

U n i v e r s i t y o f S o u t h a m p t o n

Financial Statements and Statistics

2000 - 2001

University of Southampton and Subsidiary Undertakings

Financial Statements
for the year ended 31 July 2001

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University of Southampton and Subsidiary Undertakings

Treasurer

Godfrey Whitehead, FCA

Director of Finance

Colin R Showell, BCom, CPFA

Deputy Director of Finance

R Allan Spencer, MA, ACA

Investment Advisers

*Lazard Asset Management Limited
21 Moorfields
London EC2P 2HT*

*HSBC Investment Management
HSBC Investment Bank PLC
6 Bevis Marks
London EC3A 7JQ*

Bankers

*Fortis Bank SA/NV
23 Camomile Street
London EC3A 7PP*

External Auditors

*Mazars Neville Russell
8 New Fields
2 Stinsford Road
Nuffield
Poole
Dorset BH17 0NF*

Internal Auditors

*PricewaterhouseCoopers
The Quay
30 Channel Way
Ocean Village
Southampton SO14 3QG*

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Treasurer's Report 2000-2001

The University's total income increased by 9.0% compared with the previous year, and with total expenditure only increasing by 8.3%, this allowed a small increase in the published surplus, to £2.49 million. The result comes from a difficult year, and without net surpluses of £2.0 million from the sale of two major capital assets, it would have been very much closer to a break-even situation. A great deal of effort went into achieving such a result, when earlier forecasts were suggesting the likelihood of a deficit. All cost centres worked hard to restrict expenditure within available resources, and it is particularly pleasing to report additional contributions from research grants and contracts, where income increased by 17% and the net contribution by £1.7 million. I had highlighted in my report last year that this was an area where additional progress was hoped for.

Income from student related areas of grant and tuition fees increased at just over 5%, whilst Other Operating Income generally only increased in line with inflation levels. However, the figure in the accounts is higher because it includes £1.5 million from the sale of Chilworth Manor Limited, a conference centre formerly owned and operated by the University. Regrettably, there was a small reduction in income from Consultancies and Services Rendered and this is an area in which further progress will be sought in the future, since external earnings of this sort are becoming more and more crucial to the financial health of the University.

The University's staff costs have for some years been about 55% of total expenditure, and the pattern was continued this year. Total staffing costs increased by £9.4 million (8.7%) whilst total numbers only increased by 2.0%. The discrepancy between the increase in costs and numbers is caused partly by the effects of inflation and incremental pay scales, but also because the increases in numbers of staff were mainly in the higher paid grades. In particular, the welcome 17% increase in research income, referred to above, brought with it additional staffing costs of some 15% to undertake the required research. This is the main reason for the increase in staff costs beyond inflation and incremental drift.

Over £18 million was spent on the purchase, hire and repair of equipment, of which £4.9 million was capitalised. £5.2 million was charged in the

accounts to Repair and Maintenance of Buildings. This figure was substantially less than in the previous year (£9.1 million), but only £0.665 million was due to slippage in the planned programme. The rest was due partly to an accounting adjustment from the previous year, and also because the nature of some of the planned work was of a capital rather than a recurrent nature, and so was added to Tangible Fixed Assets in the Balance Sheet, rather than to expenditure in the Income and Expenditure Account.

As well as being enhanced by the sale of two major capital assets, Chilworth Manor and Richard Newitt Hall, the consolidated surplus of £2.49 million was greatly assisted by a profit of £819,000 by the University's main trading subsidiary, Chilworth Science Park Limited. The value of the Science Park continues to increase. It continues to attract tenants and to develop its facilities without impinging on the surrounding area. During the year it opened a new "incubator unit" providing facilities for start up high technology businesses, assisted by a substantial grant from the European Union's Konver Programme. The Southampton Enterprise Hub, helped by the South East England Development Agency, was opened within the Incubator Unit. Elsewhere on the site, prestigious new research laboratories were opened for Merck Speciality Chemicals Limited.

Investment Performance

The University's equity and fixed interest investments are managed by Lazard Asset Management and HSBC Investment Management. The portfolio is regularly reviewed and covers a range of equity and fixed interest investments, thus spreading the risk across a number of sectors. Average performance throughout the year was close to or slightly better than the performance of the major markets and the benchmarks used, with the exception of a small fund of £1 million for which we had been prepared to invest in slightly less cautious areas and where a higher loss was incurred than the average for the markets. This fund has now been merged with our main HSBC Fund. The market value of quoted shares and securities was £17.1 million at 31 July 2001, a small increase from the previous year's

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figure, although the fall in the markets during the latter part of the year was becoming evident in the value of the investments even before the events of September 11, which are not reflected in these figures. A relatively high weighting in bonds in the HSBC portfolio has helped to give some counterbalance to the falling value of equities.

Following the terrorist attacks on September 11, the Director of Finance and I had urgent discussions with both investment managers, and followed their advice to continue, with caution, to invest the majority of funds in equity markets. At the time of writing, the markets have stabilised and it is to be hoped that this position will continue so that the post Balance Sheet effect of these events on our investments will not be too severe.

The University's corporate vehicle for investing in the application of new academic developments for commercial purposes is Southampton Innovations Limited. Because of the falling equity markets for high-tech shares, a hoped for large surplus from the sale of a small percentage holding in one spin-off company did not materialise, and overall the company has continued to experience financial difficulties. A further small operating loss was incurred this year. Following the departure of the previous Chief Executive, the company is being given a new strategic direction and it is intended to improve substantially on our disappointing performance in this area. Since the Balance Sheet date, the University has been delighted to be successful in winning grants of £11 million to develop our activities in this area, partly in collaboration with other universities.

Cash Position

The University had a cash inflow of £11.5 million from operating activities, before the use of liquid resources and financing. This compared with £12.6 million the previous year. Payments to acquire tangible assets totalled £20 million, but capital grants and cash from the sale of assets reduced the net cash outflow for these purposes to £9.3 million. Once loan charges had been met, and some funds transferred into short term investments to achieve higher interest rates, the overall position was a net decrease of £7.4 million

in our cash holdings. A particular problem for a university which is not cash rich, but which seeks to manage its resources prudently and to develop its facilities to a high standard, is that the majority of capital grants involve not only the need for the University to put in a significant contribution from its own limited resources, but also that expenditure has to be incurred in advance and then reclaimed. This has caused us particular cash flow difficulties in the major developments to our School of Medicine at Southampton General Hospital, where outstanding claims seeking reimbursement from grant giving bodies account for much of the fall in our cash balances.

Capital Projects

A major phase of the University's Estates Strategy has been coming to an end in the last few years, with the completion of several major academic buildings. This year, the only major academic building coming on line was the new building housing the School of Nursing and Midwifery, which opened at the beginning of the academic year and has proved an extremely attractive and well received addition to the Highfield campus. This building was funded substantially by bank loan. The other major project to be completed was the Old Courts development at the Glen Eyre residences site, where £2.2 million has been funded from internal resources.

