

Financial statements

2018/2019

University of Surrey

Financial statements for the year ended 31 July 2019

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Vice-Chancellor's introduction



I am pleased to introduce the 2018/19 financial statements which show income exceeding £300m for the first time.

2018/19 marked the second year of our five year corporate strategy and over the following pages you will read about some of the key activities we have undertaken and the initiatives we have in place to further our position as a prominent global University and deliver the 'Surrey Advantage' for our graduates and our staff.

We are committed to providing a first-class student experience and were delighted to be able to deliver MySurrey Hive during the year - a flexible space in the heart of campus providing a 'one-stop shop' for student support. This was accompanied by an upgraded online portal for student information.

Over recent years we have increased the breadth of our academic offering and in July 2019 a key milestone was achieved when the first Veterinary Medicine undergraduate cohort successfully graduated. This was followed by confirmation of accreditation of the programme by the Royal College of Veterinary Surgeons, making Surrey the official host to one of only eight accredited Schools of Veterinary Medicine in the UK.

We made further progress in the year towards our strategic aim of growing the scale of research undertaken and increasing its impact. Core operational research income grew by 14% to £44.4m, with a further £2.2m of income generated through contributions in kind to the 5G research programme. The research pipeline remains strong with new awards during 2018/19 including £4.4m in respect of Surrey's collaboration with Imperial College, London to establish a new £20m dementia research centre.

We continue to strengthen engagement with our alumni and our philanthropic fundraising. A full programme of events on campus, in London and around the world enabled us to engage with thousands of our alumni, many for the first time. Alumni engagement and other fundraising efforts generated over £7.5m in commitments during the year to further the University's mission.

As in 2018 the results of the National Student Survey presented a mixed picture. At a subject level there were examples of both outstanding performance and significant progress compared with prior years. We were disappointed not to see an improvement in the overall score which, at 82.9%, was marginally lower than 2018's figure of 83.7% and we remain focused on the comprehensive action plan initiated in 2018 and strengthened in 2019 which is expected to deliver its full benefit in 2021.

The environment in which we operate remains extremely challenging and competitive, but the University is well positioned to succeed. In the coming year we will continue to build on the achievements of 2018/19 while progressing a number of key new initiatives to further improve the student experience and achieve our strategic goals.

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

Professor G Q Max Lu
President and Vice-Chancellor

Strategic report

Introduction

The strategic report seeks to set the 2018/19 financial results of the University and its subsidiary companies in the context of the University's strategy and operations.

University overview

The University was granted its Royal Charter and established as a University in 1966. Although it was founded as a science and engineering focused institution, the University's educational, research and other activities now cover a broad range of disciplines, which are organised within three faculties:

- Faculty of Arts and Social Sciences
- Faculty of Engineering and Physical Sciences
- Faculty of Health and Medical Sciences.

In addition to the core academic activities (which include the activities of Surrey Sports Park Limited) the University owns and manages the Surrey Research Park which is home to a number of technology, science, health and engineering companies, many of which are spinouts from the University or benefit from close links with the University's academic activities.

University strategy

The University is two years into its current five-year corporate strategy which sets a clear direction for the future, highlighting the University's priorities and distinctive activities to further its position as a prominent global University, and to deliver the 'Surrey Advantage' for its graduates and staff.

The strategy is articulated around four strategic priorities:

1. Teaching, learning and student experience
2. Research, impact and innovation
3. Regional and global engagement
4. People and culture, finance, infrastructure and digital.

Within the above areas a number of key activities and initiatives are in place regarding the student experience, growth of research excellence, continued positioning of the University as the preferred partner for industry, expansion of activities and partnerships globally, and continued enhancement of the opportunities and facilities for staff and students.

Operating environment

The operating environment for the UK Higher Education sector is increasingly volatile, with political uncertainty a defining factor during 2018/19. During this period the

University has closely monitored the external context and modelled a variety of outcomes to underpin its future planning.

The potential to exit the EU without a deal or under terms that are unfavourable to higher education has been a primary concern.

The University has many staff and students travelling to and from EU member states, working in partnership with EU universities and businesses – including undertaking placements, accessing European funding sources, and/or needing to apply for settled status in order to ensure they and their families are able to continue to remain in England post the exit date.

To date the University has continued to enjoy strong interest from EU citizens both to study and work at the University and the UK government's recent updated position regarding provision of post-study work visas will help to maintain this.

Within the UK, there has also been the publication of the Augar Review of post-18 education and funding. This report identified some important issues and made over 50 recommendations, many of which are interdependent. Amongst other things, the recommendations include a proposal to reduce the headline fee paid by the student and use public funding to put resource back into priority subjects. An overall reduction in the unit of resource per student would create financial challenges for the sector but it is not yet known whether the review recommendations will be adopted.

Once admitted to University, it has also been observed that, since 2012 and the raising of the fee cap, the expectations of the student body have grown and changed significantly. Keeping pace with these expectations at a time when costs are increasing while the unit of resource is at best stable, is increasingly challenging. The University has sought to make careful prioritisation choices regarding the projects it invests in, seeking to balance the shorter term needs of the students of today, with the need to ensure longer term sustainability and excellence.

Encouragingly the UK government has articulated its aspiration to increase the investment in research and development to 2.4% of GDP. This could create additional funding opportunities for research and innovation aligned to the country's industrial strategy, against which the University's strengths are well positioned.

It is also of note that the sector is currently near the lowest point of the demographic dip in the population of 18 year olds. This has reduced the size of the market available and has further sharpened the competitive marketing approach now being taken to attract applicants. The population recovery is expected to be realised in the South East of

Strategic report (continued)

England first which will support the University's longer term growth aspirations.

Finally, the Office for Students, which has replaced the Higher Education Funding Council for England (HEFCE) as the sector regulator, has completed its transition to a fully functioning regulator and has made changes in its approach to a number of registration conditions, including access and participation, and student protection plans. The University's five-year access and participation plan has been approved subject to enhanced monitoring requirements to ensure the University makes reasonable progress against its targets.

In summary, the three most significant risks being managed by the University during 2018/19 related to:

- staff and the ability to recruit and retain talent in the context of external uncertainty
- student recruitment in light of more challenging market conditions
- continued development of the student experience with limited resources and heightened expectations.

Review of performance

This section seeks to provide a brief commentary on the University's performance with respect to its strategy and financial indicators.

Teaching, learning and student experience

The University aims to deliver highly sought after graduates and engaged alumni through an enriched teaching and learning environment where students are at the heart of what we do. During 2018/19 a number of initiatives were launched or progressed which aim to support the objectives of the University's Education Strategy.

First and foremost was the launch of the curriculum design project which involves an overhaul of the content, structure and assessment of all taught programmes. The aim is to ensure all programmes are stimulating, stretching, well-supported and inclusive; embed exposure to professional practice and opportunities to develop career relevant skills; and are assessed in rigorous and pedagogically effective ways.

Other initiatives during the year included a programme of expansion of digital content, a review of pastoral care and the personal tutor system, and a focus on assessment and feedback including turnaround times. The volume of digital content more than doubled during the year and there has been comparably high use of digital content by students.

The University also opened MySurrey Hive, a one-stop shop for student support, providing a flexible space in the heart of campus, with improved case management supported by an upgraded online portal for information. A number of other enhancements have been made to student facilities

including the provision of a 200-seat state-of-the-art computer laboratory; development of facilities for teaching and learning in Psychology; and completely new teaching facilities for the School of Health Sciences on the Manor Park campus which support experiential learning across a number of programmes including Nursing, Midwifery, and Paramedic Practice. The University's library services have also been expanded under the Library+ concept whereby spaces around campus have been converted for library use with core services available. This provides greater access to library facilities and study space, notably at peak times such as during exam periods.

In July 2019 a key milestone was achieved when the first Veterinary Medicine undergraduate cohort successfully graduated. This was followed by confirmation of accreditation of the programme by the Royal College of Veterinary Surgeons, making the University the official host to one of only eight accredited Schools of Veterinary Medicine in the UK. Success has also been seen in some of the longer established disciplines. For example, a team of undergraduate engineers competed against 118 other university teams at the annual Formula Student engineering and racing event at Silverstone, being ranked the best UK Electric Vehicle Team and winning the category of Mercedes AMG High Performance Powertrains 'Best High Voltage implementation'.

The University remains committed to widening participation and access, and has developed a number of key relationships including the partnership with Kings College, Guildford, where the University continues to fund a member of staff to work for the school as the Aspirations Lead. In 2018/19 our partnership was rebranded as the 'Finding our Futures' programme and our aspirations curriculum was successfully launched. The curriculum has been designed to coexist with and build upon different elements of the school curriculum. It provides access to cultural experiences, flagship events, and themed modules for each year group, supporting academic and personal development. In total, 98% of Kings students accessed the 'Finding our Futures' programme.

Student numbers

The strategy sets out the growth imperative - the need to grow scale and excellence to create the critical mass for success underpinned by a strong financial base.

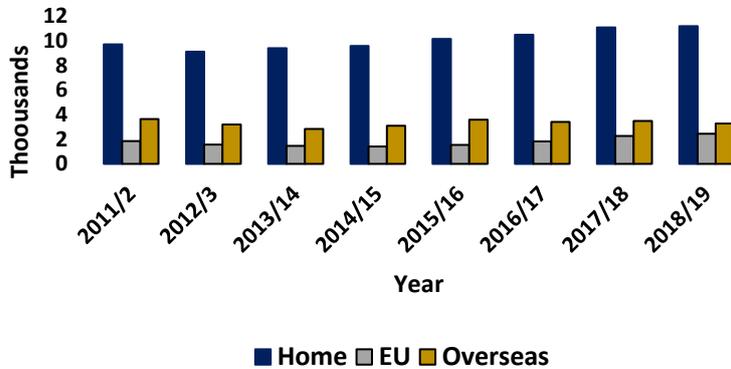
Accordingly, the University has continued to grow student numbers, albeit at a reduced rate, despite the context of a reduced population of 18-year olds in the UK and an increasingly competitive recruitment market in which the sector as a whole seeks to mitigate financial pressures through growth (2016/17: 15,719; 2017/18: 16,828; 2018/19: 16,900 heads).

This growth has come through the Home and EU markets, whereas overseas student numbers have been broadly stable

Strategic report (continued)

(see graph 1). A number of initiatives are in place to support growth including the introduction of new pathways (including a domestic foundation year programme), as well as expansion of existing programmes that are experiencing high demand, such as Computer Science and Biosciences.

Graph 1: Population of students by fee status (headcount)



Although average tariff scores have dropped a little over the period of growth, overall the University has maintained its position as a high tariff provider, and demand - as measured by volume of applications - has remained strong (33,164 applications received for undergraduate places pre-clearing for entry in 2018/19, compared to 32,826 for entry in 2017/18).

Table 1: Entrance quality as measured by average tariff (Source Times League Table)

League table year	Rank for entrance quality
2015	25 th
2016	24 th
2017	18 th
2018	25 th
2019	35 th

Student retention and outcomes

Included within the University strategy are a number of initiatives to ensure all students, regardless of their background, have equal opportunity to succeed.

