18	28,074	29,399	37,470	38,380
Investments	20	67,480	127,467	67,480	127,467
Cash and cash equivalents		64,590	34,896	63,442	32,464
		164,470	195,713	168,841	198,738
Creditors : amounts falling due within one year	21	(120,809)	(113,184)	(120,567)	(112,322)
Net current assets		43,661	82,529	48,274	86,416
Total assets less current assets		931,156	926,335	940,027	933,915
Creditors : amounts falling due after more than one year	22	(370,103)	(379,621)	(370,098)	(379,592)
Provisions					
Pension provisions	24	(58,596)	(70,452)	(58,099)	(69,802)
Total net assets		502,457	476,262	511,830	484,521
Restricted reserves					
Income and expenditure reserve - endowment reserve	25	3,359	2,558	3,359	2,558
Income and expenditure reserve - restricted reserve	27	363	195	363	195
Unrestricted reserves					
Income and expenditure reserve - unrestricted		510,969	490,239	520,342	498,498
Cash flow hedge reserve	28	(12,234)	(16,730)	(12,234)	(16,730)
		502,457	476,262	511,830	484,521

The financial statements and notes on pages 20 to 54 were approved by the Council on 22 November 2018 and signed on its behalf by:



Professor G Q Max Lu
President and Vice-Chancellor



Mr M Queen
Chair of Council

Consolidated cash flow statement for the year ended 31 July 2018

	Note	2017/18 £000	2016/17 £000
Cash inflow from operating activities			
Surplus for the year		13,539	4,226
Taxation		(98)	13
Adjustments for non-cash items			
Depreciation	15	27,687	24,400
Amortisation of intangibles	14	1,061	920
(Gain)/loss on investments	12	(2,143)	882
Impairment of fixed assets		332	97
(Increase)/decrease in stocks		(375)	434
Decrease/(increase) in receivables		2,933	(4,914)
(Decrease)/increase in creditors		(1,194)	5,164
Decrease in pension provision		(5,272)	(1,696)
Receipt of donated equipment		-	(501)
Adjustment for investing or financing activities			
Net income from Surrey Research Park		(6,889)	(7,019)
Other investment income		(610)	(623)
Interest payable	11	8,867	8,091
Endowment income	25	(1,046)	(109)
Capital grant income		(5,305)	(3,711)
Adjustment for taxation			
Tax paid		(63)	(126)
Net cash inflow from operating activities		31,424	25,528
Cashflows from investing activities			
Capital grant receipts		15,836	4,392
Withdrawal of/(investment in) deposits		59,950	(111,959)
Surrey Research Park net income		5,738	7,215
Investment income		726	264
Payments made to acquire fixed assets		(66,409)	(47,692)
Payments made to acquire intangible assets		(1,517)	(2,255)
New non-current asset investments		(1,723)	(1,172)
		12,601	(151,207)
Net cash inflow from financing activities			
Interest paid		(7,104)	(5,572)
Interest element of finance lease payments		(567)	(672)
Endowment cash received		1,046	109
New unsecured loans		-	120,000
Repayments of amounts borrowed		(7,016)	(6,618)
Capital element of finance lease payments	29	(690)	(664)
		(14,331)	106,583
Increase/(decrease) in cash and cash equivalents in the year	29	29,694	(19,096)
Cash and cash equivalents at beginning of the year		34,896	53,992
Cash and cash equivalents at end of the year		64,590	34,896

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): *Accounting for Further and Higher Education 2015 (2015 SORP)* and in accordance with Financial Reporting Standard FRS 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of fixed assets, investment properties, other investments and derivative financial instruments).

The University has significant cash equivalents and short term investment balances sufficient to meet its day to day working capital requirements. Despite the level of external borrowings the University's forecast projections show that it will continue to have sufficient funds to meet its obligations for the foreseeable future. Accordingly the going concern basis has been adopted in the preparation of the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2018. Intra group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of the Students' Union as the University does not exert control or dominant influence over its policy decisions.

Recognition of income

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

Fee income is stated gross and credited to the statement of consolidated income and expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Internally-funded bursary and scholarship payments are accounted for gross as expenditure and not deducted from income.

Grant funding

Government revenue grants, including funding council block grants and research grants, are recognised in income over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance related conditions are donations and endowments. Donations and endowments are recognised in income either when the charitable donation has been received, or before receipt, if there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability. Income from donations and endowments with donor imposed restrictions is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Investment income and appreciation of endowments is recorded in income in the year in which it arises as either restricted or unrestricted income according to the terms applied to the individual endowment fund.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Donations and endowments (continued)

There are three main types of donations and endowments identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University has the power to use the capital.
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Capital grants

Government capital grants are initially recorded in creditors and released to the statement of comprehensive income and expenditure over the expected useful lives of the related assets. Other capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Pension schemes

The two principal pension schemes are the Universities Superannuation Scheme (USS) and the Surrey County Council Local Government Pension Scheme (Surrey Pension Fund).

The USS, which covers most academic and academic related staff, is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits (for some members). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the USS, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reasonable basis and therefore, as required by Section 28 of FRS 102, accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the statement of comprehensive income and expenditure represents the contributions payable to the scheme in respect of the accounting period.

Since the University has entered into an agreement (the Recovery Plan) that determines how each employer within the USS will fund the overall deficit, the University recognises a liability within provisions for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

The Surrey County Council Local Government Pension Scheme (Surrey Pension Fund) is a defined benefit pension scheme with assets held in a separate trustee administered fund. The University is able to identify its share of the underlying assets and liabilities of the Surrey Pension Fund and therefore fully adopts Section 28 of FRS 102 in respect of this scheme. The scheme closed to new members with effect from 1 January 2016.

The University also operates the following pension schemes for current employees:

- a. Defined contribution schemes for staff groups previously eligible for membership of the Surrey Pension Fund, temporary employees and certain employees of a subsidiary undertaking. Contributions are charged to the statement of comprehensive income and expenditure as they become payable in accordance with scheme rules.
- b. The National Health Service Pension Scheme which is available to staff who immediately prior to appointment at the University were members of that scheme. This is a statutory, unfunded, multi-employer, defined benefit scheme in which the University is unable to identify its share of the underlying assets and liabilities. It is therefore accounted for on a contribution basis.

In addition the University participates in the London Pensions Fund Authority Local Government Pension Scheme (LPFA Pension Fund) in respect of former employees of the University's predecessor institution. Like the Surrey Pension Fund, this is a defined benefit scheme with assets held in a separate trustee administered fund. The University is able to identify its share of the underlying assets and liabilities of the fund and fully adopts Section 28 of FRS 102 in respect of this scheme.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

Agency arrangements

Funds received and disbursed as paying agent on behalf of a funding body are excluded from the statement of comprehensive income and expenditure where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Tangible fixed assets

Fixed assets are stated at cost/deemed cost less accumulated depreciation and accumulated impairment losses. Certain assets, that were revalued to fair value on the date of transition to the 2015 SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

a. Land and buildings

Under the transition rules of FRS 102, land and buildings were revalued on 1 August 2014 to fair value which is then used as its deemed cost at that date. Depreciation and impairment losses are subsequently charged on the revalued amount. Additions subsequent to this date are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

Costs incurred in relation to land and buildings after initial purchase, construction or valuation, are capitalised to the extent that they increase the expected future benefits to the University.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of up to 80 years.