Although relatively few buildings were completed during the year, the Balance Sheet contains some £20 million of assets in the course of construction, mainly funded by grants through the Joint Infrastructure Fund (JIF), with the cash flow problems referred to above. Similar such programmes are expected to form an increasing source of funding for our future development strategy.

The bad weather at the end of 2000 led to a major flood at Winchester School of Art. Fortunately, costs estimated at £1 million are being met by our insurance cover. The University is extremely grateful to members of staff for their exceptional efforts to move valuable equipment and books away from the flooded area, thus helping to mitigate the losses incurred.

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Future Developments

The University has a detailed development plan for all its campuses. The plan includes over £46 million of new capital developments in the period to 2004, of which £23 million will come from the Science Research Investment Fund (SRIF) via the Higher Education Funding Council for England and the Wellcome Trust. The rest will come from internal provision through our annual budget and from external fund raising. As well as major science projects funded through SRIF, the programme includes a major internal sports complex, with swimming pool, adjacent to the Students' Union building at Highfield, a large extension to the Library, and a new Student Services building. All these projects are part of a prudent development plan, for which sources of funding have been identified, but if, at any time, unexpected difficulties arise, the University will react sensibly to ensure that no unsustainable commitments are entered into.

Conclusion

The University's financial position remains satisfactory, with a healthy balance sheet and an increasingly robust planning mechanism. Despite the apparently satisfactory surplus, the position has been helped by the sale of two major assets and the profit earned by the Science Park, and the underlying financial position for the University's academic side remains very tight. Considerable attention will be given in future to reducing our reliance on public funding, and generating surplus funds to create the headroom for future academic and physical investment.

Nevertheless, the University will continue to maintain strong financial controls and to live within its means.

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Corporate Governance

Summary of Corporate Governance

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

The Council numbers 37 persons, comprising ex-officio and lay members, and representatives of the academic and other staff, together with two students. The Chair and Vice-Chair of Council are appointed from amongst the lay membership, which always forms a majority on the Council. Whilst the Chancellor is the titular head of the University, the Vice-Chancellor is the University’s principal academic and administrative officer, and Accounting Officer. The Treasurer is a lay and non-executive member of the Council whose remit is to advise generally on matters relating to the University economy, and to satisfy him/herself as to the soundness of the University’s financial position and the integrity of its financial transactions. The Secretary and Registrar is responsible to Council, through the Vice-Chancellor, for all administrative functions of the University.

The Council meets at least three times a year, and receives reports on the functioning of the University and of its subsidiary companies. Matters specifically reserved for Council decision include the Mission and ongoing strategic direction of the University, and the approval of budgetary allocations and of major new developments. Much of the business of the Council is transacted through the committee structure. In this structure the Policy and Resources Committee (PRC) - a joint committee with the Senate - performs a pivotal role.

PRC is chaired by the Vice-Chancellor, and is responsible for preparing for consideration by Council the annual revenue and capital budgets; for recommending to Council the adoption of the Strategic Plan; for monitoring performance in relation to approved budgets; and for overseeing the execution of financial policies approved by the Council. PRC receives regular advice from two committees whose remit relates respectively to personnel and to estates policy, and also from the University Management Group which has day-to-day oversight of the financial position of the University. Other committees deal with such matters as student and staff welfare, safety and occupational health, the remuneration and promotion of staff, and the assessment of academic and administrative departmental performance.

In December 2000, Council approved a report on its effectiveness, in the light of guidance received from the Committee of University Chairmen. As a result, new guidelines were introduced, covering the role of Council and the responsibilities of members, membership of Council, briefing arrangements, the provision of information and reporting.

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

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

The Professorial and Senior Salaries Committee reviews the salaries of senior academic and administrative staff. The lay officers separately review the salary of the Vice-Chancellor.

Corporate Governance

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

The Council has taken steps to introduce a system of risk management which follows the principles set out by the Turnbull Committee in its guidance on internal control issued by the London Stock Exchange in September 1999. A process of identifying major risks and embedding risk management awareness throughout the institution was approved by Council in July 2001 and is currently being implemented.

Role of Council in the Preparation of the Financial Statements

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

In causing the financial statements to be prepared, Council has, through its committees and officers, ensured that:

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

The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis has been continued in the preparation of the financial statements.

The Council has taken reasonable steps to:

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

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

- clear definition of the responsibilities and delegated authority of heads of academic and administrative departments;
- a medium and short-term planning process, supplemented by detailed annual expenditure and capital budgets;
- regular reviews of academic performance and termly reviews of financial performance and updates of forecasts of outturns;
- clearly defined and formalised requirements for control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations approved by the Audit Committee and Council;
- a professional internal audit service from a major international accountancy firm.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

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

We have audited the financial statements on pages 10 to 33 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out on pages 14 to 15.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

The Council is responsible for preparing the Annual Report, including as described on page 8 the financial statements. Our responsibilities as independent auditors are established by statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions. We also report to you whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied only for the purposes for which they were received, and whether income has been applied in accordance with the University's statutes and where appropriate with the Financial Memorandum with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- (a) the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2001, of their surplus of income over expenditure and of the group's cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions;
- (b) in all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and the Teacher Training Agency, and grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- (c) in all material respects, income has been applied in accordance with the University's Statutes and where appropriate with the Financial Memorandum dated July 1997 with the Higher Education Funding Council for England and with the Funding Agreement dated December 1997 with the Teacher Training Agency.



MAZARS NEVILLE RUSSELL

Chartered Accountants and Registered Auditors

Poole

13 December 2001

University of Southampton and Subsidiary Undertakings

Consolidated Income and Expenditure Account for the year ended 31 July 2001

	Notes	2001 £000	2000 £000
<i>INCOME</i>			
<i>Funding Council grants</i>	2	71,252	67,713
<i>Academic fees and support grants</i>	3	40,512	38,345
<i>Research grants and contracts</i>	4	59,341	50,727
<i>Other operating income</i>	5	40,952	38,065
<i>Endowment income and interest receivable</i>	6	2,294	1,757
<i>Total income</i>		<u>214,351</u>	<u>196,607</u>
 <i>EXPENDITURE</i>			
<i>Staff costs</i>	7	117,308	107,900
<i>Depreciation</i>	10	9,494	8,484
<i>Other operating expenses</i>	8	80,371	74,886
<i>Interest payable</i>	9	4,686	4,383
<i>Total expenditure</i>	10	<u>211,859</u>	<u>195,653</u>
 <i>Surplus after depreciation of assets and before minority interest</i>		 2,492	 954
<i>Minority interest</i>		<u>-</u>	<u>(107)</u>
<i>Surplus attributable to the University</i>		<u>2,492</u>	<u>847</u>