86% of first year students successfully progressed to their second year of study from 2017/18 into 2018/19. Despite this overall figure, an attainment gap is observed at Surrey with particular groups of students less likely to progress (for example 83% of black and minority ethnic (BME) students successfully progressed), although this is not as marked as the sector wide data.

Similarly, while 81% of students achieved a good degree (1st or 2.1) in 2018/19 (reduced from 85.9% in 2017/18), groups with different characteristics had markedly different outcomes, for example only 70.6% of students identifying as BME achieved a good degree. The University has in place a

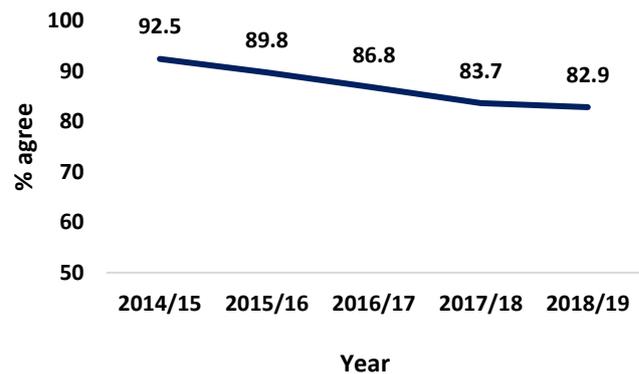
number of initiatives to close these gaps and has, through its [access and participation plan](#), set ambitious targets for the next five years.

Student satisfaction

A comprehensive action plan was initiated in 2018 with the objective of driving long term, sustainable, improvements to the student experience and the student perception of it. The plan was strengthened in 2019 and is expected to deliver its full benefit, as measured through the National Student Survey (NSS), in 2021, due to the focus of the survey on final year students only and the progression of cohorts through programmes. Nevertheless, the University was disappointed not to see more widespread improvements in the NSS scores in 2019.

Encouragingly, at a subject level, there were examples of both outstanding performance and significant improvement compared with prior years, on which the University will build.

Graph 2: Overall satisfaction in the National Student Survey (%)



Employability and alumni engagement

The University seeks to ensure all its graduates are equipped with the skills and knowledge to be successful in the workplace. A key contributor to that goal is the focus on experiential learning - from laboratory and group work, to short placements, through to full one-year professional training programmes (PTY) or exchanges and extramural rotations. Nearly half of all Surrey undergraduates undertake a PTY during the course of their degree, with these students more likely to be employed six months after they graduate than those who do not undertake a PTY (96% versus 92% for the 2016/17 cohort).

The external measurement of employment outcomes has shifted away from a census taken six months after graduation to a 15-month post-graduation snapshot. This has created a gap in the annual data set for this objective.

The University also seeks to engage its alumni, building a sense of 'Team Surrey' throughout their careers and lifetimes. This includes multiple alumni engagement events

Strategic report (continued)

around the world, an annual telethon campaign which is both a fundraiser and an opportunity to reconnect, annual alumni awards including a presentation evening, and various schemes to connect alumni with current students in mentoring, coaching and advice capacities. Alumni engagement and other philanthropic fundraising efforts generated over £7.5m in commitments during the year to further the University’s mission.

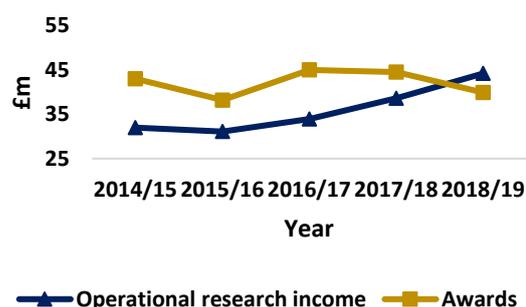
Research and innovation

The University continues with its aim of growing the scale of research undertaken and increasing its impact, with an aspirational target of receiving £60m p.a. in research income in future. In support of this an updated [Research and Innovation Strategy](#) sets out a number of strategic initiatives to take advantage of opportunities to build the scale and excellence of world-class research, to be the destination of choice for early career researchers (including postgraduate research students), and to be a preferred partner for government, business and industry.

2018/19 saw strong growth in research income, with core operational research income increasing by £5.6m (14%) to £44.4m. Contributions in kind from partners on the 5G Innovation Centre (5GIC) Programme totalled £2.2m (2017/18: £3.9m) giving total income from research grants and contracts (RG&C) for the year of £46.6m (2017/18: £42.7m).

New awards at £39.6m exceeded internal targets, although this figure reflects a £4.9m reduction on the prior year. This excludes £3.6m awarded by UK Research and Innovation’s (UKRI’s) Expanding Excellence in England (E3) Fund which is being awarded as recurrent grant income over three years rather than as a research project.

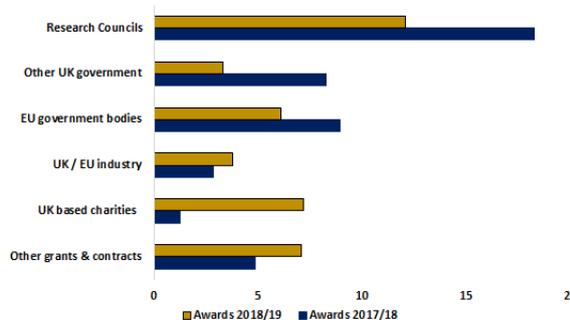
Graph 3: RG&C income and awards (£m)



Awards from the UK Research Councils, European Commission (EC) and UK government have all reduced compared to the prior year, reflecting both changes in success rates and in the values applied for/awarded. Significant increases have been seen in awarded amounts from industry (primarily overseas) and UK charities. Success rates at the Research Councils have declined from 27% to 23% (by bid volume). This reflects the increasing

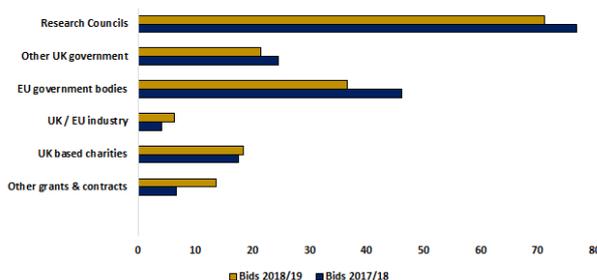
competitiveness for UK funding with uncertainty regarding future access to EC programmes leading to bids being re-directed domestically. Conversely, European Commission success rates (by bid volume) have remained constant at 23%.

Graph 4: RG&C awards by funder type, excluding offers of funding not yet contracted (£m)



The value of research bids was 5% lower than the prior year (£167.7m vs £175.8m), driven by reductions in bids to European Commission programmes and to UK Research Councils, somewhat mitigated by increased bidding to industry. Nevertheless, the 2018/19 total was £0.9m higher than for 2016/17.

Graph 5: RG&C bids by funder type (£m)



Significant awards included:

- £4.4m in respect of the University’s collaboration with Imperial College, London to establish a new £20m dementia research centre, funded by the UK Dementia Research Institute’s three founding partners: the Medical Research Council, Alzheimer’s Society and Alzheimer’s Research UK
- £1m from the Medical Research Council (MRC), for work with Kings College London on a Phase 1 trial for the treatment of spinal cord injury
- £0.9m from industry for work on colon cancer
- £0.5m from The Health Foundation for ‘Variations in NHS workforce retention and the effect of retention on hospital patients’ outcomes’
- £0.5m from the BBSRC for ‘Functional analysis of stress-dependent RNA-enzyme interactions’
- £0.7m from the EC for ‘5G HHealth AquacultuRe and Transport validation trials’

Strategic report (continued)

- £0.6m from the EPSRC for 'Energy Harvesting Triboelectric Nano-generators for the Internet-of-Things'
- £0.8m from The Wellcome Trust for 'Creating an online resource and longitudinal database of 50 years influenza data'.

In addition to the above, the University was awarded £3.6m from the UKRI's E3 Fund. This funding, for the University's Centre for Translation Studies, will be reflected in the financial statements as recurrent grant income over the three years 2019/20 to 2021/22.

Research outputs from Surrey academics have attracted significant media interest covering a wide range of issues and impact including Brexit (Politics); policing and patterns of crime (Sociology); cyber-crime and security (Computer Science); 5G communication technologies (Electric and Electrical Engineering); effects of pollution on communities (Civil and Environmental Engineering); chronobiology and sleep science (Biosciences and Medicine); removing space debris (Surrey Space Centre); child and adult nutrition (Nutritional Sciences); animal health (Veterinary Medicine); robotics, machine learning, blockchain and artificial intelligence applications (Electrical and Electronic Engineering and Mechanical Engineering Sciences); and sustainable tourism (Hospitality and Tourism). The current funding position, research output and impact all position the University well as it prepares to submit to the Research Excellence Framework in 2020.

Two examples of the University's strong collaborative and industry-aligned approach are the 5G Innovation Centre (5GIC) and the National Physical Laboratory (NPL) strategic alliance:

- 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 (and beyond) infrastructure; working to enable advanced communications capabilities that will provide an unparalleled user experience. At the heart of our Centre is a state-of-the-art testbed – the world's leading independent testbed for trialling emerging 5G ideas, proving concepts, validating standards and vendor interoperability testing. This equips researchers with a fully functioning network with 5G new radio and advanced 4G radio equipment connected to both a fully-fledged 5G core network, developed in-house, as well as a legacy 4G EPC, enabling the development and testing of 5G prototype technologies in a real-world situation.
- In 2015, a strategic alliance was established between NPL and the Universities of Surrey and Strathclyde. As part of this alliance, Surrey and NPL hold a number of shared appointments and Surrey's Advanced Technology Institute is host to a joint laboratory

focused on developing the next generation of super-efficient electronic devices. This relationship provides unique and highly valued opportunities to ensure research undertaken at Surrey has a rapid real world impact.

Regional and global engagement

The University continues to build strong, mutually beneficial relationships with other universities, industry, and wider local and international communities. These relationships take many forms from collaborative research and delivery of education through to volunteering in local charities and partnering with local community organisations to ensure the University is seen as a positive force for good in the town. Multiple events are held on or near campus to engage the wider community in the University's mission including public lectures, astronomy evenings, public engagement with science events, comedy events, concerts, and musical theatre performances by the Guildford School of Acting (GSA).

Through 2018/19 the University has continued to explore opportunities to develop its presence and reputation globally. It has built on existing relationships, including at The Surrey International Institute (SII) which has operated since 2007 as a joint venture between the University of Surrey and Dongbei University of Finance and Economics (DUFE). It has also collaborated globally via the Universities Global Partnership Network (a network of four universities: Surrey, Sao Paulo, North Carolina State, and Wollongong), and via its centres of excellence, as well as through academic to academic collaborations.