No depreciation is charged on assets in the course of the construction.

b. Equipment

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

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

Depreciation methods, useful lives and residual values are reviewed at the date of preparation of each balance sheet.

Finance costs

Borrowing costs and interest receivable which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

Intangible assets

Intangible assets are amortised over a period of up to 7 years representing the estimated economic life of the assets and are subject to periodic impairment reviews as appropriate.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Fixed asset impairments

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

Leased assets

a. Operating lease

Costs in respect of operating leases are charged to the statement of comprehensive income and expenditure on a straight line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

b. Finance lease

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to the statement of comprehensive income and expenditure each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Maintenance of premises

The University has a cyclical long term maintenance plan, varying between 4 and 5 year cycles, which forms the basis of the ongoing maintenance of the estate. Expenditure on long term maintenance which does not meet the FRS 102 criteria for capitalisation, and expenditure on all routine corrective maintenance, is charged to the statement of comprehensive income and expenditure as incurred.

Investment properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the statement of comprehensive income and expenditure. Properties are not depreciated but are revalued annually according to market conditions as at 31 July each year.

Investments

Non-current asset investments are held on the balance sheet at fair value where this is readily available. Otherwise they are recorded at amortised cost less impairment.

Current asset investments are held at fair value with movements recognised in the statement of comprehensive income and expenditure.

Stocks

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if in practice they are available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments, with a maturity date of 3 months or less from the date of acquisition, that are readily convertible to known amounts of cash with insignificant risk of change in value.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Taxation status

The University 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 of the Finance Act 2010 and therefore meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University 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 478-489 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 University and its subsidiaries receive no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The University's subsidiary undertakings are subject to corporation tax in the same way as any commercial organisation, although they may be able to take advantage of Section 471 CTA 2010 to mitigate the corporation tax liability through gift aid.

Deferred taxation

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

Financial instruments

The University has chosen to apply the provisions of sections 11 and 12 of FRS102 in full. Financial assets and financial liabilities are recognised in the balance sheet when the University becomes a party to the contractual provisions of the instrument. A financial asset and financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

With the exception of derivatives, financial assets and liabilities all meet the criteria for basic financial instruments prescribed within FRS 102 section 11.8 and are initially recognised at the transaction price plus any additional directly attributable transaction costs.

a. Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income and expenditure in other operating expenses.

b. Derivatives

Derivatives are held on the balance sheet at fair value. The University has adopted and complied with the requirements of hedge accounting in respect of certain interest rate swaps. Movements in fair value are recorded in the surplus/deficit for the year where hedge accounting is not adopted and within other comprehensive income where it is.

Research and development

Expenditure on general research and development is written off against surpluses in the year in which it is incurred.

Design and content costs relating to the development of websites to support specific teaching or training courses, or for specific research projects, are capitalised. These are amortised over the useful economic life of projects. Where there is uncertainty over the life of the course or its viability such costs are written off as incurred, as are design and content costs for websites that are for the general use of the institution and its staff.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the balance sheet but are disclosed in the notes.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowments made to the University, are held as a permanently restricted fund which the University must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

Key judgements and estimates

The preparation of financial statements under FRS102 requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The judgements, estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are discussed below.

a. Pensions

The various assumptions and parameters used in the valuation of the pension liabilities are disclosed in note 34.

FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as USS. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in the statement of comprehensive income and expenditure in accordance with section 28 of FRS 102. The members of Council are satisfied that USS meets the definition of a multi-employer scheme and have therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

The valuation of the balance sheet liability in respect of the University's share of the USS pension deficit also requires assumptions relating to growth in future salary increases and growth in headcount.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Judgements and estimates (continued)

a. Pensions (continued)

Uncertainty exists around future changes to the deficit recovery rates and period over which the deficit payments will be made. The impact of potential changes to these parameters is disclosed in note 24. However it is considered the current recovery rates and recovery period are the appropriate assumptions to use in calculating the deficit provided for at 31 July 2018.

b. Fixed assets

The University's operational academic buildings have been valued using a depreciated replacement cost (DRC) approach. Assumptions have been made under this basis on the cost of a modern equivalent asset. Non-specialised operational properties, such as student accommodation and other residential properties, have been valued at fair value. This value has been derived with reference to trading income and expenditure.

Buildings have been apportioned between three components: structure, fit-out costs and plant & machinery. The apportionment of the costs between these components was based on the elemental cost breakdowns of recent university building projects to establish the appropriate proportion of notional replacement cost that should be attributed to the identified components.

Assumptions have also been made on the remaining useful economic lives of the buildings. Consideration has been given to both the physical and functional obsolescence of the buildings and its components, as well as other environmental factors.

Land has similarly been valued using a DRC basis, having regard to the likely costs of acquiring a site for an equivalent development in a relevant location at the valuation date.

Management assesses the useful economic life of equipment by considering the expected usage, estimated technical obsolescence, residual value and physical wear and tear of the asset. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the equipment and may result in adjustments to future depreciation.

c. Investment property

Investment property has been valued on the basis of fair value. This is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

d. Annual leave accrual

The University has provided for the cost of unused annual leave of its employees at the end of the financial year. The accrual at 31 July 2017 was based on the actual leave carried forward at that date of a number of employees sampled across University departments. The results from this sample were extrapolated over the University employee population as a whole to determine the total accrual. The accrual at 31 July 2018 was calculated by applying the growth in staff costs to the previous years' accrual.

e. Financial instruments

The University has entered into a number of interest rate swaps. These swaps have been valued at the year end using mark-to-market values as provided by Bloomberg.

Notes to the financial statements (continued)**2 Funding council grants**

	Consolidated & University	
	2017/18	2016/17
	£000	£000
Recurrent grant		
HEFCE, OfS and Research England		
Teaching	10,644	8,969
Research	14,715	14,940
	25,359	23,909
Specific grants		
Higher Education Innovation Fund	2,846	3,069
Other	1,791	824
Deferred capital grants released in year		
Building	2,052	1,912
Equipment	808	960
	32,856	30,674

3 Tuition fees and education grants

	Consolidated & University	
	2017/18	2016/17
	£000	£000
UK & EU undergraduates	78,445	63,570
UK & EU postgraduates	7,972	6,046
Non-EU undergraduates	29,315	25,584
Non-EU postgraduates	22,537	20,893
Non-credit bearing courses	2,929	3,156
Nurse training contract	10,890	13,417
Research training support grants	4,016	4,626
	156,104	137,292

4 Research grants and contracts

	Consolidated & University	
	2017/18	2016/17
	£000	£000
Research councils	16,591	14,870
UK based charities	2,366	2,405
Other UK government, health and hospital authorities	6,872	3,332
UK industry and commerce	4,190	7,380
EU government bodies	6,207	7,107
EU industry and commerce	4,178	4,460
Other grants and contracts	2,325	759
	42,729	40,313