The notes on pages 14 to 33 form part of these accounts

University of Southampton and Subsidiary Undertakings

Balance Sheets as at 31 July 2001

	Notes	Consolidated		University	
		2001 £000	2000 £000	2001 £000	2000 £000
FIXED ASSETS					
Intangible assets	11	89	-	-	-
Tangible assets	12	179,212	172,786	161,360	152,176
Investments	13	580	192	290	240
		<u>179,881</u>	<u>172,978</u>	<u>161,650</u>	<u>152,416</u>
ENDOWMENT ASSET INVESTMENTS	14	7,005	7,147	7,005	7,147
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR	15	2,448	2,922	15,019	14,957
CURRENT ASSETS	16	56,920	54,542	55,868	54,055
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	(48,294)	(43,099)	(47,942)	(45,047)
NET CURRENT ASSETS		<u>8,626</u>	<u>11,443</u>	<u>7,926</u>	<u>9,008</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>197,960</u>	<u>194,490</u>	<u>191,600</u>	<u>183,528</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	18	(61,451)	(69,415)	(66,905)	(69,115)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(5,778)	(4,378)	(5,160)	(3,944)
TOTAL NET ASSETS		<u>130,731</u>	<u>120,697</u>	<u>119,535</u>	<u>110,469</u>
<i>Represented by:</i>					
DEFERRED CAPITAL GRANTS	20	54,322	47,229	54,322	47,229
ENDOWMENTS					
Specific	21	4,290	4,486	4,290	4,486
General	21	2,715	2,661	2,715	2,661
		<u>7,005</u>	<u>7,147</u>	<u>7,005</u>	<u>7,147</u>
RESERVES					
Revaluation reserve	22	9,969	8,911	-	-
Income and Expenditure account	23	59,435	57,410	58,208	56,093
		<u>69,404</u>	<u>66,321</u>	<u>58,208</u>	<u>56,093</u>
TOTAL FUNDS		<u>130,731</u>	<u>120,697</u>	<u>119,535</u>	<u>110,469</u>

The financial statements on pages 10 to 33 were approved by the Council on 13 December 2001, and signed on its behalf by:

Vice-Chancellor
(Chair of Policy and Resources Committee)

Treasurer

Director of Finance

The notes on pages 14 to 33 form part of these accounts

University of Southampton and Subsidiary Undertakings

Consolidated Cash Flow Statement for the year ended 31 July 2001

	Notes	2001 £000	2000 £000
<i>Net cash inflow from operating activities</i>	29	11,488	12,573
<i>Returns on investments and servicing of finance</i>	30	(2,361)	(2,582)
<i>Disposal of subsidiary</i>	31	2,229	-
<i>Cash disposed with subsidiary</i>	31	(53)	-
<i>Capital expenditure and financial investment</i>	32	(9,254)	(15,218)
<i>Cash inflow/(outflow) before use of liquid resources and financing</i>		2,049	(5,227)
<i>Management of liquid resources</i>	34	(2,669)	532
<i>Net financing</i>	33	(6,823)	4,396
Decrease in cash	34	(7,443)	(299)

Reconciliation of Net Cash Flow to Movement in Net Debt

		2001 £000	2000 £000
<i>Decrease in cash in period</i>	34	(7,443)	(299)
<i>Increase/(decrease) in liquid resources</i>	34	2,669	(532)
<i>New loans and debt movement</i>	33	(292)	(7,378)
<i>Repayment of debt</i>	33	7,115	2,982
<i>Change in net debt</i>		2,049	(5,227)
<i>Net debt at 1 August</i>	34	(40,747)	(35,520)
<i>Net debt at 31 July</i>	34	(38,698)	(40,747)

The notes on pages 14 to 33 form part of these accounts

University of Southampton and Subsidiary Undertakings

Statement of Total Recognised Gains and Losses for the year ended 31 July 2001

	Notes	2001 £000	2000 £000
<i>Deferred Capital Grants</i>	20	7,093	669
<i>Surplus after depreciation of assets</i>		2,492	954
<i>Unrealised (losses)/gains on endowment asset investments</i>	21	(282)	280
<i>Realised losses on endowment asset investments</i>	21	(1)	(13)
<i>Endowment income (utilised)/retained in year</i>	21	(43)	10
<i>New endowments</i>	21	19	65
<i>Textile Conservation Centre specific donation for capital funds</i>		-	450
<i>Adjustments on disposal of subsidiary</i>		(302)	-
<i>Unrealised surplus on revaluation of Chilworth Science Park</i>	22	1,058	2,465
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>10,034</u>	<u>4,880</u>
<i>Total funds as per balance sheet:</i>			
<i>At 1 August</i>		120,697	115,817
<i>Total recognised gains</i>		<u>10,034</u>	<u>4,880</u>
<i>At 31 July</i>		<u>130,731</u>	<u>120,697</u>

Notes to the Financial Statements for the year ended 31 July 2001

I. Statement of principal accounting policies

(a) **Accounting convention**

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

(b) **Basis of consolidation**

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

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

All income for the year relates to continuing activities, except for that relating to Chilworth Manor Limited which was included up until the point of sale.

(c) **Recognition of income**

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

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

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

Income from other external contracts, consultancies and services rendered is credited to the income and expenditure account to the extent of amounts invoiced during the year.

(d) **Pension schemes**

Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic and rational basis over the expected average remaining service life of members of the schemes.

(e) **Foreign currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the mid-term. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

(f) **Leases**

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease and represents a constant proportion of the balance of the capital repayments outstanding. Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

(g) **Land and buildings**

Expenditure on land and buildings is capitalised. Depreciation is charged on the following bases:

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

Notes to the Financial Statements for the year ended 31 July 2001

I. Statement of principal accounting policies (continued)

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

Buildings owned by the University are valued at historical cost.

Buildings under construction within the University are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

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

(h) Equipment

Equipment purchased by the University and costing less than £20,000 per individual item or group of related items is written off in the year of acquisition. Equipment costing over £20,000 and all equipment held by the subsidiary undertakings is capitalised.

Equipment capitalised by the University is stated at cost and depreciated over three years. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods not exceeding 10 years.

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

(i) Investments

Endowment asset investments are included in the balance sheet at market value.

Current asset investments are included at the lower of cost and net realisable value.

(j) Stocks

Catering, trading and centrally held stocks are stated at the lower of cost and net realisable value. Stocks held by teaching and research departments are excluded from

the balance sheet, this expenditure being charged to the income and expenditure account when incurred.

(k) Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

(l) Goodwill

Goodwill arising on consolidation and acquisitions until 1998 was written off directly to reserves. Following the implementation of FRS 10, purchased goodwill is capitalised in the Balance Sheet and amortised on a straight line basis over 20 years.