The above relationships lead to opportunities for undergraduate education, study and placements, and dual PhD programmes, as well as funded research collaborations and projects. During 2018/19 over 160 students undertook a global exchange, representing a 24% increase on the prior year, and over 55% of the University's total publication outputs was co-authored with an international collaborator.

During 2018/19 the University featured in the top 100 of international universities in the first ranking for impact and innovation which scored universities by their performance against the United Nations Sustainable Development Goals ([Times Higher Education Impact Rankings 2019](#)); furthermore the University was 9th in the section regarding good health and wellbeing.

Surrey also co-hosted the successful Times Higher Education Young Universities Summit 'Embracing Risk, Creating Opportunity' which was attended by delegates from around the world and featured a number of eminent speakers.

Strategic report (continued)

People and culture, finance, infrastructure and digital

The University is fully committed to creating the conditions to recruit, retain and develop staff to realise their full potential, while ensuring a strong financial position and sustainable investment in the infrastructure and facilities that support delivery.

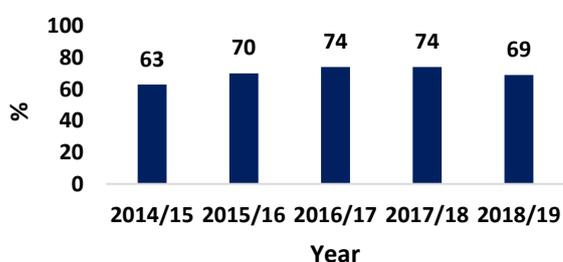
People and culture, & finance

2018/19 was another challenging year with regard to the USS pension scheme. In January 2019 the USS Trustee confirmed a path of higher contributions for both employers and employees, beginning with an increase in April 2019. Further increases in contributions will apply in stages from October 2019, giving rise to affordability concerns for both employers and employees.

To place the University on a more sustainable financial footing, the University undertook a substantial change programme to embed a culture of continuous improvement and in so doing deliver efficiency savings to strengthen the organisation in light of known financial pressures and further anticipated headwinds. This resulted in some staff accepting an enhanced voluntary severance package and leaving the University by the end of the 2018/19 academic year. Looking ahead the objectives for the programme are to continue to develop the processes and structures that underpin long term sustainability and ensure the University continues to progress and is able to take advantage of any opportunities that materialise from the current political and economic uncertainty.

During this period of change the University undertook the annual staff survey which reflected, as expected, concern amongst staff in response to both local and national issues. The response rate dropped from 68% to 58%, and the engagement score (which is a basket metric) dropped to 69%. The drop is disappointing although the score remains above sector benchmarks. A ten-point action plan has been put in place to rebuild engagement over the coming year.

Graph 6: Staff engagement (%)



The University has implemented a number of new initiatives to support staff development and engagement. These include a successful development programme for current and future academic Heads of Department, development of

on-demand digital learning for all staff and greater opportunities for staff to interact and engage directly with senior managers through an expanded programme of bite-size briefings, town halls and the President and Vice-Chancellor's 'In Conversation' events.

Infrastructure and digital

Through 2018/19 the University has completed a series of projects to continue the ongoing enhancements to the infrastructure and facilities for both staff and students. These include a refreshed IT network, increased student accommodation, a rolling programme of audio-visual upgrades in teaching rooms, refresh of multiple laboratories and provision of upgraded research facilities.

There has also been a significant redistribution of space across and between academic departments and professional services to better align space type with the activity within it and create efficiencies and appropriate co-locations.

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 headline figure on the statement of comprehensive income and expenditure on page 19 is a consolidated deficit for 2018/19 of £57.3m. This compares with a £13.5m surplus for 2017/18.

As explained in note 34a to the financial statements, the University has reflected in its 2018/19 financial statements the deficit recovery plan that was put in place as part of the March 2017 valuation of the Universities Superannuation

Strategic report (continued)

Scheme (USS). This valuation was completed in January 2019. With the 2017 deficit recovery plan requiring higher contributions over a longer period than the 2014 deficit recovery plan it replaced, this has resulted in a £54.6m adverse movement on the USS provision in the year. All universities participating in USS have been similarly impacted by the 2017 valuation.

It is worth highlighting that the 2019/20 financial statements are expected to show a significant reduction in the size of the USS provision. As described in the same note 34a to the financial statements, the March 2018 actuarial valuation has been finalised since the financial year end with the agreement of a new deficit recovery plan. Had this plan been in place prior to 31 July 2019, and assuming all other assumptions used to calculate the provision remain unchanged, this would have resulted in a provision £37.3m lower than the current balance sheet provision. A sizeable credit is therefore expected to the 2019/20 statement of comprehensive income and expenditure.

The 2018/19 underlying operating surplus, after removing the movement on the USS provision and other items subject to market volatility was £0.1m. The decrease from the previous year's figure of £8.0m was largely due to the enhanced voluntary severance scheme which was put in place to enable the University to enter 2019/20 with a more sustainable cost base.

Table 2: Reconciliation to underlying operating surplus

	2018/19	2017/18
	£m	£m
Consolidated (deficit) / surplus for the year	(57.3)	13.5
Movement on USS provision	54.6	(2.0)
Increase / (decrease) in interest rate swaps liability	1.1	(0.4)
Loss / (gain) on Surrey Research Park revaluation	1.8	(2.9)
Other investment losses	0.2	0.8
Endowment and restricted income (net of expenditure)	(0.3)	(1.0)
Underlying consolidated operating surplus for the year	0.1	8.0

Consolidated income rose in 2018/19 by £17.8m (6%) to £315.3m with increased income from all major sources. 2018/19 expenditure of £370.5m was £84.3m higher than the previous financial year, with the 2018/19 movement on the USS provision accounting for £54.6m of the increase. Operational staff costs increased by £15.9m (10%) to £169.9m, with an underlying

increase, before restructuring costs, of £10.7m (7%). Other operating expenses increased by £5.9m (6%) to £102.4m.

Increases in depreciation and interest costs of £3.6m (12%) and £2.3m (26%) respectively include the impact of the completion, for the start of the 2018/19 academic year, of the first 480 rooms of the £80m Manor Park student residences project. The 2018/19 depreciation charge also includes £2.2m in respect of equipment received as contributions in kind for the 5G programme. This charge is matched by income so has no impact on the bottom line. Interest costs includes a £1.1m charge in respect of movements in the fair value of interest rate swaps.

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

Table 3: Analysis of underlying operating surplus

	2018/19	2017/18*
	£m	£m
Core activities:		
University	(7.8)	1.9
Surrey Sports Park Limited (SSPL)	0.0	(0.8)
Surrey Research Park	7.9	6.9
Underlying consolidated operating surplus	0.1	8.0

*restated to show £1.5m interest cost against University core activities, not Surrey Research Park

As shown above, Surrey Research Park generated a surplus for 2018/19 of £7.9m (2017/18 restated: £6.9m). This reflects the result before any interest charges on the basis surpluses generated by the Park would have been sufficient to finance the Park's development had they not been appropriated in full to the University.

All interest costs, including those relating to loans taken out to fund the Park's development, are now shown as a charge against the University's core activities. The £1.0m increase in the Research Park's surplus was driven by a £0.8m fall in expenditure due to lower refurbishment costs. Expenditure fell from £4.0m to £3.2m while income rose from £10.9m to £11.1m.

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. This was recognised in 2018/19 with a direct contribution, for the first time, from the University to SSPL in respect of the net cost of student sport. This enabled

Strategic report (continued)

SSPL to achieve an overall breakeven result for 2018/19, compared with a loss for 2017/18 of £0.8m.

Net assets

Consolidated net assets fell by £68.8m in 2018/19 to £433.7m, driven by the £54.6m movement on the USS provision described above. The other major movement was the £9.5m actuarial loss on the Local Government Pension Scheme.

Table 4: Movement in consolidated net assets

	2018/19	2017/18
	£m	£m
Opening consolidated net assets	502.5	476.3
Underlying operating surplus	0.1	8.0
Local Government Pension Scheme (LGPS) actuarial (losses) / gains	(9.5)	8.2
Movement on USS provision	(54.6)	2.0
(Increase) / decrease in interest rate swaps liability	(3.1)	4.9
Surrey Research Park revaluation	(1.8)	2.9
Other investment losses	(0.2)	(0.8)
Endowment and restricted income (net)	0.3	1.0
Closing consolidated net assets	433.7	502.5

The recent trend in pension provisions (USS and LGPS) is shown below. Provision has been made in 2019, for the first time, of the estimated impact on the LGPS liability of equalising pension benefits for men and women in relation to guaranteed minimum pension (GMP) benefits.

Table 5: Pension provisions at 31 July

	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Obligation to fund USS pension deficit	30.1	34.3	33.8	30.5	84.4
LGPS pension liability – funded	38.0	45.6	35.3	26.8	39.4
LGPS pension liability - unfunded	1.4	1.4	1.4	1.3	1.2
LGPS – GMP benefits	-	-	-	-	1.5
Total	69.5	81.3	70.5	58.6	126.5

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.

Table 6: Surrey Research Park valuation at 31 July

	2015	2016	2017*	2018*	2019*
	£m	£m	£m	£m	£m
Completed investment properties	105.9	110.0	111.7	115.9	115.1
Properties under development	4.1	1.3	0.1	0.0	0.3
Development land	9.9	8.1	7.5	7.3	6.8
Total	119.9	119.4	119.3	123.2	122.2

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

Cash flow

The consolidated cash flow statement on page 22 shows a decrease in cash and cash equivalents in the year of £17.6m. 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 £49.7m in the year to £82.0m, as shown below.

Table 7: Movement in consolidated available cash

	2018/19	2017/18
	£m	£m
Opening consolidated available cash	131.7	161.9
Net cash inflow from operating activities	30.4	31.4
Surrey Research Park net income	5.7	5.7
Capital expenditure - University	(69.7)	(67.9)
Capital expenditure – Surrey Research Park	(1.0)	(1.7)
Capital grants received	3.0	15.8
Investment income	1.0	0.8
Financing (interest and capital repayments)	(19.6)	(15.3)
Endowment cash received	0.5	1.0
Closing consolidated available cash	82.0	131.7
<i>Movement</i>	<i>-49.7</i>	<i>-30.2</i>

Strategic report (continued)

Included in the closing cash balance of £82m is c. £30m 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 underlying available cash at 31 July 2019 of c. £52m. In addition, the University has available a £10m revolving credit facility, further details of which are provided in the Treasury management section below.

Net cash inflow from operating activities fell slightly from £31.4m in 2017/18 to £30.4m in 2018/19, driven by a decrease in the underlying operating surplus. With significant debt servicing commitments, as well as the need to fund core capital requirements from operating cash, the University remains focused on increasing this cash generation figure in future years.

Gross debt fell in 2018/19 by £10.8m due to capital repayments. However, as was the case in 2017/18, net debt increased in 2018/19, in line with expectations, as the University applied the private placement funds to capital projects. The net increase was £38.9m, with gross debt at 31 July 2019 of £275.3m exceeding, by £193.3m, the available cash of £82.0m.