Notes to the financial statements (continued)**5 Other income**

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Residences, catering and conferences	32,506	31,026	31,592	29,768
Other services rendered	3,718	4,308	4,020	4,625
Income from use of University facilities	5,676	5,603	890	904
Other income	11,406	11,324	13,088	12,285
	53,306	52,261	49,590	47,582

6 Investment income

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Investment income on endowments (note 25)	36	32	36	32
Research Park income	10,487	10,071	10,487	10,071
Income from non-current investments	-	81	-	81
Income from cash deposits	574	511	573	509
Other interest receivable	10	-	219	197
	11,107	10,695	11,315	10,890

7 Donations and endowments

	Consolidated & University	
	2017/18 £000	2016/17 £000
New endowments (note 25)	1,046	109
Donations with restrictions	194	223
Unrestricted donations	164	221
	1,404	553

8 Staff

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Staff costs - operational:				
Wages and salaries	122,357	112,680	119,679	110,118
Social security costs	11,974	11,064	11,758	10,858
Pension costs	19,414	17,279	19,245	17,132
Compensation for loss of office	339	128	339	116
	154,084	141,151	151,021	138,224
Movement on USS provision	(2,037)	761	(2,037)	761
	152,047	141,912	148,984	138,985

Costs for compensation for loss of office above were in respect of 47 employees (2016/17: 32 employees on a consolidated basis, 31 on a University basis).

	Consolidated		University	
	2017/18 Number	2016/17 Number	2017/18 Number	2016/17 Number
Full time equivalent staff numbers:				
Research and teaching	1,179	1,095	1,179	1,095
Professional	1,150	1,073	1,110	1,045
Technical and experimental	150	140	150	140
Operational	363	372	310	308
Other	8	8	8	8
	2,850	2,688	2,757	2,596

Notes to the financial statements (continued)

9 Emoluments of higher paid staff

	2017/18	2016/17
	£000	£000
Emoluments of President and Vice-Chancellor:		
Salary	314	310
Bonus/performance related pay	22	5
Taxable benefits	7	2
Non-taxable benefits	19	19
Allowance in lieu of pension contributions	50	49
	412	386
Pension contributions	7	7
	419	392

The non-taxable benefits reflect the appropriate percentage of the costs of the Vice-Chancellor's official residence.

Summary justification for total remuneration package for the President and Vice-Chancellor

Professor Max Lu was appointed President and Vice-Chancellor in April 2016 following a world-wide search. Previously Provost and Senior Vice-President at the University of Queensland, a world top 100 institution, Professor Lu is one of only 150 double highly cited academics in the world. Strong leadership is essential to ensuring that the University optimises its position in a challenging and competitive environment. The risks and opportunities which the University faces, together with its progress in the past year, are described in the Strategic Report on pages 2 to 11.

The Remuneration Committee, chaired by the Deputy Chair of Council, determines the Vice-Chancellor's remuneration. The Remuneration Committee takes into account a number of factors when setting the Vice-Chancellor's remuneration, including:

- The level of remuneration within other grades of staff at the University, with specific reference to the pay of those staff who participate in the nationally negotiated pay process and associated conditions of service, including professorial and other senior staff;
- The performance of the Vice-Chancellor, assessed against both an institutional balanced scorecard of metrics deemed critical to achievement of the institutional strategy and against more qualitative judgments by the Chair of Council and by members of the Remuneration Committee on the quality of the Vice-Chancellor's leadership and overall performance;
- The level of remuneration growth within comparable roles within the HE sector, as assessed by the national pay benchmarking data provided each year by the University Colleges Employers Association. In addition, the Remuneration Committee assesses comparable remuneration by reference to specific benchmark institutions which operate in very similar conditions and with similar strategies to the University of Surrey. It also compares the Vice-Chancellor's base and total remuneration to median remuneration within Russell Group institutions (with which the University competes) and to upper quartile remuneration for institutions in London and the South East which have annual income of £202m + (with which the University also competes).

Full details of the justification for the Vice-Chancellor's remuneration are available on the University's website at: <https://www.surrey.ac.uk/working-at-surrey>

Pay ratios

Ratios of the President and Vice-Chancellor's emoluments to the median pay of all staff (on a full time equivalent basis) on the following bases of remuneration were:

	2017/18	2016/17
Basic pay	9.0	9.1
Total remuneration	10.2	9.7

The calculation of median pay excludes all staff on zero hours contracts (primarily associates), joint appointments, Unitemps* workers, external agency staff and other temporary staff. Records of hours worked by these staff are not held within the University's HR, payroll or financial systems.

*Unitemps is the University's in-house recruitment agency

Notes to the financial statements (continued)**11 Interest and other finance costs**

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
On bank loans and other loans:				
Loans wholly repayable within five years	9	8	9	8
Loans not wholly repayable within five years	<u>7,088</u>	<u>6,931</u>	<u>7,088</u>	<u>6,931</u>
	7,097	6,939	7,097	6,939
On finance leases	567	598	567	598
Decrease in fair value of derivatives	(408)	(1,178)	(408)	(1,178)
Net charge on pension scheme	1,607	1,727	1,590	1,700
Other interest payable	4	5	4	5
	<u>8,867</u>	<u>8,091</u>	<u>8,850</u>	<u>8,064</u>

12 (Gain)/loss on investments

	Consolidated		University	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
(Gain)/loss on revaluation of Research Park	(2,899)	1,077	(2,899)	1,077
Other investment property losses	770	154	770	144
(Gain)/loss on revaluation of other investments	<u>(14)</u>	<u>(349)</u>	<u>167</u>	<u>(168)</u>
	<u>(2,143)</u>	<u>882</u>	<u>(1,962)</u>	<u>1,053</u>

13a Taxation

	Consolidated	
	2017/18 £000	2016/17 £000
Recognised in the statement of comprehensive income and expenditure		
Corporation tax on RDEC claim	19	-
Theatre tax credit	(165)	-
Tax on profits of subsidiary undertakings	9	(44)
Foreign tax	39	57
Tax (credit)/charge	<u>(98)</u>	<u>13</u>

Notes to the financial statements (continued)**13b Factors affecting tax (credit)/charge**

	Consolidated	
	2017/18	2016/17
	£000	£000
Surplus before taxation	13,441	4,239
Surplus multiplied by standard rate of corporation tax in the UK of 19% (2016/17: 19.67%)	2,554	848
Factors affecting charge:		
University surplus exempt from tax	(2,793)	(1,031)
Balances eliminated on consolidation exempt from tax	51	4
Tax charged on RDEC claim	19	-
Tax charged on profits earned overseas	39	57
Theatre tax credit	(165)	-
Losses carried forward in subsidiaries	154	79
Losses carried back against prior year profit in subsidiary	-	22
Expenses disallowable for tax in subsidiaries	34	32
Other	-	47
Total tax (credit)/charge excluding deferred tax	(107)	58
Deferred tax net charge/(credit) in subsidiaries	9	(45)
Total tax (credit)/charge (note 13a)	(98)	13