(m) Maintenance

There is a substantial backlog of long term maintenance and the University has a strategy for reducing this backlog. In line with FRS 12 the University charges long term maintenance costs to the income and expenditure account as they are incurred.

(n) Provisions

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

(o) Comparatives

Where notes have been enhanced to provide additional information comparative figures have been amended accordingly.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

2. Funding Council grants	2001	2000
	£000	£000
<i>Recurrent grants:</i>		
Higher Education Funding Council for England (HEFCE)	62,565	62,291
Teacher Training Agency	2,874	1,682
Learning and Skills Council	633	319
<i>Specific grants (HEFCE):</i>		
Information services	60	296
Other	3,749	1,482
Deferred Capital Grants released in year (note 20)	1,371	1,643
	<u>71,252</u>	<u>67,713</u>
3. Academic fees and support grants	2001	2000
	£000	£000
Full-time home/EU students	24,422	22,575
Full-time overseas students	8,587	7,748
Part-time students	5,035	5,156
Research training support grants	1,148	942
Special and short course fees	1,320	1,924
	<u>40,512</u>	<u>38,345</u>

Included in the above is £8,223,000 (2000: £6,665,000) of NHS Teaching Contract Income in respect of full and part-time fees. This is excluded from note 5.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

4. Research grants and contracts	2001	2000
	£000	£000
<i>INCOME</i>		
<i>Research councils</i>	24,652	20,351
<i>UK based charities</i>	9,208	7,191
<i>UK Central Government/local authorities/health authorities and hospitals</i>	7,636	7,339
<i>UK public corporations/industry and commerce</i>	8,735	7,810
<i>EU Government</i>	4,087	3,682
<i>EU other sources</i>	1,637	1,595
<i>Other overseas sources</i>	2,905	2,554
<i>Other sources</i>	481	205
	<u>59,341</u>	<u>50,727</u>
 <i>EXPENDITURE – DIRECT COSTS</i>		
<i>Salaries and wages</i>	26,898	23,356
<i>Equipment</i>	4,231	3,360
<i>Depreciation</i>	2,878	2,609
<i>Other costs</i>	15,835	13,625
	<u>49,842</u>	<u>42,950</u>
 <i>Contribution to indirect costs</i>	 <u>9,499</u>	 <u>7,777</u>
 5. Other operating income		
	2001	2000
	£000	£000
<i>Residences, catering and conferences</i>	16,690	16,574
<i>Consultancies, trading and services rendered</i>	13,311	13,442
<i>Health authorities</i>	1,915	1,492
<i>Other income</i>	9,036	6,557
	<u>40,952</u>	<u>38,065</u>
 <i>Other income includes £1,477,000 resulting from the disposal by the group of Chilworth Manor Limited, formerly a wholly owned subsidiary, during 2001.</i>		
 6. Endowment income and interest receivable		
	2001	2000
	£000	£000
<i>Transferred from specific endowments (note 21)</i>	179	141
<i>Income from general endowment asset investments (note 21)</i>	167	173
<i>Income from short term deposits and investments</i>	1,948	1,443
	<u>2,294</u>	<u>1,757</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

7. Staff	2001	2000
	£000	£000
<i>Staff costs:</i>		
<i>Salaries and wages</i>	98,549	90,943
<i>Social Security costs</i>	7,705	7,013
<i>Other pension costs</i>	11,054	9,944
	<u>117,308</u>	<u>107,900</u>

	2001	2000
	Number	Number
<i>Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:</i>		
<i>Academic/clinical/research</i>	1,751	1,712
<i>Administrative and academic support</i>	648	614
<i>Technical</i>	350	348
<i>Other (including clerical and manual)</i>	1,234	1,232
	<u>3,983</u>	<u>3,906</u>
	2001	2000
	£000	£000

<i>Emoluments of the Vice-Chancellor</i>	132	118
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The emoluments of the Vice-Chancellor are shown excluding employer's pension contributions. The University's pension contributions to Universities Superannuation Scheme Limited (USS) amounted to £18,204 (2000: £16,464).

Higher Paid Staff:

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

	2001	2000
	Number	Number
£50,000 – £59,999	72	61
£60,000 – £69,999	50	33
£70,000 – £79,999	21	13
£80,000 – £89,999	5	5
£90,000 – £99,999	9	3
£100,000 – £109,999	2	5
£110,000 – £119,999	4	2
£120,000 – £129,999	4	2

Enhanced Pension Benefits

No payments were made by the University on behalf of staff earning in excess of £50,000 per annum (2000:three):

	2001	2000
	£000	£000
<i>Payment to USS for enhanced pension benefits</i>	–	228

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

8. Other operating expenses	2001	2000
	£000	£000
<i>Non capitalised equipment</i>	13,423	12,186
<i>Consumables and laboratory expenditure</i>	7,449	7,878
<i>Office expenses and professional fees</i>	9,815	8,284
<i>Residences, catering and conferences operating expenses</i>	8,782	7,410
<i>Travel costs</i>	6,523	5,920
<i>Repairs, refurbishment and scheduled maintenance</i>	5,156	9,096
<i>Heat, light, water and power</i>	3,138	2,554
<i>Books and periodicals</i>	2,285	2,187
<i>Fellowships, scholarships and prizes</i>	9,552	7,160
<i>Rents, rates and hire of facilities</i>	4,489	2,767
<i>Grant to Students' Union</i>	1,100	1,087
<i>External auditors' remuneration</i>	14	14
<i>Auditors' remuneration in respect of other services</i>	8	-
<i>Other expenses</i>	8,637	8,343
	<u>80,371</u>	<u>74,886</u>

Items accrued under Repairs, refurbishment and scheduled maintenance in 2000 to the value of £600,000 have subsequently been capitalised. This has led to a corresponding negative adjustment under this heading in 2001.

9. Interest payable	2001	2000
	£000	£000
<i>Loans not wholly repayable within five years</i>	4,652	4,345
<i>Loans wholly repayable within five years</i>	-	4
<i>Finance leases</i>	34	34
	<u>4,686</u>	<u>4,383</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

10. Analysis of 2001 expenditure by activity

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
<i>Academic departments</i>	64,011	990	10,633	-	75,634
<i>Academic services</i>	5,520	322	5,852	-	11,694
<i>Research grants and contracts (note 4)</i>	26,898	2,878	20,066	-	49,842
<i>Residences, catering and conferences</i>	3,889	63	8,782	1,690	14,424
<i>Premises</i>	4,061	4,700	13,334	-	22,095
<i>Administration and central services</i>	6,474	18	5,069	-	11,561
<i>Other activities</i>	6,455	523	16,635	2,996	26,609
	<u>117,308</u>	<u>9,494</u>	<u>80,371</u>	<u>4,686</u>	<u>211,859</u>

The depreciation charge has been funded by:

<i>Deferred Capital Grants released (note 20)</i>	1,371
<i>General income</i>	8,123
	<u>9,494</u>