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 22 shows capital investment in 2018/19 of £69.7m, marginally higher than the previous year's figure of £67.9m. Approximately 50% of the 2018/19 spend was accounted for by two projects financed by the private placement - the Manor Park student residences project and the refurbishment of 30 Priestley Road (on Surrey Research Park) to become the new home for the School of Health Sciences.

The Manor Park student residences project represents an £80m investment by the University in student accommodation, with 480 student rooms having become operational for the 2018/19 academic year and a further 670 rooms for the 2019/20 academic year. This has increased 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 2019 totalled £275.3m. This compared

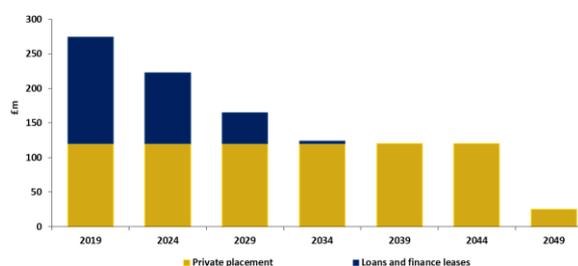
with £286.1m 12 months previously. Both figures exclude undrawn bank loan facilities of £10.0m.

During 2018/19 the University replaced the £10m undrawn balance on a term loan facility with a five year revolving credit facility reducing both the non-utilisation fee and the margin on drawn funds.

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. The interest rate on £120m of private placement funds is fixed at 3.38% (weighted average) and the University manages the risk of interest rate rises on its bank borrowings through standalone hedging instruments and £30m of fixed rate funding. 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 2019 was 3.71%. This was little changed from the 31 July 2018 figure of 3.62%.

Graph 7: Debt profile at 31 July (excluding £10m revolving credit facility available to 30 April 2024)



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 2018/19 was 0.86%. This was 0.27% higher than for 2017/18 reflecting the change in market interest rates.

Strategic report (continued)

Future outlook

The operating environment remains challenging for the sector but the University is well positioned to succeed. Through 2019/20 the University will continue to build on the achievements of 2018/19 as well as progressing a number of other key initiatives. These include the expansion of the provision for degree apprenticeships, delivery of a student focused hub on the Manor Park campus, and continued development of transnational education partnerships. Student numbers are expected to continue to grow at a measured rate, with efforts to further improve student experience and maintain high teaching standards as priorities, along with anticipated further research achievements and industry collaborations via the [Research and Innovation strategy](#).

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. Its compliance with charity law is monitored by the Office for Students (OfS) as principal regulator.

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, strategic vision and long term academic and business plans of the University; to agree key performance indicators and annual budgets 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 or her performance.

In addition, the Council cannot delegate responsibility for:

- varying the Charter or Statutes
- 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. Non-executive candidates are assessed against standard criteria (including diversity in its widest sense) and through an interview process. New members receive an induction programme tailored to their specific needs. The effectiveness of the Council is reviewed regularly, with the next review due to take place in 2020.

The Council meets formally four times a year. In addition, it holds two half-day awaydays jointly with the Executive Board which are timed for the purposes of strategy and planning. Council keeps the scheduling of its meetings under regular review.

The Council 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 funding bodies, 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.

Although 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

Corporate governance statement (continued)

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 a lay member of Council (the Vice-Chair of Council during 2018/19), meets twice annually with additional meetings at the discretion of the Chair. 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 Executive Board and Senate sub-committees to ensure cohesion and effectiveness. Relevant changes were made and were effective from the start of the 2018/19 academic year. A similar review took place during 2018/19 and is effective from the start of the 2019/20 academic year.

Public benefit statement

The University's charitable purposes are defined in its Royal Charter as the advancement of education, learning and teaching. 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.

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; through the dissemination and practical application of the outcomes of its research; and through its engagement with industry.

The Strategic report on pages 2 to 11 describes how the University has carried out its charitable purposes for the public benefit and includes reference to the University's [Access and participation plan](#) approved by the Office for Students which shows progress to date and future plans for improving equality of opportunity for underrepresented groups to access, succeed in and progress from higher education.

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

Corporate governance statement (continued)

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.

No unsatisfactory internal audit reports were issued during 2018/19. In September 2019 Internal Audit issued an unsatisfactory follow up report in relation to GDPR. This acknowledged that significant progress had been made since the previous report was issued in May 2018, but that technical solutions are needed to replace the labour-intensive and manual methods that are currently being used to support GDPR compliance.

Internal Audit are satisfied that other matters raised in their audits have been properly acknowledged by management and that reasonable action plans have been put in place to address control weaknesses identified, none of which is considered to be significant.

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 2019 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 in respect of the financial statements

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 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 University of Surrey ("the University") for the year ended 31 July 2019 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Consolidated and University Balance Sheet, the Consolidated and University Statement of Changes in Reserves and the 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 2019, 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, other than where the University has applied the allowance to early adopt the requirements of paragraph 12(d) of the Accounts Direction for periods beginning on or after 1 August 2019 as published on 25 October 2019.

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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the members of Council, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a University and this is particularly the case in relation to Brexit.

Going concern

The Council has prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the University or to cease their operations, and as they have concluded that the Group and the University's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

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 a year from the date of approval of the financial statements. In our evaluation of the Council's conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and the University's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the University will continue in operation.

Other information

The Council is responsible for the other information, which comprises the Strategic Report and 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 15, 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 Codes of Practice issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the 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; and
- funds provided by the Office for Students and Research England have been applied in accordance with the terms and conditions attached to them.

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

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

27 November 2019

Statement of comprehensive income and expenditure for the year ended 31 July 2019

	Note	Consolidated		University	
		2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Income					
Funding council grants	2	35,148	32,856	35,148	32,856
Tuition fees and education grants	3	162,741	156,104	162,741	156,104
Research grants and contracts	4	46,600	42,729	46,600	42,729
Other income	5	57,539	53,306	53,465	49,590
Investment income	6	11,883	11,107	12,146	11,315
Donations and endowments	7	1,364	1,404	1,364	1,404
Total income		315,275	297,506	311,464	293,998
Expenditure					
Staff costs - operational	8	169,944	154,084	166,877	151,021
Staff costs - movement on USS provision	8	54,588	(2,037)	54,588	(2,037)
Other operating expenses	10	102,436	96,546	101,334	94,696
Depreciation and amortisation		32,367	28,748	32,347	28,728
Interest and other finance costs	11	11,177	8,867	11,162	8,850
Total expenditure		370,512	286,208	366,308	281,258
(Deficit)/surplus before other gains and losses		(55,237)	11,298	(54,844)	12,740
Loss on disposal of fixed assets		(64)	-	(64)	-
(Loss)/gain on investments	12	(2,043)	2,143	(2,098)	1,962
(Deficit)/surplus before taxation		(57,344)	13,441	(57,006)	14,702
Taxation	13a	82	98	88	107
(Deficit)/surplus for the year		(57,262)	13,539	(56,918)	14,809
Actuarial (loss)/gain in respect of pension schemes		(9,474)	8,160	(9,207)	8,004
Change in fair value of hedging financial instruments		(2,040)	4,496	(2,040)	4,496
Total comprehensive income for the year		(68,776)	26,195	(68,165)	27,309
Represented by:					
Endowment comprehensive income for the year		220	801	220	801
Restricted comprehensive income for the year		64	168	64	168
Unrestricted comprehensive income for the year		(69,060)	25,226	(68,449)	26,340
		(68,776)	26,195	(68,165)	27,309

All income and expenditure relates to continuing operations.

The accompanying notes form part of these financial statements.

Statement of changes in reserves for the year ended 31 July 2019

Consolidated

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
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	-	-
	<u>801</u>	<u>168</u>	<u>20,730</u>	<u>4,496</u>	<u>26,195</u>
Balance at 1 August 2018	3,359	363	510,969	(12,234)	502,457
Surplus from the income and expenditure statement	633	1,579	(59,474)	-	(57,262)
Other comprehensive income	-	-	(9,474)	(2,040)	(11,514)
Release of restricted funds spent in year	(413)	(1,515)	1,928	-	-
Total comprehensive income for the year	<u>220</u>	<u>64</u>	<u>(67,020)</u>	<u>(2,040)</u>	<u>(68,776)</u>
Balance at 31 July 2019	3,579	427	443,949	(14,274)	433,681

University

	Income and expenditure account			Cash flow	Total £000
	Endowment £000	Restricted £000	Unrestricted £000	hedge reserve £000	
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	-	-
	<u>801</u>	<u>168</u>	<u>21,844</u>	<u>4,496</u>	<u>27,309</u>
Balance at 1 August 2018	3,359	363	520,342	(12,234)	511,830
Surplus from the income and expenditure statement	633	1,579	(59,130)	-	(56,918)
Other comprehensive income	-	-	(9,207)	(2,040)	(11,247)
Release of restricted funds spent in year	(413)	(1,515)	1,928	-	-
Total comprehensive income for the year	<u>220</u>	<u>64</u>	<u>(66,409)</u>	<u>(2,040)</u>	<u>(68,165)</u>
Balance at 31 July 2019	3,579	427	453,933	(14,274)	443,665

The accompanying notes form part of these financial statements.

Balance sheets as at 31 July 2019

	Note	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
Non-current assets					
Intangible assets	14	1,794	2,366	1,794	2,366
Tangible assets	15	794,467	759,729	794,269	759,512
Investment properties	16	122,635	123,500	122,285	123,200
Other investments	17	1,961	1,900	9,303	6,675
Non-current receivables	18	-	-	8,750	-
		920,857	887,495	936,401	891,753
Current assets					
Stocks		5,069	4,326	421	449
Trade and other receivables	18	34,124	28,074	34,284	37,470
Investments	20	35,116	67,480	35,116	67,480
Cash and cash equivalents		46,964	64,590	44,301	63,442
		121,273	164,470	114,122	168,841
Creditors : amounts falling due within one year	21	(125,217)	(120,809)	(124,478)	(120,567)
Net current (liabilities)/assets		(3,944)	43,661	(10,356)	48,274
Total assets less current (liabilities)/assets		916,913	931,156	926,045	940,027
Creditors : amounts falling due after more than one year	22	(356,729)	(370,103)	(356,729)	(370,098)
Provisions	24	(126,503)	(58,596)	(125,651)	(58,099)
Total net assets		433,681	502,457	443,665	511,830
Restricted reserves					
Income and expenditure reserve - endowment	25	3,579	3,359	3,579	3,359
Income and expenditure reserve - restricted reserve	27	427	363	427	363
Unrestricted reserves					
Income and expenditure reserve - unrestricted		443,949	510,969	453,933	520,342
Cash flow hedge reserve	28	(14,274)	(12,234)	(14,274)	(12,234)
		433,681	502,457	443,665	511,830

The accompanying notes form part of these financial statements.