14 Intangible assets**Software**

	Consolidated & University £'000
Cost	
At 1 August 2017	9,710
Additions at cost	1,517
Disposals	(29)
At 31 July 2018	11,198
Amortisation	
At 1 August 2017	7,800
Charge for the year	1,061
Disposals	(29)
At 31 July 2018	8,832
Net book value	
At 31 July 2018	2,366
At 31 July 2017	1,910

Notes to the financial statements (continued)

15 Tangible fixed assets

Consolidated	Land and buildings		Assets under construction £000	Plant and equipment £000	Total £000
	Freehold £000	Leasehold £000			
Cost					
At 1 August 2017	692,723	8,780	39,636	118,802	859,941
Additions at cost	25	-	60,273	6,720	67,018
Transfers	8,405	-	(21,011)	12,606	-
Disposals at cost	-	-	-	(2,014)	(2,014)
At 31 July 2018	701,153	8,780	78,898	136,114	924,945
Depreciation					
At 1 August 2017	45,944	738	-	92,861	139,543
Charge for the year	17,135	246	-	10,306	27,687
Disposals	-	-	-	(2,014)	(2,014)
At 31 July 2018	63,079	984	-	101,153	165,216
Net book value					
At 31 July 2018	638,074	7,796	78,898	34,961	759,729
At 31 July 2017	646,779	8,042	39,636	25,941	720,398
University					
	Freehold £000	Leasehold £000	Assets under construction £000	Plant and equipment £000	Total £000
Cost					
At 1 August 2017	692,616	8,780	39,636	118,802	859,834
Additions at cost	-	-	60,273	6,720	66,993
Transfers	8,405	-	(21,011)	12,606	-
Disposals at cost	-	-	-	(2,014)	(2,014)
At 31 July 2018	701,021	8,780	78,898	136,114	924,813
Depreciation					
At 1 August 2017	46,049	738	-	92,861	139,648
Charge for the year	17,115	246	-	10,306	27,667
Impairment	-	-	-	-	-
Disposals	-	-	-	(2,014)	(2,014)
At 31 July 2018	63,164	984	-	101,153	165,301
Net book value					
At 31 July 2018	637,857	7,796	78,898	34,961	759,512
At 31 July 2017	646,567	8,042	39,636	25,941	720,186

At 31 July 2018 freehold land and buildings included £143,909,000 (2017: £143,909,000) in respect of freehold land which is not depreciated.

The freehold and leasehold land and buildings comprising the University of Surrey's estate were valued as at 1 August 2014 by an external valuer, Gerald Eve LLP, a regulated firm of chartered surveyors. The valuation was prepared in accordance with the requirements of the RCIS Valuation - Professional Standards (January 2014 amendment), FRS 102 and the 2015 Statement of Recommended Practice 'Accounting for Further and Higher Education'. The valuation was undertaken on a fair value basis, with non-specialised operational properties valued on a fair value basis equating to market value on the assumption of a continuation of the existing use. The valuation is reported under the special assumptions to exclude any value of development opportunities for which planning permission would be required and has not been granted or where development has not yet commenced.

During the year £2,681,000 (2016/17: £1,242,000) of borrowing costs was capitalised in fixed assets, at a capitalisation rate of 3.38% (2016/17: 3.36%).

Notes to the financial statements (continued)**15 Tangible fixed assets (continued)**

Tangible fixed assets include the following with respect to assets held under finance leases:

	Consolidated & University	
	2018	2017
	£000	£000
Net book value		
Land & buildings	7,795	8,041
Equipment	89	194
	<u>7,884</u>	<u>8,235</u>
Depreciation charge for year		
Land & buildings	246	246
Equipment	105	110
	<u>351</u>	<u>356</u>

16 Investment properties

Consolidated	Research Park Buildings			Other	Total
	Undeveloped Land	Under Development	Completed Buildings	Buildings	
	£000	£000	£000	£000	£000
At 1 August 2017	7,550	65	111,733	300	119,648
Additions	-	1,723	-	-	1,723
Transfers	-	(1,769)	1,769	-	-
Disposals	-	-	(770)	-	(770)
Change in market value	(245)	-	3,144	-	2,899
At 31 July 2018	<u>7,305</u>	<u>19</u>	<u>115,876</u>	<u>300</u>	<u>123,500</u>
University	Research Park Buildings			Other	Total
	Undeveloped Land	Under Development	Completed Buildings	Buildings	
	£000	£000	£000	£000	£000
At 1 August 2017	7,550	65	111,733	-	119,348
Additions	-	1,723	-	-	1,723
Transfers	-	(1,769)	1,769	-	-
Disposals	-	-	(770)	-	(770)
Change in market value	(245)	-	3,144	-	2,899
At 31 July 2018	<u>7,305</u>	<u>19</u>	<u>115,876</u>	<u>-</u>	<u>123,200</u>

The Research Park completed buildings, which have a historical cost of £56,473,000 (2017: £55,472,000), were valued as at 31 July 2018 by an external valuer, Deloitte LLP. The valuation of the property was in accordance with Valuation Practice Standard 3 of the RICS Valuation – Global Standards 2017 (revised July 2017) ('The Red Book').

The valuation was prepared on the basis of fair value, defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Notes to the financial statements (continued)**17 Other non-current investments****Consolidated**

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2017	-	1,850	1,850
Additions	-	-	-
Disposals	-	(1)	(1)
Change in market value	-	51	51
At 31 July 2018	-	1,900	1,900

University

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2017	4,672	1,383	6,055
Additions	750	-	750
Disposals	-	-	-
Change in market value	(181)	51	(130)
At 31 July 2018	5,241	1,434	6,675

Significant shareholdings in subsidiaries

Name	Nature of business	Class of share	% held
Blackwell Developments (Guildford) Limited	Property development	Ordinary	100
Surrey Sports Park Limited	Sports park management	Ordinary	100
UniSGrist Limited	Grants to entrepreneurs	Ordinary	100
University of Surrey Seed Fund Limited	Technology investment	Ordinary	100

All subsidiaries are registered in England and Wales.

18 Trade and other receivables

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables	5,504	10,258	5,937	10,328
Amounts owed by subsidiary undertakings	-	-	9,204	9,169
Other receivables including taxation	120	140	81	104
Deferred tax (note 19)	156	196	-	-
Prepayments and accrued income	22,294	18,805	22,248	18,779
	28,074	29,399	37,470	38,380

Deferred tax receivable relates to deferred tax credits arising in subsidiary companies. The recoverability of £14,000 of this balance (2017: £26,000) is dependent on future trading profits of Surrey Sports Park Limited.