11. Intangible assets: goodwill

	Consolidated £000
Cost	
<i>At 1 August 2000</i>	-
<i>Additions in year</i>	90
<i>At 31 July 2001</i>	<u>90</u>
Amortisation	
<i>At 1 August 2000</i>	-
<i>Charge in year</i>	(1)
<i>At 31 July 2001</i>	<u>(1)</u>
Net Book Value	
<i>At 31 July 2001</i>	<u>89</u>
<i>At 1 August 2000</i>	<u>-</u>

Purchased goodwill arises entirely as a result of the purchase in June 2001 of a Post Office franchise by Manor Centre Limited, a wholly owned subsidiary of the University of Southampton.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

12. Tangible assets

	Consolidated						University				
	Land and buildings		Assets in course of construction	Investment Properties	Furniture fittings and equipment	Total	Land and buildings		Assets in course of construction	Equipment	Total
Completed Freehold	Completed Leasehold	Completed Freehold					Completed Leasehold	Completed Freehold			
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Cost or valuation											
At 1 August 2000	144,757	18,498	15,596	15,636	24,225	218,712	144,757	13,842	14,884	21,803	195,286
Additions at cost	2,105	25	13,011	-	4,942	20,083	2,105	-	12,532	4,796	19,433
Transfers at cost	7,217	-	(7,990)	692	81	-	7,217	-	(7,217)	-	-
Revaluation	-	-	-	1,058	-	1,058	-	-	-	-	-
Disposals at cost	(808)	(4,682)	(110)	-	(2,599)	(8,199)	(808)	-	(13)	(183)	(1,004)
Assets written down at cost	(300)	-	-	-	-	(300)	(300)	-	-	-	(300)
At 31 July 2001	152,971	13,841	20,507	17,386	26,649	231,354	152,971	13,842	20,186	26,416	213,415
Depreciation											
At 1 August 2000	(24,894)	(2,127)	-	-	(18,905)	(45,926)	(24,894)	(1,377)	-	(16,839)	(43,110)
Charge for year	(4,065)	(347)	-	-	(4,795)	(9,207)	(4,065)	(289)	-	(4,706)	(9,060)
Eliminated on disposal	18	809	-	-	2,151	2,978	18	-	-	85	103
Assets written down	13	-	-	-	-	13	12	-	-	-	12
At 31 July 2001	(28,928)	(1,665)	-	-	(21,549)	(52,142)	(28,929)	(1,666)	-	(21,460)	(52,055)
Net book value											
At 31 July 2001	124,043	12,176	20,507	17,386	5,100	179,212	124,042	12,176	20,186	4,956	161,360
At 1 August 2000	119,863	16,371	15,596	15,636	5,320	172,786	119,863	12,465	14,884	4,964	152,176

Included in the balances for freehold land and buildings is expenditure of £7,027,000 funded by the HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £12,700,000 for the Southampton Oceanography Centre, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

Chilworth Science Park has been included on the basis of freehold open market value for existing use as at 31 July 2001 as determined by Vail Williams, in accordance with the Statements of Asset Valuation Practice and Guidance Notes by the RICS. The market value of the science park increased by £1,058,000 during the year. The historical and net book value of these assets at 31 July 2001 amounted to £7,281,000 (2000: £6,589,000) which included interest capitalised amounting to £275,000 (2000: £275,000).

In addition to the above expenditure on tangible assets a further £15,633,000 has been committed by the University (note 25).

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

13. Fixed asset investments	Consolidated		University	
	2001 £000	2000 £000	2001 £000	2000 £000
Investment in subsidiary undertakings at cost	-	-	150	150
Other investments	580	192	140	90
	<u>580</u>	<u>192</u>	<u>290</u>	<u>240</u>

The University group structure, where all the companies held are registered in England and Wales with the exception of AquaGene Inc and Southampton Photonics Inc which are registered in the USA, is as follows:

	Percentage holding	Nature of activity
<i>Held by the University</i>		
Manor Centre Limited	100.00	Post Office franchise
Marinetech South Limited	25.00	Research innovation
Photonic Innovations Limited (PI Limited)	50.00	Optoelectronics
Southampton Student Halls I Limited	100.00	Property management
Southampton Student Halls II Limited	100.00	Property management
Southampton Student Halls III Limited	100.00	Property management
Southampton Student Halls IV Limited	100.00	Property management
Southampton University Services Limited	50.00 *	Educational services
University of Southampton Holdings Limited (USH Limited)	100.00	Holding company
<i>Investments held by USH Limited</i>		
Chilworth Science Park Limited	100.00	Science park management
Concurrent Computation Company Limited	14.00	Management services
Henry Robinson Hartley Limited	100.00	Estate management
SOceanic Limited	100.00	Commercial contract management
Southampton Innovations Limited (SI Limited)	100.00	Innovation and patents
Southampton Residences Limited	100.00	Property management services
Southampton University Services Limited	50.00 *	Educational services
<i>Investments held by SI Limited</i>		
Active Navigation Limited	4.16	Software development
AquaGene Incorporated	3.25	Biotechnology
Biopraxis Developments Limited	11.19	Research innovation
Exosect Limited	19.99	Insect destruction
Hunter-Fleming Limited	2.00	Pharmaceuticals
Kymata Limited (Alcatel sa from August 2001)	1.31	Telecommunications
LME Design Automation Limited	2.33	Microchip software
Mesophotonics Limited	12.50	Photonics
Nurin Limited	5.00	Neurological protection
Photonic Innovations Limited (PI Limited)	50.00	Optoelectronics
Radiation Systems Limited	19.23	Radiation
Radiation Sensors Limited	19.23	Radiation
Thermotic Developments Limited	8.35	Beverage packaging
<i>Investments held by PI Limited</i>		
Southampton Photonics Incorporated	5.91	Optical fibre technology

* Company limited by guarantee, maximum liability £1

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

14. Endowment asset investments	Consolidated and University	
	2001	2000
	£000	£000
<i>Balance at 1 August</i>	7,147	6,797
<i>Additions</i>	218	442
<i>Disposals</i>	(78)	(372)
<i>Depreciation/appreciation on valuation for year</i>	(282)	280
<i>Balance at 31 July</i>	7,005	7,147
<i>Represented by:</i>		
<i>Fixed interest stocks</i>	688	677
<i>Equities</i>	172	156
<i>Unit trusts and managed funds</i>	4,557	4,869
<i>Total stocks, equities and managed funds at market value</i>	5,417	5,702
<i>Short term deposits</i>	1,453	1,341
<i>Cash balances</i>	135	104
<i>Total</i>	7,005	7,147
<i>Total stocks, equities and managed funds at cost</i>	4,939	4,939