The financial statements and notes on pages 19 to 53 were approved by the Council on 25 November 2019 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 2019

	Note	2018/19 £000	2017/18 £000
Cash inflow from operating activities			
(Deficit)/surplus for the year		(57,262)	13,539
Taxation		(82)	(98)
Adjustments for non-cash items			
Depreciation	15	31,467	27,687
Amortisation of intangibles	14	900	1,061
Loss/(gain) on investments	12	2,043	(2,143)
Impairment of fixed assets		4,919	332
Increase in stocks		(743)	(375)
(Increase)/decrease in receivables		(6,729)	2,933
Increase/(decrease) in creditors		3,881	(1,194)
Increase/(decrease) in pension provision		56,918	(5,272)
Adjustment for investing or financing activities			
Net income from Surrey Research Park		(7,846)	(6,889)
Other investment income		(841)	(610)
Interest payable	11	11,177	8,867
Endowment income	25	(536)	(1,046)
Capital grant income		(7,038)	(5,305)
Adjustment for taxation			
Tax received/(paid)		153	(63)
Net cash inflow from operating activities		<u>30,381</u>	<u>31,424</u>
Cashflows from investing activities			
Capital grant receipts		3,032	15,836
Withdrawal of deposits		32,029	59,950
Surrey Research Park net income		5,699	5,738
Investment income		1,057	726
Payments made to acquire fixed assets		(69,728)	(66,409)
Payments made to acquire intangible assets		-	(1,517)
New non-current asset investments		(989)	(1,723)
		<u>(28,900)</u>	<u>12,601</u>
Net cash inflow from financing activities			
Interest paid		(8,068)	(7,104)
Interest element of finance lease payments		(531)	(567)
Endowment cash received		536	1,046
Repayments of amounts borrowed		(10,273)	(7,016)
Capital element of finance lease payments	29	(771)	(690)
		<u>(19,107)</u>	<u>(14,331)</u>
(Decrease)/increase in cash and cash equivalents in the year	29	<u>(17,626)</u>	<u>29,694</u>
Cash and cash equivalents at beginning of the year		<u>64,590</u>	<u>34,896</u>
Cash and cash equivalents at end of the year		<u>46,964</u>	<u>64,590</u>

The accompanying notes form part of these financial statements.

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 early adopted the OfS's Accounts Direction for periods beginning on or after 1 August 2019 in respect of the pay ratios i.e. the calculation includes all employees (including associate staff on zero hours contracts) included in real-time reporting to HMRC.

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 2019. 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. These assumptions are set out in note 34.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Judgements and estimates (continued)

a. Pensions (continued)

As described in note 34, the current USS pension deficit liability is based on the recovery rates and period from the 2017 valuation, which are considered the appropriate assumptions to use for calculating the deficit at 31 July 2019. The note also describes the results of the 2018 valuation and the revised recovery rates and period for the deficit that will be used when calculating the deficit at 31 July 2020.

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 scheme should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, 'GMP'. It is the opinion of the Surrey Pension Fund actuaries that the government has not concluded on the changes required to this scheme in light of the judgment. Therefore the potential impact of GMP is excluded from the valuation of the pension liability at 31 July 2019. However a separate provision has been estimated following review by the external auditors, based upon indications that the impact of GMP would equate to roughly 1% of the gross pension liability. This has been recognised as a past service cost.

The Surrey Pension Fund actuaries have included an estimate of the cost of the impact of the McCloud judgment (a Public service pensions age discrimination case) in the valuation at 31 July 2019. This has been recognised as a past service cost.

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. It is assumed that the property would be sold subject to any existing leases.

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 2019 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	
	2018/19	2017/18
	£000	£000
Recurrent grant		
HEFCE, OfS and Research England		
Teaching	12,375	10,644
Research	15,065	14,715
	27,440	25,359
Specific grants		
Higher Education Innovation Fund	3,611	2,846
Other	1,098	1,791
Deferred capital grants released in year		
Building	2,169	2,052
Equipment	830	808
	35,148	32,856

3 Tuition fees and education grants

	Consolidated & University	
	2018/19	2017/18
	£000	£000
UK & EU undergraduates	87,433	78,445
UK & EU postgraduates	7,727	7,972
Non-EU undergraduates	29,140	29,315
Non-EU postgraduates	21,525	22,537
Non-credit bearing courses	2,893	2,929
Nurse training contract	7,562	10,890
Research training support grants	6,461	4,016
	162,741	156,104

4 Research grants and contracts

	Consolidated & University	
	2018/19	2017/18
	£000	£000
Research councils	18,105	16,591
UK based charities	2,202	2,366
Other UK government, health and hospital authorities	8,779	6,872
UK industry and commerce	3,000	4,190
EU government bodies	7,448	6,207
EU industry and commerce	4,293	4,178
Other grants and contracts	2,773	2,325
	46,600	42,729

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

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Residences, catering and conferences	37,128	32,506	35,991	31,592
Other services rendered	3,407	3,718	3,710	4,020
Income from use of University facilities	5,655	5,676	1,373	890
Other income	11,349	11,406	12,391	13,088
	57,539	53,306	53,465	49,590

6 Investment income

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Investment income on endowments (note 25)	34	36	34	36
Research Park income	11,024	10,487	11,024	10,487
Income from cash deposits	808	574	803	573
Other interest receivable	17	10	285	219
	11,883	11,107	12,146	11,315

7 Donations and endowments

	Consolidated & University	
	2018/19 £000	2017/18 £000
New endowments (note 25)	536	1,046
Donations with restrictions	706	194
Unrestricted donations	122	164
	1,364	1,404

8 Staff

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Staff costs - operational:				
Wages and salaries	128,872	122,357	126,296	119,679
Social security costs	12,575	11,974	12,379	11,758
Pension costs	21,513	19,414	21,344	19,245
Guaranteed Minimum Pension (GMP) costs	1,480	-	1,480	-
Compensation for loss of office	5,504	339	5,378	339
	169,944	154,084	166,877	151,021
Movement on USS provision	54,588	(2,037)	54,588	(2,037)
	224,532	152,047	221,465	148,984

Costs for compensation for loss of office above were in respect of 251 employees on a consolidated basis, 240 on a University basis (2017/18: 47 employees, both consolidated and University).

	Consolidated		University	
	2018/19 Number	2017/18 Number	2018/19 Number	2017/18 Number
Full time equivalent staff numbers:				
Research and teaching	1,218	1,179	1,218	1,179
Professional	1,196	1,155	1,132	1,110
Technical and experimental	152	150	152	150
Operational	348	367	310	310
Other	8	8	8	8
	2,922	2,859	2,820	2,757

Notes to the financial statements (continued)**9 Emoluments of higher paid staff**

	2018/19	2017/18
	£000	£000
Emoluments of President and Vice-Chancellor:		
Salary	310	314
Bonus/performance related pay	17	22
Taxable benefits	13	7
Non-taxable benefits	13	19
Allowance in lieu of pension contributions	49	50
	402	412
Pension contributions	7	7
	409	419

In accordance with the Accounts Direction issued by the Office for Students (OfS), bonuses are reflected in emoluments in the year during which they are awarded. The 2018/19 bonus of £17,000 therefore reflects 2017/18 performance.

On 6 April 2019 HMRC removed the customary exemption for Vice-Chancellor's accommodation. Prior to that date only utilities and certain other running costs were taxable. This has increased the taxable benefit in respect of the relevant percentage of the costs of the President and Vice-Chancellor's official residence to £10,000 (2017/18: £4,000). Other taxable benefits of £3,000 (2017/18: £3,000) comprise the cost of private healthcare cover.

Non-taxable benefits reflect the appropriate percentage of relevant costs of the President and Vice-Chancellor's official residence prior to 6 April 2019.

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 Vice-Chancellor's remuneration is determined by the Remuneration Committee. 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 higher education 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).

Notes to the financial statements (continued)

9 Emoluments of higher paid staff (continued)

Pay ratios

Ratios of the President and Vice-Chancellor's emoluments to the median pay of all other employees (on a full time equivalent basis) were as follows:

	Consolidated	
	2018/19	2017/18
Basic pay	8.2	9.0
Total remuneration	9.4	10.2

The University has early adopted the Accounts Direction for periods beginning on or after 1 August 2019 in respect of these ratios i.e. the calculation includes all employees (including associate staff on zero hours contracts) included in real-time reporting to HMRC. The calculation excludes Unitemps workers who are included in real-time reporting to HMRC but are not classed as employees.

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

	Consolidated	
	2018/19	2017/18
Basic salary of other higher paid staff (on a full time equivalent basis):	Number of employees	
£100,000- £104,999	17	8
£105,000- £109,999	8	9
£110,000- £114,999	10	8
£115,000- £119,999	4	5
£120,000- £124,999	3	5
£125,000- £129,999	9	9
£130,000- £134,999	6	7
£135,000- £139,999	4	3
£140,000- £144,999	2	1
£145,000- £149,999	4	-
£150,000- £154,999	-	-
£155,000- £159,999	1	-
£160,000- £164,999	-	-
£165,000- £169,999	1	1
£170,000- £174,999	2	3
£175,000- £179,999	1	-
	<u>72</u>	<u>59</u>

In accordance with the Accounts Direction issued by the OfS, these bands exclude staff who joined or left part way through the year who would have received basic salary in these bands in a full year.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. The University of Surrey defines its "key management personnel" to be the Executive Board members.

Key management personnel compensation is included in staff costs. The full time equivalent number of key management personnel was 13.7 (2017/18: 14.5).

	2018/19	2017/18
	£000	£000
Salary, social security costs, pension contributions, compensation for loss of office and other emoluments	<u>3,324</u>	<u>3,075</u>

Notes to the financial statements (continued)**10 Other operating expenses**

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Other operating expenses (including irrecoverable VAT) include:				
External auditors remuneration in respect of the audit of these financial statements	68	64	68	64
External auditors remuneration in respect of other services:				
Audit of the University's subsidiaries	13	13	-	-
Audit related services	5	5	5	5
Consultancy	-	146	-	146
Operating lease rentals: land and buildings	2,749	2,888	2,763	2,901
other	1,814	1,637	1,747	1,555
Foreign exchange losses	65	7	65	7

The total consolidated statutory audit fee payable directly to KPMG, net of VAT, was £71,000 (2017/18: £66,000).

Trustees

No trustee received payment for serving as a trustee during the year (2017/18: £nil).

No trustee received payment for services provided to the University (2017/18: £nil).

The total expenses paid to or on behalf of one trustee was £1,639 (2017/18: £1,358 to two trustees).