Notes to the financial statements (continued)**19 Deferred tax asset**

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
The deferred tax asset comprises:				
Accelerated capital allowances	6	23	-	-
Short term timing differences	65	63	-	-
Pension	85	110	-	-
	156	196	-	-
Deferred tax asset excluding pension:				
Balance at 1 August	86	22	-	-
(Charge)/credit to the statement of comprehensive income and expenditure	(15)	64	-	-
Balance at 31 July	71	86	-	-
Deferred tax pension asset:				
Balance at 1 August	110	219	-	-
Credit/(charge) to the statement of comprehensive income and expenditure	6	(19)	-	-
Charge to other comprehensive income	(31)	(90)	-	-
Balance at 31 July	85	110	-	-

20 Current asset investments

	Consolidated & University	
	2018 £000	2017 £000
Short term deposits (maturing within 1 year)	67,058	127,000
Other investments	422	467
	67,480	127,467

Short term deposits are held with banks and building societies operating in the London market and licensed by the Financial Conduct Authority with more than 3 months and less than 12 months maturity at inception.

21 Creditors : amounts falling due within one year

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Unsecured loans (note 23a)	10,541	6,784	10,541	6,784
Obligations under finance leases	725	697	725	697
Other loans (note 23c)	113	232	113	232
Payments received on account	9,086	8,769	9,086	8,769
Trade creditors	6,404	4,086	6,334	3,980
Amounts owed to group undertakings	-	-	800	120
Other creditors including taxation and social security	16,758	14,690	16,432	14,590
Government deferred capital grants	6,756	3,517	6,756	3,517
Accruals and deferred income	70,426	74,409	69,780	73,633
	120,809	113,184	120,567	112,322

Notes to the financial statements (continued)**21 Creditors : amounts falling due within one year (continued)****Deferred income**

Included within accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Consolidated & University	
	2018	2017
	£000	£000
Research grants received on account	5,094	6,882
Other grant income	145	782
	<u>5,239</u>	<u>7,664</u>

22 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Unsecured loans (note 23a)	266,096	276,637	266,096	276,637
Obligations under finance leases	7,856	8,574	7,856	8,574
Government deferred capital grants	71,341	66,802	71,341	66,802
Derivatives	21,815	26,719	21,815	26,719
Other loans (note 23c)	747	860	747	860
Accruals and deferred income	2,243	-	2,243	-
Other creditors	5	29	-	-
	<u>370,103</u>	<u>379,621</u>	<u>370,098</u>	<u>379,592</u>

The derivatives relate to interest rate swaps that the University has entered into in order to fix the interest rate payable on certain of its borrowings.

During 2017/18 a hedging gain of £408,000 (2016/17: £1,178,000 gain) was recognised in the statement of comprehensive income and expenditure for changes in fair value of interest rate swaps and £4,496,000 was reclassified from the statement of comprehensive income and expenditure to the cash flow hedge reserve (2016/17: £6,861,000).

23 Borrowings**a. Unsecured loans**

	Consolidated & University	
	2018	2017
	£000	£000
Unsecured loans are repayable as follows:		
Within one year or on demand	10,541	6,784
Between one and two years	10,956	11,041
Between two and five years	32,474	35,667
Over five years	222,666	229,929
	<u>276,637</u>	<u>283,421</u>
Due within one year or on demand	(10,541)	(6,784)
Due after more than one year	<u>266,096</u>	<u>276,637</u>
Unsecured loans repayable by 2052	<u>276,637</u>	<u>283,421</u>

Notes to the financial statements (continued)**23 Borrowings (continued)**

Unsecured loans at 31 July 2018 were as follows:

	£000	Interest rate %	Maturity	Borrower
Banks:				
Scottish Widows	15,662	variable	2031	University
Scottish Widows	24,556	variable	2022-2026	University
Lloyds	50,000	fixed / variable	2033	University
National Westminster	14,144	variable	2030	University
National Westminster	1,352	variable	2022	University
National Westminster	10,313	variable	2032	University
Santander	40,610	variable	2035	University
Private Placement:				
Legal & General	40,000	fixed	2046	University
Pricoa	55,000	fixed	2046	University
BAE Systems Pension Fund	25,000	fixed	2052	University
	<u>276,637</u>			

All loans are unsecured but include a negative pledge clause whereby the University undertakes not to grant security over its assets to third parties.

Interest on £30,000,000 of the Lloyds loan is payable at a fixed rate. Interest on the balance of this loan and all other variable rate loans is payable at a margin above base rate / LIBOR.

The weighted average interest rate at 31 July 2018, inclusive of lender margins and swap costs, was 3.62% (2017: 3.59%).

b. Finance leases

The total minimum lease payments relating to finance lease obligations are as follows:

Consolidated & University	2018			2017		
	Land & buildings £000	Plant & equipment £000	Total £000	Land & buildings £000	Plant & equipment £000	Total £000
Within one year	1,159	93	1,252	1,159	100	1,259
Between two and five years	4,637	9	4,646	4,637	98	4,735
Over five years	6,033	-	6,033	7,192	-	7,192
Total minimum lease payments	11,829	102	11,931	12,988	198	13,186
Less: interest payable	(3,350)	-	(3,350)	(3,915)	-	(3,915)
Net finance lease obligation	8,479	102	8,581	9,073	198	9,271

c. Other loans

Other loans are repayable as follows:

	Consolidated & University	
	2018 £000	2017 £000
Within one year	113	232
Between two and five years	170	283
Over five years	577	577
Total other loans	860	1,092

Notes to the financial statements (continued)**24 Provisions**

Consolidated	Obligation to fund deficit on USS pension £000	Defined benefit obligations £000	Pension enhancements on termination £000	Total £000
At 1 August 2017	33,793	35,284	1,375	70,452
Utilised in year	(1,267)	(2,451)	(17)	(3,735)
Additions	(2,037)	(5,997)	(87)	(8,121)
At 31 July 2018	30,489	26,836	1,271	58,596
University	Obligation to fund deficit on USS pension £000	Defined benefit obligations £000	Pension enhancements on termination £000	Total £000
At 1 August 2017	33,793	34,634	1,375	69,802
Utilised in year	(1,267)	(2,468)	(17)	(3,752)
Additions	(2,037)	(5,827)	(87)	(7,951)
At 31 July 2018	30,489	26,339	1,271	58,099

In accordance with the requirements of the SORP, the University recognises a provision for its obligation to fund past deficits arising within the Universities Superannuation Scheme (USS). The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 13 years remain. Details of this provision, which has been discounted at a rate of 2.21% as at 31 July 2018, are included in note 34 to the financial statements.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

In the judgement of the University, as the 2017 valuation has not formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

There is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The University expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact on the existing liability of £30,489,000 for changes to parameters from 31 March 2019 (assuming the same discount rate of 2.21%):

	Increase in liability £000s
Increase deficit contribution by 1% to 3.1%	13,854
Increase deficit contribution by 3.9% to 6%	54,030
Increase recovery plan to a period of 17 years	12,989
Increase recovery plan to a period of 20 years	21,796

The defined benefit obligations comprise the deficits on the local government pension schemes (Surrey Pension Fund and LPFA Pension Fund). The University is currently making monthly payments to the Surrey Pension Fund of £107,500 to pay off the deficit by 2033 with a discounted lump sum payment of £2,046,000 made in July 2018 in respect of the monthly payments due for the period 1 August 2018 to 31 March 2020. The University is making annual payments to the LPFA Pension Fund of £80,000, rising annually with CPI, to pay off the deficit by 2028. The obligations and payments are subject to revision following each triennial valuation.