15. Long term debtors and prepayments	Consolidated		University	
	2001	2000	2001	2000
	£000	£000	£000	£000
<i>Amounts owed by subsidiary undertakings</i>	-	-	1,668	1,801
<i>Prepayments to subsidiary undertakings</i>	-	-	10,903	10,234
<i>Other prepayments</i>	2,448	2,922	2,448	2,922
	2,448	2,922	15,019	14,957

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

16. Current assets	Consolidated		University	
	2001 £000	2000 £000	2001 £000	2000 £000
Stock	293	337	290	307
Debtors and Prepayments:				
Grants from HEFCE	2,941	353	2,941	353
Trade debtors	6,690	6,183	6,554	6,021
Tuition fees	1,147	1,654	1,147	1,654
Research grants and contracts	20,037	15,034	20,037	15,034
Prepayments to group undertakings	-	-	918	2,617
Other prepayments	1,304	1,284	1,044	908
Other debtors	2,608	3,023	3,436	4,412
	34,727	27,531	36,077	30,999
Investments	15,210	12,541	15,210	12,541
Cash at bank and on deposit	6,690	14,133	4,291	10,208
	<u>56,920</u>	<u>54,542</u>	<u>55,868</u>	<u>54,055</u>
Investments are represented by:				
			2001 £000	2000 £000
Quoted shares and securities *			12,458	12,041
Cash deposits at banks and building societies (maturity date after 1 August)			2,752	500
			<u>15,210</u>	<u>12,541</u>
* Market value of quoted shares and securities (held at cost in the accounts above)			<u>17,148</u>	<u>16,264</u>

17. Creditors: amounts falling due within one year	Consolidated		University	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans	2,733	2,467	2,203	2,006
Finance leases	50	59	50	59
Other loans	187	187	187	187
HEFCE specific grant	3,079	95	3,079	95
Advance income on research	16,260	14,467	16,260	14,467
Social Security and other taxation	4,290	3,753	4,223	3,515
Amounts owed to group undertakings	-	-	1,454	3,880
Trade and other creditors	8,815	10,379	8,524	10,084
Accruals and deferred income	12,880	11,692	11,962	10,754
	<u>48,294</u>	<u>43,099</u>	<u>47,942</u>	<u>45,047</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

18. Creditors: amounts falling due after more than one year	Consolidated		University	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans	55,714	62,072	50,997	52,966
Finance leases	-	50	-	50
Other loans	1,914	2,101	1,914	2,101
Amounts owed to group undertakings	-	-	10,903	10,212
Other creditors	-	903	-	-
Accruals and deferred income	3,823	4,289	3,091	3,786
	61,451	69,415	66,905	69,115

Amounts repayable after more than one year in respect of bank loans outstanding as at 31 July 2001, may be analysed as follows:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2001 £000	Balance outstanding 2000 £000
<i>University:</i>					
HSBC *	1993	2018	variable	8,250	8,573
HSBC *	1995	2015	variable	1,878	1,978
National Westminster Bank	1996	2016	fixed	8,658	8,954
Yorkshire Bank	1997	2020	fixed/variable	21,354	22,374
National Westminster Bank *	1999	2019	fixed/variable	5,838	6,024
Barclays Bank *	1999	2019	variable	5,019	5,063
				50,997	52,966
<i>Subsidiaries:</i>					
Lloyds TSB Bank *	1995	-	variable	-	4,502
HSBC *	1999	2020	fixed/variable	4,717	4,604
				55,714	62,072

* Loans secured on specific assets.

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

19. Provisions for liabilities and charges

	Consolidated			University	
	Maintenance Fund £000	Pensions £000	Total £000	Pensions £000	Total £000
At 1 August 2000	434	3,944	4,378	3,944	3,944
Utilised during year	(47)	(990)	(1,037)	(990)	(990)
Transfer from Income and Expenditure account	231	2,206	2,437	2,206	2,206
At 31 July 2001	618	5,160	5,778	5,160	5,160

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

20. Deferred capital grants

	Consolidated and University		
	Funding Council £000	Other grants £000	Total £000
<i>At 1 August 2000</i>			
Buildings	45,750	1,308	47,058
Equipment	171	-	171
Total	45,921	1,308	47,229
<i>Amounts received</i>			
Buildings	4,071	4,393	8,464
Total	4,071	4,393	8,464
<i>Transfer (to)/from Income and Expenditure Account</i>			
Buildings (note 2)	(1,737)	(38)	(1,775)
Equipment (note 2)	404	-	404
Total (note 10)	(1,333)	(38)	(1,371)
<i>At 31 July 2001</i>			
Buildings	48,084	5,663	53,747
Equipment	575	-	575
Total	48,659	5,663	54,322

21. Endowments

	Consolidated and University		
	Specific £000	General £000	Total £000
<i>At 1 August 2000</i>	4,486	2,661	7,147
Additions	19	-	19
Unrealised depreciation of endowment asset investments	(171)	(111)	(282)
Realised losses from sales in year	(1)	-	(1)
Income for year	136	167	303
Transferred to Income and Expenditure account	(179)	(167)	(346)
Appropriated from Income and Expenditure account	-	165	165
At 31 July 2001	4,290	2,715	7,005
<i>Representing:</i>			
Fellowships and scholarship funds	1,418	-	1,418
Prize funds	415	-	415
Chairs and lectureships funds	1,329	-	1,329
Other funds	1,128	2,715	3,843
Total	4,290	2,715	7,005

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

22. Revaluation Reserve

	Consolidated	
	2001	2000
	£000	£000
<i>At 1 August</i>	<i>8,911</i>	<i>6,446</i>
<i>Revaluation in year of Chilworth Science Park</i>	<i>1,058</i>	<i>2,465</i>
<i>At 31 July</i>	<u><i>9,969</i></u>	<u><i>8,911</i></u>

23. Reconciliation of Income and Expenditure Reserves

	Consolidated	University
	£000	£000
<i>Balance at 1 August 2000</i>	<i>57,410</i>	<i>56,093</i>
<i>Surplus in year after depreciation of assets</i>	<i>2,492</i>	<i>2,280</i>
<i>Adjustments on disposal of subsidiary</i>	<i>(302)</i>	<i>-</i>
<i>Transfer to general endowments (note 21)</i>	<i>(165)</i>	<i>(165)</i>
<i>Balance at 31 July 2001</i>	<u><i>59,435</i></u>	<u><i>58,208</i></u>
<i>Represented by:</i>		
<i>Allocated to University departments</i>	<i>27,210</i>	<i>27,210</i>
<i>Centrally controlled</i>	<i>32,225</i>	<i>30,998</i>
	<u><i>59,435</i></u>	<u><i>58,208</i></u>

The above reserves have arisen from accumulated annual surpluses. A total of £48,525,000 (2000: £47,883,000) from within these sums has been applied to finance capital developments within the University.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

28. University pension schemes

The University participates in four schemes, Universities Superannuation Scheme (USS); Teachers Superannuation Scheme; National Health Pension Scheme and Hampshire County Council, that are defined benefit schemes that are externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of USS are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the schemes and hence contributions to all four schemes are accounted for as if they were defined contribution schemes. The costs recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the schemes for the year.