11 Interest and other finance costs

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
On bank loans and other loans:				
Loans wholly repayable within five years	681	9	681	9
Loans not wholly repayable within five years	7,365	7,088	7,365	7,088
	8,046	7,097	8,046	7,097
On finance leases	531	567	531	567
Increase/(decrease) in fair value of derivatives	1,131	(408)	1,131	(408)
Net charge on pension scheme	1,461	1,607	1,446	1,590
Other interest payable	8	4	8	4
	11,177	8,867	11,162	8,850

12 Loss/(gain) on investments

	Consolidated		University	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Loss/(gain) on revaluation of Research Park	1,799	(2,899)	1,799	(2,899)
Other investment property losses	55	770	105	770
Loss/(gain) on revaluation of other investments	189	(14)	194	167
	2,043	(2,143)	2,098	(1,962)

13a Taxation

	Consolidated	
	2018/19 £000	2017/18 £000
Recognised in the statement of comprehensive income and expenditure		
Corporation tax on RDEC claim	-	19
Theatre tax credit	(118)	(165)
Tax on profits of subsidiary undertakings	6	9
Foreign tax	30	39
Tax credit	(82)	(98)

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

	Consolidated	
	2018/19	2017/18
	£000	£000
(Deficit)/surplus before taxation	(57,344)	13,441
(Deficit)/surplus multiplied by standard rate of corporation tax in the UK of 19% (2017/18: 19%)	(10,895)	2,554
Factors affecting charge:		
University deficit/(surplus) exempt from tax	10,748	(2,793)
Balances eliminated on consolidation exempt from tax	81	51
Tax charged on RDEC claim	-	19
Tax charged on profits earned overseas	30	39
Theatre tax credit	(118)	(165)
Losses carried forward in subsidiaries	-	154
Utilisation of losses carried forward against profits for the year	(6)	-
Expenses disallowable for tax in subsidiaries	4	34
Revaluation in subsidiary disallowable for tax purposes	(14)	-
Other	82	-
Total tax credit excluding deferred tax	(89)	(107)
Deferred tax net charge in subsidiaries	6	9
Total tax credit (note 13a)	(82)	(98)

14 Intangible assets**Software****Cost**

At 1 August 2018

Additions at cost

Disposals

At 31 July 2019**Amortisation**

At 1 August 2018

Charge for the year

Disposals

At 31 July 2019**Net book value****At 31 July 2019**

At 31 July 2018

**Consolidated
& University
£'000****11,198****328**

-

11,526**8,832****900**

-

9,732**1,794****2,366**

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

Consolidated	Land and buildings		Assets under construction	Plant and equipment	Total
	Freehold	Leasehold			
	£000	£000	£000	£000	£000
Cost					
At 1 August 2018	701,153	8,780	78,898	136,114	924,945
Additions at cost	-	-	66,747	3,040	69,787
Transfers	62,666	-	(65,941)	3,275	-
Impairments	-	-	(3,503)	(23)	(3,526)
Disposals at cost	-	-	-	(386)	(386)
At 31 July 2019	763,819	8,780	76,201	142,020	990,820
Depreciation					
At 1 August 2018	63,079	984	-	101,153	165,216
Charge for the year	18,987	246	-	12,234	31,467
Disposals	-	-	-	(330)	(330)
At 31 July 2019	82,066	1,230	-	113,057	196,353
Net book value					
At 31 July 2019	681,753	7,550	76,201	28,963	794,467
At 31 July 2018	638,074	7,796	78,898	34,961	759,729
University					
	Freehold	Leasehold	Assets under construction	Plant and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 August 2018	701,021	8,780	78,898	136,114	924,813
Additions at cost	-	-	66,747	3,039	69,786
Transfers	62,666	-	(65,941)	3,275	-
Impairments	-	-	(3,503)	(23)	(3,526)
Disposals at cost	-	-	-	(386)	(386)
At 31 July 2019	763,687	8,780	76,201	142,019	990,687
Depreciation					
At 1 August 2018	63,164	984	-	101,153	165,301
Charge for the year	18,967	246	-	12,234	31,447
Impairment	-	-	-	-	-
Disposals	-	-	-	(330)	(330)
At 31 July 2019	82,131	1,230	-	113,057	196,418
Net book value					
At 31 July 2019	681,556	7,550	76,201	28,962	794,269
At 31 July 2018	637,857	7,796	78,898	34,961	759,512

At 31 July 2019 freehold land and buildings included £143,909,000 (2018: £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 £1,750,072 (2017/18: £2,681,000) of borrowing costs was capitalised in fixed assets, at a capitalisation rate of 3.38% (2017/18: 3.38%).

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	
	2019	2018
	£000	£000
Net book value		
Land & buildings	7,549	7,795
Equipment	223	89
	<u>7,772</u>	<u>7,884</u>
Depreciation charge for year		
Land & buildings	246	246
Equipment	72	105
	<u>318</u>	<u>351</u>

16 Investment properties

Consolidated	Research Park Buildings			Other	
	Undeveloped Land	Under Development	Completed Buildings	Buildings	Total
	£000	£000	£000	£000	£000
At 1 August 2018	7,305	19	115,876	300	123,500
Additions	-	957	32	-	989
Transfers	-	(684)	684	-	-
Disposals	-	-	(105)	-	(105)
Change in market value	(460)	-	(1,339)	50	(1,749)
At 31 July 2019	<u>6,845</u>	<u>292</u>	<u>115,148</u>	<u>350</u>	<u>122,635</u>
University	Research Park Buildings			Other	
	Undeveloped Land	Under Development	Completed Buildings	Buildings	Total
	£000	£000	£000	£000	£000
At 1 August 2018	7,305	19	115,876	-	123,200
Additions	-	957	32	-	989
Transfers	-	(684)	684	-	-
Disposals	-	-	(105)	-	(105)
Change in market value	(460)	-	(1,339)	-	(1,799)
At 31 July 2019	<u>6,845</u>	<u>292</u>	<u>115,148</u>	<u>-</u>	<u>122,285</u>

The Research Park completed buildings, which have a historical cost of £57,081,000 (2018: £56,473,000), were valued as at 31 July 2019 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 2018	-	1,900	1,900
Additions	-	-	-
Disposals	-	(1)	(1)
Change in market value	-	62	62
At 31 July 2019	-	1,961	1,961

University

	Subsidiary companies £000	Other non current investments £000	Total £000
At 1 August 2018	5,241	1,434	6,675
Additions	2,570	-	2,570
Disposals	-	-	-
Change in market value	(4)	62	58
At 31 July 2019	7,807	1,496	9,303

Significant shareholdings in subsidiaries

Name	Nature of business	Class of share	% held
Blackwell Park Ltd	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	
	2019 £000	2018 £000	2019 £000	2018 £000
Trade receivables	9,154	5,504	9,268	5,937
Amounts owed by subsidiary undertakings	-	-	9,050	9,204
Other receivables including taxation	100	120	90	81
Deferred tax (note 19)	205	156	-	-
Prepayments	5,586	5,846	5,572	5,826
Accrued income	19,079	16,448	19,054	16,422
	34,124	28,074	43,034	37,470

Deferred tax receivable relates to deferred tax credits arising in subsidiary companies. The recoverability of £9,000 of this balance (2018: £14,000) is dependent on future trading profits of Surrey Sports Park Limited.

Amounts owed by subsidiary undertakings includes £8,750,000 that is receivable after more than one year (this amount was reclassified from current assets to non-current assets during 2018/19).

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

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
The deferred tax asset comprises:				
Accelerated capital allowances	7	6	-	-
Short term timing differences	52	65	-	-
Pension	146	85	-	-
	205	156	-	-
Deferred tax asset excluding pension:				
Balance at 1 August	71	86	-	-
Charge to the statement of comprehensive income and expenditure	(12)	(15)	-	-
Balance at 31 July	59	71	-	-
Deferred tax pension asset:				
Balance at 1 August	85	110	-	-
Credit to the statement of comprehensive income and expenditure	6	6	-	-
Credit/(charge) to other comprehensive income	55	(31)	-	-
Balance at 31 July	146	85	-	-

20 Current asset investments

	Consolidated & University	
	2019	2018
	£000	£000
Short term deposits (maturing within 1 year)	35,044	67,058
Other investments	72	422
	35,116	67,480

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	
	2019	2018	2019	2018
	£000	£000	£000	£000
Unsecured loans (note 23a)	11,336	10,541	11,336	10,541
Obligations under finance leases	722	725	722	725
Other loans (note 23c)	113	113	113	113
Payments received on account	8,335	9,086	8,335	9,086
Trade creditors	4,705	6,404	4,628	6,334
Amounts owed to group undertakings	-	-	100	800
Other creditors including taxation and social security	18,914	16,758	18,846	16,432
Government deferred capital grants	6,718	6,756	6,718	6,756
Accruals	25,295	19,934	24,934	19,725
Deferred income	49,079	50,492	48,746	50,055
	125,217	120,809	124,478	120,567

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

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

	Consolidated & University	
	2019	2018
	£000	£000
Research grants received on account	6,457	5,094
Other grant income	502	145
	<u>6,959</u>	<u>5,239</u>

22 Creditors : amounts falling due after more than one year

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Unsecured loans (note 23a)	255,141	266,096	255,141	266,096
Obligations under finance leases	7,350	7,856	7,350	7,856
Government deferred capital grants	68,617	71,341	68,617	71,341
Derivatives	24,987	21,815	24,987	21,815
Other loans (note 23c)	634	747	634	747
Deferred income	-	2,243	-	2,243
Other creditors	-	5	-	-
	<u>356,729</u>	<u>370,103</u>	<u>356,729</u>	<u>370,098</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 2018/19 a hedging loss of £1,131,000 (2017/18: £408,000 gain) was recognised in the statement of comprehensive income and expenditure for changes in fair value of interest rate swaps and £2,040,000 was reclassified from the cash flow hedge reserve to the statement of comprehensive income and expenditure (2017/18: £4,496,000 from the statement of comprehensive income to the cash flow hedge reserve).