For the assumptions on the discount rate and inflation used for calculating the provision for pension enhancements on termination see note 34b.

Notes to the financial statements (continued)**25 Endowment reserve****Consolidated & University**

	Restricted permanent £000	Restricted expendable £000	2018 Total £000	2017 Total £000
Balances at 1 August 2017				
Capital	325	1,882	2,207	2,232
Accumulated income	168	183	351	440
	493	2,065	2,558	2,672
New endowments	-	1,046	1,046	109
Investment income	10	26	36	32
Expenditure	-	(332)	(332)	(388)
Increase in market value of investments	19	32	51	133
	29	772	801	(114)
At 31 July 2018	522	2,837	3,359	2,558
Represented by:				
Capital	325	1,767	2,092	2,207
Accumulated income	197	1,070	1,267	351
	522	2,837	3,359	2,558
Analysis by purpose:				
Scholarships and bursaries	278	1,036	1,314	1,407
Prize funds	-	783	783	316
Hardship funds	213	119	332	51
Educational	-	863	863	-
Research support	-	3	3	3
Other	31	33	64	781
	522	2,837	3,359	2,558
Analysis by asset:				
Listed investments			1,285	1,207
Cash held as part of investment portfolio			36	63
Cash held at bank for endowment funds			2,038	1,288
			3,359	2,558

26 Connected charitable institutions

A number of charitable institutions are administered by or on behalf of the University and have been established for its general or specific purposes. As a result, under paragraph 28 of schedule 3 to the Charities Act 2011, these connected institutions are exempt from registration with the Charity Commission. All of these connected institutions are included in these consolidated financial statements. The movements in the year on the total funds of all connected institutions, as reported in their own accounts, were as follows:

Connected institutions with income under £100,000

	At 1 August 2017 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2018 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	618	13	(25)	32	638
Studentship (1 fund)	277	2	(77)	-	202
	895	15	(102)	32	840

There were no connected institutions with income over £100,000.

Notes to the financial statements (continued)**27 Restricted reserves****Consolidated & University**

	Donations	2018	2017
	£000	Total	Total
		£000	£000
At 1 August 2017	195	195	195
New donations	403	403	223
Expenditure	(235)	(235)	(223)
At 31 July 2018	363	363	195

Analysis of restricted reserves by purpose:

Scholarships and bursaries	177	74
Prize funds	12	4
Hardship fund	55	32
Research support	10	12
Other	109	73
	363	195

28 Cash flow hedge reserve**Consolidated & University**

	2018	2017
	Total	Total
	£000	£000
At 1 August 2017	(16,730)	(23,591)
Hedging gain	4,496	6,861
At 31 July 2018	(12,234)	(16,730)

29 Analysis of changes in net debt**Consolidated**

	At 1 August		Non-cash	At 31 July
	2017	Cash flows	changes	2018
	£000	£000	£000	£000
Loans due within one year (note 21)	(7,016)	7,016	(10,654)	(10,654)
Loans due after one year (note 22)	(277,497)	-	10,654	(266,843)
Finance leases (note 23b)	(9,271)	690	-	(8,581)
Financing	(293,784)	7,706	-	(286,078)
Cash and cash equivalents	34,896	29,694	-	64,590
Short term deposits (note 20)	127,000	(59,950)	8	67,058
	(131,888)	(22,550)	8	(154,430)

30 Capital commitments**Consolidated & University**

	2018	2017
	£000	£000
Commitments contracted at 31 July	51,965	75,277
Authorised but not contracted at 31 July	26,028	13,620
	77,993	88,897

Notes to the financial statements (continued)**31 Lease obligations**

Total future minimum lease payments payable under non-cancellable operating leases are as follows:

Consolidated & University

Expiry date:	2018		2017	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	949	560	433	21
Between two and five years	-	689	-	1,180
Over five years	-	-	-	-
	949	1,249	433	1,201

Total future minimum lease payments receivable under non-cancellable operating leases are as follows:

Consolidated

Expiry date:	2018		2017	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	6,478	-	5,241	-
Between two and five years	21,238	-	14,654	-
Over five years	16,426	-	10,653	-
	44,142	-	30,548	-

University

Expiry date:	2018		2017	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	6,478	-	5,241	-
Between two and five years	21,238	-	14,654	-
Over five years	14,691	-	9,209	-
	42,407	-	29,104	-

32 Contingent assets and liabilities

There are no known contingent assets or liabilities.

33 Financial commitments**Undrawn loan facilities**

On 4 June 2013 the University entered into an agreement with Lloyds TSB Bank plc to borrow £60,000,000. £35,000,000 of this balance was drawn down on 31 October 2013, £15,000,000 was drawn down on 31 October 2014 and the balance of £10,000,000 is due to be drawn down no later than 31 December 2018.

Interest on the loan was payable at a variable rate up until 31 July 2014. From 1 August 2014 interest on £30,000,000 (amortising) is payable at a fixed rate and interest on the balance is payable at a variable rate.

The loan is repayable in 60 equal quarterly instalments from 31 July 2018.

Notes to the financial statements (continued)

34 Pension schemes

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

	Consolidated	
	2017/18	2016/17
	Total £000	Total £000
USS	14,888	13,492
Local government pension scheme	4,099	3,443
Other pension schemes	427	344
Total pension cost	19,414	17,279

a. Universities Superannuation Scheme (USS)

USS is valued every three years by a professionally qualified independent actuary using the projected unit method. The actuary carries out a review of the funding level each year between triennial valuations. The valuation as at 31 March 2017 is underway but not yet completed.

Since the institution cannot identify its share of the Retirement Income Builder section (i.e. the defined benefit section) of the scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The latest triennial actuarial valuation of the Retirement Income Builder section of the scheme was as at 31 March 2014 ("the valuation date"). This was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings. These figures will be revised once the 2017 scheme valuation is complete. FRS 102 valuations of these assets and liabilities at 31 March 2017 and 31 March 2018 were:

	2018 £000	2017 £000
Scheme assets	63,600,000	60,000,000
Total scheme liabilities	(72,000,000)	(77,500,000)
FRS 102 total scheme deficit	(8,400,000)	(17,500,000)
FRS 102 total funding level	88%	77%

The key assumptions used by USS to calculate the funding level and liability at 31 March were as follows:

	2018	2017
Discount rate	2.6%	2.6%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.0%	2.4%

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

Mortality base table

	Pre-retirement	Post retirement
2018		
Male members' mortality	71% of AMC00 (duration 0)	96.5% of SAPS S1NMA "light"
Female members' mortality	112% of AFC00 (duration 0)	101.3% of RFV00
2017		
Male members' mortality	98% of S1NA ["light"] YoB tables - no age rating	
Female members' mortality	99% of S1NA ["light"] YoB tables - rated down 1 year	

Notes to the financial statements (continued)**34 Pension schemes (continued)****a. Universities Superannuation Scheme (USS) (continued)**

Future improvements in mortality rates:

	2018	2017
CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females.		CMI 2014 projections with a 1.5% pa long term rate.