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

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

	USS	PASNAS
Date of valuation	31 March 1999	31 July 2001*
Market valuation of assets	£18,870 million	£75 million
Past service liabilities	£17,427 million	£70 million
Surplus of assets	£ 1,443 million	£ 5 million

*Provisional valuation to facilitate compliance with FRS 17

USS

At the valuation date the assets were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings. Universities contribution rate required for future service benefits alone at the date of valuation was 16.3% of salaries but USS agreed that contributions would be maintained at 14.0% of salaries. This reduction of 2.3% of 11 years from the date of valuation has been funded by £561 million of its surplus. A further £201 million will be used to fund certain benefit improvements.

The total pension cost due for the University was £9,139,000 (2000: £8,138,000) which includes £847,000 (2000: £693,000) of outstanding contributions at the Balance Sheet date.

PASNAS

The last full valuation on the 1 August 1998 indicated that the scheme's assets represented 117% of the benefits that had accrued to members after allowing for expected increases in earnings. A surplus of £7 million remained and it was recommended to the University that the contribution holiday be extended until the next full valuation on 1 August 2001. A sum of £538,460 has been released into the Income and Expenditure account in accordance with current SSAP 24 regulations. A review will take place when FRS 17 is fully implemented.

The main financial assumptions used at the last full valuation and at the Balance Sheet date are:

Valuation date	31 July 2001	1 August 1998
Investment return	6.25% pa	9.00% pa
Increase in salaries	4.60% pa	7.00% pa
Increase in pensions	2.60% pa	5.00% pa
Discount rate of scheme Liabilities	6.25% pa	-
Inflation assumption	2.60% pa	-

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

28. University pension schemes (continued)

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

	Value 31 July 2001 £000	Expected rate of return
Fixed interest securities	11,265	6.25% pa
Index linked securities	381	6.25% pa
Equities – UK quoted	36,335	7.25% pa
– UK unquoted	243	7.25% pa
Managed funds	23,847	7.25% pa
Cash deposits	3,099	6.00% pa

FEDERATED SUPERANNUATION SCHEME FOR UNIVERSITIES (FSSU)

The University maintains records for former members of FSSU which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year a total of £95,000 (2000: £117,000) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

In accordance with FRS 17 transitional regulations the fair value of the scheme's assets and present value of the scheme's liabilities have not been included in the Balance Sheet. If they were included the figures would not show a difference from those currently disclosed.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

29. Reconciliation of consolidated operating surplus to net cash from operating activities	2001	2000
	£000	£000
<i>Surplus before minority interest</i>	2,492	954
<i>Depreciation</i>	9,494	8,484
<i>Goodwill</i>	1	-
<i>(Profit)/loss on disposal of tangible fixed assets</i>	(412)	63
<i>Profit on sale of subsidiary</i>	(1,477)	-
<i>Retained income released from specific endowments</i>	(43)	-
<i>Deferred capital grants released to income</i>	(1,371)	(1,643)
<i>Investment income</i>	(2,294)	(1,757)
<i>Interest payable</i>	4,686	4,383
<i>Loss on sale of endowments</i>	1	13
<i>Decrease/(increase) in stock</i>	16	(45)
<i>Increase in debtors</i>	(5,359)	(3,761)
<i>Increase in creditors and accruals</i>	4,354	4,999
<i>Increase in provisions</i>	1,400	883
<i>Net cash inflow from operating activities</i>	<u>11,488</u>	<u>12,573</u>

30. Returns on investments and servicing of finance	2001	2000
	£000	£000
<i>Income from endowments</i>	303	324
<i>Income from short term deposits and investments</i>	1,862	1,462
<i>Other interest received</i>	130	17
<i>Interest paid</i>	(4,656)	(4,385)
	<u>(2,361)</u>	<u>(2,582)</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

31. Disposal of subsidiary	2001	2000
	£000	£000
<i>Net assets disposed of</i>		
<i>Tangible fixed assets</i>	4,382	–
Stocks	28	–
Debtors	293	–
Cash	53	–
Creditors	<u>(4,004)</u>	<u>–</u>
	752	–
<i>Surplus on disposal</i>	<u>1,477</u>	<u>–</u>
	<u>2,229</u>	<u>–</u>
<i>Satisfied by</i>		
Cash	<u>2,229</u>	<u>–</u>

Relates to the disposal by the group of Chilworth Manor Limited, formerly a wholly owned subsidiary, during 2001.

32. Capital investment and financial investment	2001	2000
	£000	£000
<i>Tangible assets acquired</i>	<u>(20,140)</u>	<u>(18,210)</u>
<i>Fixed asset investments acquired</i>	(805)	(5)
<i>Endowment asset investments acquired (note 14)</i>	<u>(218)</u>	<u>(442)</u>
<i>Total fixed and endowment asset investments acquired</i>	<u>(21,163)</u>	<u>(18,657)</u>
<i>Receipts from sales of endowment assets</i>	78	359
<i>Receipts from sales of fixed asset investments</i>	–	4
<i>Receipt from sale of tangible asset</i>	1,316	–
<i>Deferred capital grants received</i>	10,496	3,011
<i>Endowments received (note 21)</i>	<u>19</u>	<u>65</u>
	<u>(9,254)</u>	<u>(15,218)</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2001

33. Analysis of changes in consolidated financing during the year	2001	2001	2000	2000
	£000	£000	£000	£000
<i>Balance at 1 August</i>		67,421		63,025
<i>New loans and increased debt</i>	292		7,378	
<i>Capital repayments</i>	(7,115)		(2,982)	
		<u>(6,823)</u>		<u>4,396</u>
<i>Balance at 31 July</i>		<u>60,598</u>		<u>67,421</u>

34. Analysis of changes in net debt	At		Other	At
	1 August	Cash	non cash	31 July
	2000	flows	changes	2001
	£000	£000	£000	£000
<i>Cash at bank and in hand</i>	14,133	(7,443)	-	6,690
<i>Short term deposits</i>	12,541	2,669	-	15,210
<i>Debt due within one year</i>	(3,198)	2,613	(2,385)	(2,970)
<i>Debt due after one year</i>	(64,223)	4,210	2,385	(57,628)
	<u>(40,747)</u>	<u>2,049</u>	<u>-</u>	<u>(38,698)</u>

35. Access funds	Consolidated and University	
	2001	2000
	£000	£000
<i>Balance at 1 August</i>	97	1
<i>Net HEFCE grant</i>	747	795
	<u>844</u>	<u>796</u>
<i>Disbursed to students</i>	(844)	(699)
<i>Balance at 31 July</i>	<u>-</u>	<u>97</u>