23 Borrowings**a. Unsecured loans**

	Consolidated & University	
	2019	2018
	£000	£000
Unsecured loans are repayable as follows:		
Within one year or on demand	11,336	10,541
Between one and two years	11,432	10,956
Between two and five years	31,120	32,474
Over five years	212,589	222,666
	<u>266,477</u>	<u>276,637</u>
Due within one year or on demand	(11,336)	(10,541)
Due after more than one year	<u>255,141</u>	<u>266,096</u>
Unsecured loans repayable by 2052	<u>266,477</u>	<u>276,637</u>

Notes to the financial statements (continued)

23 Borrowings (continued)

Unsecured loans at 31 July 2019 were as follows:

	£000	Interest rate %	Maturity	Borrower
Banks:				
Scottish Widows	12,992	variable	2022-2026	University
Scottish Widows	23,447	variable	2031	University
Lloyds	46,667	fixed / variable	2033	University
National Westminster	13,288	variable	2030	University
National Westminster	1,020	variable	2022	University
National Westminster	9,563	variable	2032	University
Santander	39,500	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>266,477</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 2019, inclusive of lender margins and swap costs, was 3.71% (2018: 3.62%).

b. Finance leases

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

Consolidated & University	2019			2018		
	Land & buildings £000	Plant & equipment £000	Total £000	Land & buildings £000	Plant & equipment £000	Total £000
Within one year	1,159	54	1,213	1,159	93	1,252
Between two and five years	4,637	187	4,824	4,637	9	4,646
Over five years	4,874	-	4,874	6,033	-	6,033
Total minimum lease payments	<u>10,670</u>	<u>241</u>	<u>10,911</u>	<u>11,829</u>	<u>102</u>	<u>11,931</u>
Less: interest payable	(2,839)	-	(2,839)	(3,350)	-	(3,350)
Net finance lease obligation	<u>7,831</u>	<u>241</u>	<u>8,072</u>	<u>8,479</u>	<u>102</u>	<u>8,581</u>

c. Other loans

Other loans are repayable as follows:

	Consolidated & University	
	2019 £000	2018 £000
Within one year	113	113
Between two and five years	57	170
Over five years	577	577
Total other loans	<u>747</u>	<u>860</u>

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

Consolidated	Obligation to fund deficit on USS pension £000	Defined benefit obligations on termination £000	Pension enhancements £000	GMP benefits £000	Total £000
At 1 August 2018	30,489	26,836	1,271	-	58,596
Utilised in year	(671)	712	(17)	-	24
Additions	54,589	11,896	(83)	1,481	67,883
At 31 July 2019	84,407	39,444	1,171	1,481	126,503

University	Obligation to fund deficit on USS pension £000	Defined benefit obligations on termination £000	Pension enhancements £000	GMP £000	Total £000
At 1 August 2018	30,489	26,339	1,271	-	58,099
Utilised in year	(671)	697	(17)	-	9
Additions	54,589	11,556	(83)	1,481	67,543
At 31 July 2019	84,407	38,592	1,171	1,481	125,651

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the USS to make deficit payments in accordance with the deficit recovery plan. In calculating this provision, management have estimated salary inflation and future staff levels within the USS scheme for the duration of the contractual obligation. Key assumptions are set out below and further information is provided in note 1.

The adoption of the new deficit recovery plan following the 2017 actuarial valuation has given rise to a significant increase in the deficit provision which has increased from £30.5 million to £84.4 million. £54.6 million of this increase is attributable to the change in the deficit contributions contractual commitment (see also note 8). More details on the 2017 actuarial valuation are set out in note 34.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed of which more detail is given in note 34. As at 31 July 2019 and with all other assumptions used to calculate the provision unchanged, this would have resulted in a revised provision of £47.1 million, a decrease of £37.3 million from the current year end provision.

The GMP benefits provision represents an estimate of the impact on the Surrey Pension Fund liability of equalising pension benefits for men and women in relation to guaranteed minimum pension benefits.

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the obligation to fund the USS deficit. The sensitivity of the principal assumptions used to measure the USS deficit provision are set out below:

Change in assumptions at 31 July	Increase in provision £000s
0.5% pa decrease in discount rate	3,768
0.5% pa increase in salary inflation over duration	3,789
0.5% pa increase in salary inflation year 1 only	422
0.5% increase in staff changes over duration	3,677
0.5% increase in staff changes year 1 only	408
1% increase in deficit contributions from April 2020	16,517
1 year increase in term	8,146

The defined benefit obligations comprise the deficits on the local government pension schemes (Surrey Pension Fund and LPFA Pension Fund). The repayment plan is for the University to make 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	2019 Total £000	2018 Total £000
Balances at 1 August 2018				
Capital	325	1,767	2,092	2,207
Accumulated income	197	1,070	1,267	351
	<u>522</u>	<u>2,837</u>	<u>3,359</u>	<u>2,558</u>
New endowments	396	140	536	1,046
Investment income	10	24	34	36
Expenditure	(16)	(397)	(413)	(332)
Increase in market value of investments	24	39	63	51
	<u>414</u>	<u>(194)</u>	<u>220</u>	<u>801</u>
At 31 July 2019	<u>936</u>	<u>2,643</u>	<u>3,579</u>	<u>3,359</u>
Represented by:				
Capital	325	1,767	2,092	2,092
Accumulated income	611	876	1,487	1,267
	<u>936</u>	<u>2,643</u>	<u>3,579</u>	<u>3,359</u>
Analysis by purpose:				
Scholarships and bursaries	290	996	1,286	1,314
Prize funds	-	787	787	783
Hardship funds	623	101	724	332
Educational	-	749	749	863
Research support	-	3	3	3
Other	23	7	30	64
	<u>936</u>	<u>2,643</u>	<u>3,579</u>	<u>3,359</u>
Analysis by asset:				
Listed investments			1,362	1,285
Cash held as part of investment portfolio			22	36
Cash held at bank for endowment funds			2,195	2,038
			<u>3,579</u>	<u>3,359</u>

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 2018 £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2019 £000
Restricted expendable endowment funds:					
Scholarship (1 fund)	638	13	(29)	37	659
Studentship (1 fund)	202	1	(100)	-	103
	<u>840</u>	<u>14</u>	<u>(129)</u>	<u>37</u>	<u>762</u>

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

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

	Donations	2019	2018
	£000	Total	Total
		£000	£000
At 1 August 2018	363	363	195
New donations	1,579	1,579	403
Expenditure	(1,515)	(1,515)	(235)
At 31 July 2019	<u>427</u>	<u>427</u>	<u>363</u>

Analysis of restricted reserves by purpose:

Scholarships and bursaries	183	177
Prize funds	43	12
Hardship fund	63	55
Research support	21	10
Other	117	109
	<u>427</u>	<u>363</u>

28 Cash flow hedge reserve

	Consolidated & University	
	2019	2018
	Total	Total
	£000	£000
At 1 August 2018	(12,234)	(16,730)
Hedging (loss)/gain	(2,040)	4,496
At 31 July 2019	<u>(14,274)</u>	<u>(12,234)</u>

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

	At 1 August		Non-cash	At 31 July
	2018	Cash flows	changes	2019
	£000	£000	£000	£000
Loans due within one year (note 21)	(10,654)	10,273	(11,068)	(11,449)
Loans due after one year (note 22)	(266,843)	-	11,068	(255,775)
Finance leases (note 23b)	(8,581)	771	(262)	(8,072)
Financing	(286,078)	11,044	(262)	(275,296)
Cash and cash equivalents	64,590	(17,626)	-	46,964
Short term deposits (note 20)	67,058	(32,029)	15	35,044
	<u>(154,430)</u>	<u>(38,611)</u>	<u>(247)</u>	<u>(193,288)</u>

30 Capital commitments

	Consolidated & University	
	2019	2018
	£000	£000
Commitments contracted at 31 July	15,156	51,965
Authorised but not contracted at 31 July	24,864	26,028
	<u>40,020</u>	<u>77,993</u>

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

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

Consolidated

Expiry date:	2019		2018	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	1,064	555	949	560
Between two and five years	-	415	-	689
Over five years	-	-	-	-
	<u>1,064</u>	<u>970</u>	<u>949</u>	<u>1,249</u>

University

Expiry date:	2019		2018	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	1,064	546	949	560
Between two and five years	-	412	-	689
Over five years	-	-	-	-
	<u>1,064</u>	<u>958</u>	<u>949</u>	<u>1,249</u>

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

Consolidated

Expiry date:	2019		2018	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	7,074	-	6,478	-
Between two and five years	19,833	-	21,238	-
Over five years	31,709	-	16,426	-
	<u>58,616</u>	<u>-</u>	<u>44,142</u>	<u>-</u>

University

Expiry date:	2019		2018	
	Land & buildings £000	Plant & equipment £000	Land & buildings £000	Plant & equipment £000
Within one year	7,064	-	6,478	-
Between two and five years	19,777	-	21,238	-
Over five years	20,566	-	14,691	-
	<u>47,407</u>	<u>-</u>	<u>42,407</u>	<u>-</u>

32 Contingent assets and liabilities

There are no known contingent assets or liabilities.

33 Financial commitments

There are no known financial commitments.

Notes to the financial statements (continued)

34 Pension schemes

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

	Consolidated	
	2018/19	2017/18
	Total £000	Total £000
USS	16,952	14,888
Local government pension scheme	4,160	4,099
Other pension schemes	401	427
Total pension cost	<u>21,513</u>	<u>19,414</u>

a. Universities Superannuation Scheme (USS)

The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2017 (the valuation date), which was carried out using the projected unit method. A valuation as at 31 March 2018 was underway but not complete at 31 July 2019.

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 2017 valuation was the fourth valuation for the scheme 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 £60.0 billion and the value of the scheme's technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%. FRS 102 valuations of these assets and liabilities at 31 March 2018 and 31 March 2019 were:

	2019 £000	2018 £000
Scheme assets	60,000,000	63,600,000
Total scheme liabilities	(67,500,000)	(72,000,000)
FRS 102 total scheme deficit	(7,500,000)	(8,400,000)
FRS 102 total funding level	89%	88%

The key financial assumptions used in the 2017 valuation are described below. More details is set out in the USS Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI – 0.53% reducing linearly to CPI – 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 21 +: CPI + 1.7%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on 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

2019	Pre-retirement	Post retirement
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
2018	Pre-retirement	Post retirement
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

Notes to the financial statements (continued)

34 Pension schemes (continued)

a. Universities Superannuation Scheme (USS) (continued)

Future improvements in mortality rates (2019 & 2018):

- 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.

The current life expectancies on retirement at age 65 are:

	2019	2018
Males/females currently aged 65	24.6/26.1 years	24.5/26.0 years
Males/females currently aged 45	26.6/27.9 years	26.5/27.8 years

Recovery plan

A new deficit recovery plan was put in place as part of the 2017 valuation and is set out in the new Schedule of Contributions dated 28 January 2019. This requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. In accordance with the requirements of FRS 102 and the SORP, the University has made a provision for this contractual commitment to fund the past deficit. In the prior year, the deficit payments were 2.1% of salaries up to March 2031.

This significant increase in deficit contributions has given rise to a substantial increase in the deficit provision which has increased from £30.5 million to £84.4 million as set out in note 24. £54.6 million of this increase is attributable to the change in the deficit contributions contractual commitment.

The 2018 actuarial valuation was finalised after the year end which indicated a shortfall of £3.6 billion and a funding ratio of 95%.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed. This amends the existing deficit recovery plan as set out in the 2017 valuation Schedule of Contributions. This new plan requires deficit payments of 2% of salaries from 1 October 2019 to 30 September 2021 and then payments of 6% of salaries from 1 October 2021 to 31 March 2028. As at 31 July 2019 and assuming all other assumptions used to calculate the provision remain unchanged, this would have resulted in a revised provision of £47.1 million a decrease of £37.3 million from the current year end provision.

The provision figures have been produced using the following assumptions as at 31 March 2018 and 2019:

	2019	2018
Discount rate	2.4%	2.6%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.1%	2.0%

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:

	2019	2018
Opening discount rate	2.21%	1.91%
Closing discount rate	1.62%	2.21%
Salary inflation	4.00%	4.00%
Staff changes	-1.4% to 1.0%	-0.4% to 7.7%

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.

Notes to the financial statements (continued)**34 Pension schemes (continued)****b. Surrey County Council local government pension scheme (Surrey Pension Fund) (continued)**

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. There were therefore no payments made in respect of the past service deficit in 2018/19 (2017/18: £3,336,000).