The current life expectancies on retirement at age 65 are:

	2018	2017
Males/females currently aged 65	24.5/26.0 years	24.4/26.6 years
Males/females currently aged 45	26.5/27.8 years	26.5/29.0 years

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, whereas a surplus could, perhaps, be used to similarly reduce contribution requirements.

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

At 31 March 2014 USS had over 167,000 active members and the University had 1,887 active members participating in the scheme.

Recovery plan

Following the 2014 actuarial valuation which valued the scheme deficit at £5.3 billion, employers contributing to the USS agreed a deficit recovery plan, aiming to eliminate the deficit over 17 years by 31 March 2031. In order to achieve this, the USS recovery plan estimates that the % of pensionable salaries payable required to eliminate the deficit are:

To 31 March 2016	0.70%
1 April 2016 to 30 September 2016	2.50%
1 October 2016 to 31 March 2031	2.10%

The University has used a financial model to estimate its liability to USS under the USS deficit recovery plan. The model was developed by the British Universities Finance Directors Group (BUFDG), with the support of the USS trustee company. The following assumptions were used in that model:

	2018	2017
Opening discount rate	1.91%	1.78%
Closing discount rate	2.21%	1.91%
Salary inflation	4.00%	3.2% to 4.0%
Staff changes	-0.4% to 7.7%	0.8% to 10.7%

b. Surrey County Council local government pension scheme (Surrey Pension Fund)

The Surrey Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method. In the intervening years the actuary reviews the progress of the scheme.

The contribution payable by the employer, as a percentage of payroll, is 18.9%. This percentage reflects the future service contribution. The past service deficit will be met by the payment of monetary amounts. In July 2018 the University agreed with Surrey County Council to prepay the monthly deficit payments for the period 1 August 2018 to 31 March 2020 with a single discounted lump sum payment. The total amount payable in respect of the past service deficit in 2017/18, including the prepayment, was £3,336,000 (2016/17: £1,732,000).

Notes to the financial statements (continued)

34 Pension schemes (continued)

b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)

Under the definitions set out in section 28 of FRS 102, "Employee benefits", the Surrey Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2018.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2018 on an FRS102 basis by a qualified independent actuary. The material assumptions used by the actuary were:

	Consolidated	
	2018	2017
Pension increase rate (CPI)	2.4%	2.4%
Salary increase rate	2.7%	2.7%
Discount rate	2.7%	2.6%

Life expectancy is based on Vita Curves with improvements in line with the CMI 2013 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25%. Based on these assumptions, the average future life expectancies at age 65 for males and females are summarised below:

	2018		2017	
	Males	Females	Males	Females
Current pensioners	22.5 years	24.6 years	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2016 is 45 years)	24.1 years	26.4 years	24.1 years	26.4 years

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, "GMP". The Government will need to consider this outcome in conjunction with the Government's recent consultation on GMP indexation in public sector schemes before concluding on any changes required to LGPS schemes.

The Group's estimated share of the assets in the scheme was:

	Consolidated	
	2018	2017
	£000	£000
Equities	76,536	70,203
Bonds	18,071	13,464
Property	7,441	7,693
Cash	4,252	4,808
	<u>106,300</u>	<u>96,168</u>

The following amounts were measured in accordance with the requirements of FRS 102:

Analysis of amounts shown in the balance sheet

	Consolidated	
	2018	2017
	£000	£000
Fair value of employer assets	106,300	96,168
Present value of funded liabilities	(133,136)	(131,287)
Net underfunding in funded plans	(26,836)	(35,119)
Present value of unfunded liabilities	(1,187)	(1,277)
Net liability	<u>(28,023)</u>	<u>(36,396)</u>

Notes to the financial statements (continued)**34 Pension schemes (continued)****b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)****Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure**

	Consolidated	
	2017/18	2016/17
	£000	£000
Current service cost	4,099	3,443
Net interest	957	1,101
Past service cost (including curtailments)	-	-
	<u>5,056</u>	<u>4,544</u>
Actual return on plan assets	<u>8,022</u>	<u>5,929</u>

Analysis of amounts recognised in other comprehensive income

	Consolidated	
	2017/18	2016/17
	£000	£000
Changes in financial assumptions	2,550	(2,571)
Other experience gains	30	9,625
Return on assets excluding amounts shown in net interest	5,521	3,351
Total measurements recognised in other comprehensive income	<u>8,101</u>	<u>10,405</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2017/18	2016/17
	£000	£000
Opening defined benefit obligation	132,564	136,207
Current service cost	4,099	3,443
Interest cost on defined benefit obligation	3,458	3,271
Contributions by members	630	671
Changes in financial assumptions	(2,550)	2,571
Other experience gains	(30)	(9,625)
Past service cost (including curtailments)	-	-
Estimated benefits paid	(3,761)	(3,887)
Unfunded benefits paid	(87)	(87)
Closing defined benefit obligation	<u>134,323</u>	<u>132,564</u>

Changes in the fair value of employer assets

	Consolidated	
	2017/18	2016/17
	£000	£000
Opening fair value of employer assets	96,168	90,109
Interest on assets	2,501	2,170
Contributions by members	630	671
Contributions by the employer	5,241	3,754
Contributions in respect of unfunded benefits	87	87
Return on assets less interest	5,521	3,351
Estimated benefits paid	(3,761)	(3,887)
Unfunded benefits paid	(87)	(87)
Closing fair value of employer assets	<u>106,300</u>	<u>96,168</u>

Notes to the financial statements (continued)

34 Pension schemes (continued)

c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund)

The LPFA Pension Fund is valued every three years by professionally qualified independent actuaries using the projected unit method. In the intervening years the actuary reviews the progress of the scheme.

Under the definitions set out in Section 28 of FRS 102, "Employee benefits", the LPFA Pension Fund is a multi-employer defined benefit pension scheme. The actuary has identified the University's share of its assets and liabilities as at 31 July 2018.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2018 on an FRS 102 basis by a qualified independent actuary. The relevant material assumptions used by the actuary were:

	2018	2017
Pension increase rate (CPI)	2.3%	2.0%
Discount rate	2.3%	1.5%

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

	2018		2017	
	Males 21.2 years	Females 24.1 years	Males 21.1 years	Females 24.0 years
Retiring today				

The University's estimated share of the assets in the scheme was:

	2018 £000	2017 £000
Equities	1,263	1,279
Cash	96	145
Target return portfolio	462	433
Other assets	264	230
	2,085	2,087

The following amounts were measured in accordance with the requirements of FRS 102:

Analysis of amounts shown in the balance sheet

	2018 £000	2017 £000
Fair value of employer assets	2,085	2,087
Present value of funded liabilities	(1,999)	(2,252)
Net underfunding in funded plans	86	(165)
Asset ceiling	(86)	-
Present value of unfunded liabilities	(84)	(98)
Net liability	(84)	(263)

The actuary's valuation of the scheme at 31 July 2018 has resulted in a surplus of £86,000. As stated under FRS102, a plan surplus is only recognised to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

The University has agreed a repayment plan in respect of the deficit calculated at the last formal actuarial valuation, and so it is not considered that the surplus will be recovered in the following 12 months. Therefore the £86,000 surplus is not recognised but written off in other comprehensive income.