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 2019.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2019 on an FRS102 basis by a qualified independent actuary. The material assumptions used by the actuary were:

	Consolidated	
	2019	2018
Pension increase rate (CPI)	2.5%	2.4%
Salary increase rate	2.8%	2.7%
Discount rate	2.1%	2.7%

Life expectancy is based on Vita Curves with improvements in line with the CMI 2013 model, an allowance for smoothing of recent mortality experience and long term rates of 1.25% p.a. for males and females. Based on these assumptions, the average future life expectancies at age 65 for males and females are summarised below:

	2019		2018	
	Males	Females	Males	Females
Current pensioners	21.6 years	23.6 years	22.5 years	24.6 years
Future pensioners (assumed age at 31 March 2016 is 45 years)	22.5 years	25.0 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.

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

	Consolidated	
	2019	2018
	£000	£000
Equities	79,604	76,536
Bonds	18,795	18,071
Property	8,845	7,441
Cash	3,317	4,252
	<u>110,561</u>	<u>106,300</u>

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

Analysis of amounts shown in the balance sheet

	Consolidated	
	2019	2018
	£000	£000
Fair value of employer assets	110,561	106,300
Present value of funded liabilities	(150,005)	(133,136)
Net underfunding in funded plans	(39,444)	(26,836)
Present value of unfunded liabilities	(1,094)	(1,187)
Net liability	<u>(40,538)</u>	<u>(28,023)</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	
	2018/19	2017/18
	£000	£000
Current service cost	3,705	4,099
Net interest	787	957
Past service cost (including curtailments)	455	-
	<u>4,947</u>	<u>5,056</u>
Actual return on plan assets	<u>5,764</u>	<u>8,022</u>

Analysis of amounts recognised in other comprehensive income

	Consolidated	
	2018/19	2017/18
	£000	£000
Changes in financial assumptions	(20,029)	2,550
Changes in demographic assumptions	7,639	-
Other experience gains	31	30
Return on assets excluding amounts shown in net interest	2,914	5,521
Total measurements recognised in other comprehensive income	<u>(9,445)</u>	<u>8,101</u>

Changes in the present value of the defined benefit obligation

	Consolidated	
	2018/19	2017/18
	£000	£000
Opening defined benefit obligation	134,323	132,564
Current service cost	3,704	4,099
Interest cost on defined benefit obligation	3,637	3,458
Contributions by members	595	630
Changes in financial assumptions	12,388	(2,550)
Other experience gains	(31)	(30)
Past service cost (including curtailments)	455	-
Estimated benefits paid	(3,889)	(3,761)
Unfunded benefits paid	(83)	(87)
Closing defined benefit obligation	<u>151,099</u>	<u>134,323</u>

The scheme actuaries (Hymans Robertson) are of the opinion that a trigger event in respect of GMP equalisation is yet to occur in the Local Government Pension Scheme. Accordingly no allowance has been made above for the potential GMP impact. An estimate of the cost is included in other provisions (see note 24).

Changes in the fair value of employer assets

	Consolidated	
	2018/19	2017/18
	£000	£000
Opening fair value of employer assets	106,300	96,168
Interest on assets	2,850	2,501
Contributions by members	595	630
Contributions by the employer	1,791	5,241
Contributions in respect of unfunded benefits	83	87
Return on assets less interest	2,914	5,521
Estimated benefits paid	(3,889)	(3,761)
Unfunded benefits paid	(83)	(87)
Closing fair value of employer assets	<u>110,561</u>	<u>106,300</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 2019.

A full actuarial valuation was carried out as at 31 March 2016 and updated to 31 July 2019 on an FRS 102 basis by a qualified independent actuary. The relevant material assumptions used by the actuary were:

	2019	2018
Pension increase rate (CPI)	2.6%	2.3%
Discount rate	1.6%	2.3%

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

	2019		2018	
	Males	Females	Males	Females
Retiring today	20.2 years	23.1 years	21.2 years	24.1 years

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

	2019	2018
	£000	£000
Equities	1,185	1,263
Cash	115	96
Target return portfolio	553	462
Other assets	323	264
	<u>2,176</u>	<u>2,085</u>

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

Analysis of amounts shown in the balance sheet

	2019	2018
	£000	£000
Fair value of employer assets	2,176	2,085
Present value of funded liabilities	(2,077)	(1,999)
Net underfunding in funded plans	99	86
Asset ceiling	(99)	(86)
Present value of unfunded liabilities	(77)	(84)
Net liability	<u>(77)</u>	<u>(84)</u>

The actuary's valuation of the scheme at 31 July 2019 has resulted in a surplus of £99,000. As stated under FRS102, a plan surplus is only recognised to the extent that an entity 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 £99,000 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**

	2018/19	2017/18
	£000	£000
Net interest charge	1	3
Administration expenses	<u>3</u>	<u>3</u>
	<u>4</u>	<u>6</u>
Actual return on plan assets	<u>(201)</u>	<u>(123)</u>

Analysis of amounts recognised in other comprehensive income

	2018/19	2017/18
	£000	£000
Changes in financial assumptions	(144)	83
Change in demographic assumptions	66	-
Return on assets excluding amounts shown in net interest	154	93
Experience loss on defined benefit obligation	(149)	-
Impact of asset ceiling	(11)	(86)
Total measurements recognised in other comprehensive income	<u>(84)</u>	<u>90</u>

Changes in the present value of the defined benefit obligation

	2019	2018
	£000	£000
Opening defined benefit obligation	2,083	2,350
Interest cost	46	33
Change in financial assumptions	144	(83)
Change in demographic assumptions	(66)	-
Other experience gains	149	-
Estimated benefits paid	(191)	(204)
Unfunded benefits paid	(11)	(13)
Closing defined benefit obligation	<u>2,154</u>	<u>2,083</u>

Changes in the fair value of employer assets

	2019	2018
	£000	£000
Opening fair value of employer assets	2,085	2,087
Interest on assets	47	30
Return on assets less interest	154	93
Contributions by the employer	84	82
Contributions in respect of unfunded benefits	11	13
Estimated benefits paid	(191)	(204)
Unfunded benefits paid	(11)	(13)
Administration expenses	(3)	(3)
Closing fair value of employer assets	<u>2,176</u>	<u>2,085</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.

2018/19

	Recognised income	Recognised expenditure	Balance due to/(from) the University
	£000	£000	£000
British Toxicology Society	-	1	-
Cecan Limited	22	10	(10)
Charterhouse School	5	-	-
City Year UK	1	-	-
Considerate Hoteliers	15	-	-
Godalming Academy	2	2	1
Goldsmiths College	-	102	-
Guildford Cathedral	-	20	2
Ikinema Limited	6	-	-
Pirbright Institute	70	23	3
Society for Research into Higher Education	-	5	(1)
SPIE	3	7	-
University of Surrey Students' Union	224	1,301	9

2017/18

	Recognised income	Recognised expenditure	Balance due to/(from) the University
	£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	-	-
Ikinema Limited	4	-	-
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	205	1,182	2

Notes to the financial statements (continued)

36 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets include:

	2019	2018
	£000	£000
Assets measured at fair value through the statement of comprehensive income and expenditure	124,069	125,207
Liabilities measured at fair value through the statement of comprehensive income and expenditure	(24,987)	(21,815)

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 £7,875,000 (2017/18: £6,941,000) and net losses on changes in fair value of £1,138,000 (2017/18: £2,163,000 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	
					2019	2018
					£000	£000
	Lloyds	5.09	2032	Quarterly	1,761	1,662
	Lloyds	5.38	2032	Quarterly	3,301	3,080
	Lloyds	5.49	2022	Quarterly	400	635
	Lloyds	4.00	2038	Quarterly	963	927
	National Westminster	4.74	2024	Quarterly	1,016	990
	National Westminster	4.52	2024	Quarterly	11,953	10,021
	Lloyds	4.33	2035	Quarterly	5,592	4,500
					24,986	21,815

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 £1,131,000 were charged to interest payable (2017/18: £408,000 credited to interest payable) and £2,040,000 charged to other comprehensive income (2017/18: £4,496,000 credited to other comprehensive income).

37 Post balance sheet events

Non-adjusting

As set out in Note 34 in respect of the USS pension scheme, a new Schedule of Contributions based on the 2018 actuarial valuation has been agreed. This results in a decrease of £37,346,000 in the provision for the Obligation to fund the deficit on the USS pension which would instead be £47,062,000. All other assumptions being equal, this adjustment will be reflected in the University's Financial Statements for the year ended 31 July 2020.

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)

Vice-Chair

Dr A Watts (to 31 July 2019)

Mr V Baxi (from 1 August 2019) - joint

Ms R Hubbard (from 1 August 2019) - joint

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 (to 28 February 2019)

Ms K Poulson (from 1 March 2019)

Senior Vice-President (Advancement and Community)

Mr G Melly (to 31 July 2019)

Senior Vice-President (Global)

Professor V Emery (to 31 July 2019)

Vice-Provost, Research & Innovation

Professor D Sampson

Vice-President, External Engagement

Mr P Degg (from 1 August 2019)

President, Students' Union

Dr A Harden (to 31 July 2019)

Ms G Paine (from 1 August 2019)

Elected by the Senate

Professor R Brooks (to 30 June 2019)

Professor S Price (to 31 August 2019)

Professor P Smith (to 31 August 2019)

Professor E Alpay (from 1 September 2019)

Professor A Hadfield (from 1 September 2019)

Professor H Griffiths (from 1 September 2019)

Lay members

Mr E Antrobus-Holder (from 1 August 2019)

Mr V Baxi

Dr A Bragg (from 1 February 2019)

Ms J Eden (from 1 October 2019)

Dr M Goodfellow

Mr C Geffen (from 1 February 2019)

Dr S Howes (to 31 July 2019)

Ms R Hubbard

Ms C Ighodaro (to 31 July 2019)

Mr P Maskell

Dr D McNulty (to 8 May 2019)

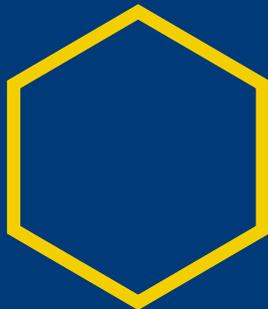
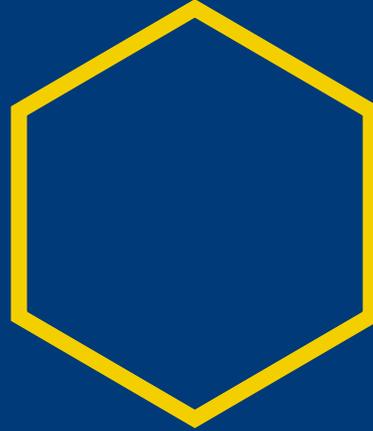
Ms P Powell (from 1 August 2019)

Ms J Sawkins

Mr N Standen



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UNIVERSITY OF SURREY
Guildford, Surrey GU2 7XH, UK

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