Notes to the financial statements (continued)**34 Pension schemes (continued)****c. London Pensions Fund Authority local government pension scheme (LPFA Pension Fund) (continued)****Analysis of amounts recognised in the consolidated statement of comprehensive income and expenditure**

	2017/18	2016/17
	£000	£000
Net interest charge	3	14
Administration expenses	3	2
	<u>6</u>	<u>16</u>
Actual return on plan assets	<u>(123)</u>	<u>(270)</u>

Analysis of amounts recognised in other comprehensive income

	2017/18	2016/17
	£000	£000
Changes in financial assumptions	83	39
Other experience gains	-	135
Return on assets excluding amounts shown in net interest	93	242
Other actuarial gains on assets	-	59
Impact of asset ceiling	(86)	-
Total measurements recognised in other comprehensive income	<u>90</u>	<u>475</u>

Changes in the present value of the defined benefit obligation

	2018	2017
	£000	£000
Opening defined benefit obligation	2,350	2,705
Interest cost	33	42
Change in financial assumptions	(83)	99
Change in demographic assumptions	-	(138)
Other experience gains	-	(135)
Estimated benefits paid	(204)	(210)
Unfunded benefits paid	(13)	(13)
Closing defined benefit obligation	<u>2,083</u>	<u>2,350</u>

Changes in the fair value of employer assets

	2018	2017
	£000	£000
Opening fair value of employer assets	2,087	1,801
Interest on assets	30	28
Return on assets less interest	93	242
Other actuarial gains	-	59
Contributions by the employer	82	169
Contributions in respect of unfunded benefits	13	13
Estimated benefits paid	(204)	(210)
Unfunded benefits paid	(13)	(13)
Administration expenses	(3)	(2)
Closing fair value of employer assets	<u>2,085</u>	<u>2,087</u>

Notes to the financial statements (continued)**35 Related party transactions**

All transactions involving entities in which a member of the Council or the Executive Board may have an interest, including those identified below, are conducted in accordance with the University's financial regulations and normal procurement procedures. The University has taken advantage of the exemption under FRS 102 not to disclose transactions with subsidiaries that are wholly owned. The table below shows transactions with related parties not covered by the exemption.

Related parties include Council and Executive Board members and entities in which the Council and Executive Board members have significant influence.

2017/18

	Recognised income	Recognised expenditure	Balance due to/(from) the the
	£000	£000	£000
British Toxicology Society	-	1	-
Charterhouse School	6	-	-
Electrical Research Association Foundation	72	-	-
Goldsmiths College	44	69	3
Guildford Cathedral	-	2	-
Guildford Education Partnership	1	-	-
Merck Sharpe	1	-	-
Royal Grammar School, Guildford	1	-	-
Royal Surrey County Hospital Foundation NHS Trust	678	201	77
Saxton Bampfylde	-	66	-
Society for Research into Higher Education	12	3	-
SPIE	-	10	-
University of Surrey Students' Union	-	1182	(1)

2016/17

	Recognised income	Recognised expenditure	Balance due to/(from) the the
	£000	£000	£000
Charterhouse School	2	-	-
Electrical Research Association Foundation	68	-	-
Guildford Education Partnership	1	-	-
Kent, Surrey & Sussex Air Ambulance Trust	2	-	-
Royal Surrey County Hospital Foundation NHS Trust	629	-	(102)
Surrey County Council	165	30	(22)
University of Surrey Students' Union	176	1,169	2

Notes to the financial statements (continued)**36 Financial instruments****Carrying amount of financial instruments**

The carrying amounts of the financial assets include:

	2018	2017
	£000	£000
Assets measured at fair value through the statement of comprehensive income and expenditure	125,207	123,044
Liabilities measured at fair value through the statement of comprehensive income and expenditure	(21,815)	(26,719)

Assets

The fair value of the financial assets measured at fair value through the statement of comprehensive income and expenditure is determined by reference to their quoted bid price at the balance sheet date.

During the year income arising from assets measured at fair value of £6,941,000 (2016/17: £7,044,000) and net gains on changes in fair value of £2,163,000 (2016/17: £244,000 gain) were recognised in the statement of comprehensive income and expenditure.

Liabilities

The University uses interest rate swaps as cash flow hedges in order to hedge against the risk of fluctuations in cash flows arising from interest rate changes on certain of the University's borrowings. These swaps, included in liabilities above, are as follows:

	Bank	Interest rate %	Maturity	Interest payment frequency	Fair value	
					2018	2017
					£000	£000
	Lloyds	5.09	2032	Quarterly	1,662	2,084
	Lloyds	5.38	2032	Quarterly	3,080	3,881
	Lloyds	5.49	2022	Quarterly	635	1,176
	Lloyds	4.00	2038	Quarterly	927	1,213
	National Westminster	4.74	2024	Quarterly	990	1,286
	National Westminster	4.52	2024	Quarterly	10,021	12,134
	Lloyds	4.33	2035	Quarterly	4,500	4,945
					21,815	26,719

The fair value of interest rate swaps, recorded in liabilities, is based on broker quotes using forecast projections of LIBOR. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date.

During the year changes in the fair value of the interest rate swaps of £408,000 were credited to interest payable (2016/17: £1,243,000 charge to interest payable) and £4,496,000 credited to other comprehensive income (2016/17: £6,947,000 charge to other comprehensive income).

37 Post balance sheet events**Non-adjusting**

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The USS provision included within the financial statements at note 24 will only be impacted to the extent the change in benefits increases cash financing.

Council members (trustees)

The Council members who held office during the year and until the date on which the financial statements were formally approved were as follows:

Chair

Mr M Queen (from 1 August 2018)
Dr J Glover (to 31 July 2018)

Vice-Chair

Dr A Watts

Treasurer

Mr A Stuart

Ex officio members

President & Vice-Chancellor
Professor G Q M Lu

Provost & Executive Vice-President
Professor M Kearney

Chief Operating Officer
Mr D Sharkey

Senior Vice-President (Advancement and Community)
Mr G Melly

Senior Vice-President (Global)
Professor V Emery

President, Students' Union
Ms S Cochrane (to July 2018)
Dr A Harden (from July 2018)

Elected by the Senate

Professor R Brooks
Professor S Price (from September 2017)
Professor P Smith (from September 2017)

Lay members

Mr V Baxi
Dr A Bragg (to November 2017)
Dr M Goodfellow
Dr S Howes
Ms R Hubbard (from 1 February 2018)
Ms C Ighodaro
Mr P Maskell
Dr D McNulty
Mr M Queen (to July 2018)
Ms J Sawkins
Mr N Standen (from 1 February 2018)

Profiles of the Council members are available at <https://www.surrey.ac.uk/about/governance/members-council>

UNIVERSITY OF SURREY

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