Financial Statistics

Financial indicators

	2001	2000	1999	1998	1997
Source of income					
<i>HEFCE grants plus home fees and support grants/total income</i>	47.8%	49.6%	49.0%	49.3%	47.9%
<i>Overseas fees/total income</i>	4.0%	4.0%	3.5%	3.8%	3.8%
<i>Research grants and contracts/total income</i>	27.9%	26.0%	25.7%	26.3%	28.8%
<i>Other operating income/total income</i>	19.2%	19.5%	20.8%	19.0%	18.2%
<i>Surplus or deficit before transfers/total income</i>	1.2%	0.4%	2.2%	1.4%	0.5%
Long term solvency					
<i>Days of total general funds and provisions to total expenditure</i>	118	120	125	128	123
<i>Ratio of long term liabilities to general funds</i>	103.4%	120.9%	116.2%	98.9%	111.6%
Short term solvency					
<i>Net liquid assets to current liabilities</i>	0.5:1	0.6:1	0.7:1	0.9:1	0.9:1
<i>Days ratio of net liquid assets to total expenditure</i>	45	53	59	105	69
<i>Current assets/current liabilities</i>	1.18:1	1.27:1	1.33:1	1.33:1	1.57:1
<i>Ratio of movement in net liquid assets in year to same assets at start</i>	(8.1)%	(4.6)%	(40.1)%	62.5%	73.5%
<i>Days of total income represented by debtors</i>	38	30	26	29	30

Financial Statistics

Income from sponsored research for the year ended 31 July 2001

From Research Councils	£000	From UK-based Charitable Bodies	£000
<i>Arts and Humanities Research Board</i>	593	<i>Arthritis Research Campaign</i>	183
<i>Biotechnology and Biological Sciences Research Council</i>	2,303	<i>Association for International Cancer Research</i>	96
<i>Council for the Central Laboratory of the Research Councils</i>	16	<i>Association for Spina Bifida and Hydrocephalus</i>	76
<i>Economic and Social Research Council</i>	358	<i>Body Organ Donor Society</i>	22
<i>Engineering and Physical Sciences Research Council (EPSRC)</i>	11,399	<i>Bournemouth Leukaemia Fund</i>	28
<i>Medical Research Council</i>	3,323	<i>British Brain and Spine Foundation</i>	32
<i>Natural Environment Research Council (NERC)</i>	5,665	<i>British Diabetic Association</i>	73
<i>Partical Physics and Astronomy Research Council (PPARC)</i>	876	<i>British Digestive Foundation</i>	36
<i>British Academy</i>	119	<i>British Heart Foundation</i>	382
Total Research Councils	24,652	<i>British Liver Trust</i>	21
		<i>British Lung Foundation</i>	75
		<i>Cancer Research Campaign</i>	871
		<i>CICRA - Crohns In Childhood Research Association</i>	23
		<i>Colt Foundation</i>	30
		<i>Cystic Fibrosis Research Trust</i>	95
		<i>Dunhill Medical Trust</i>	29
		<i>Frances and Augustus Newman Foundation</i>	22
		<i>Great Universal Stores Charitable Trust</i>	30
		<i>Institute of Cancer Research</i>	22
		<i>Institute of Child Health</i>	44
		<i>International Centre for Under Utilised Crops</i>	58
		<i>Juvenile Diabetes Foundation</i>	180
		<i>Kingston Trust</i>	51
		<i>Leukaemia Busters</i>	172
		<i>Leukaemia Research Fund</i>	519
		<i>Leverhulme Trust</i>	243
		<i>Lister Institute of Preventive Medicine</i>	28
		<i>Marie Curie Cancer Care</i>	26
		<i>Marie Stopes International</i>	38
		<i>Maurice Laing Foundation</i>	65
		<i>Multiple Sclerosis Society</i>	64
		<i>National Asthma Campaign</i>	113
		<i>National Meningitis Trust</i>	65
		<i>National Osteoporosis Society</i>	15
		<i>Nuffield Foundation</i>	40
		<i>Peder Sager Wallenberg Charitable Trust</i>	83
		<i>Royal College of Surgeons</i>	43
		<i>Royal National Lifeboat Institute</i>	37
		<i>Sir Jules Thorn Charitable Trust</i>	155
		<i>Smith and Nephew Foundation</i>	40
		<i>Smith's Charity</i>	30
		<i>Solent Subfertility Trust</i>	95
		<i>Sports Aided Medical Research for Kids - SPARKS</i>	25
		<i>Stroke Association</i>	70
		<i>Tenovus</i>	629
		<i>UK Central Council for Nursing Midwifery and Health Visiting</i>	23
		<i>Wellcome Trust</i>	2,389
		<i>Wessex Cancer Trust</i>	105
		<i>Wessex Medical Trust</i>	1,179
		<i>Wishbone Trust</i>	26
		<i>Others less than £20,000</i>	412
		Total UK-based Charitable Bodies	9,208

Financial Statistics

Income from sponsored research for the year ended 31 July 2001 (continued)

From Other Sources	£000		£000
Adams Hendry Ltd	39	European Space Operation Centre	66
AEA Technology	28	European Union	4,085
Alcan International Ltd	21	Food Standards Agency	203
Allergopharma Joachim Ganzer	78	Ford Foundation	60
Amgen Inc	35	Gaztransport & Techigaz	21
Aquagene Inc	45	GBR Challenge Co Ltd	157
Arakis Ltd	22	GeoSensor Corporation (USA)	37
Astra Charnwood	33	German Frers	38
Astra Pharmaceuticals Ltd	308	GlaxoSmithKline PLC	772
Auris (Aberdeen University)	29	Hewlett Packard Ltd	31
Avantis Pharma Ltd	31	Highways Agency	116
AWE	194	Hoek Design Naval Architects	21
BAE Systems (Operations) Ltd	164	Human Frontier Science Program Organisation (France)	28
BAE Systems Airbus UK Ltd	46	Hunter Flemming Ltd	75
Bayer	80	ICI PLC	77
Binnie Black & Veatch	59	Immunex Corporation	100
Biotrim Technologies Ltd	71	Imperial College of Science Technology & Medicine	58
Bournemouth Borough Council	27	Institut de Recherches Internationales Servier (IRIS)	45
British Council	34	J Sainsbury PLC	35
British Embassy (Rep Of Korea)	21	Jaguar Cars Ltd	49
British Nuclear Fuels PLC	143	John Deere Product Engineering (USA)	29
Calbiochem-Novabiochem AG	53	Kings College London	117
Cambridge Antibody Technology Ltd	99	Koerner Process Systems	63
Central Health Outcomes Unit	69	Leyland Trucks Ltd	28
City Technology Ltd	23	Liverpool School Of Tropical Medicine	21
Cleanaway Ltd	113	Local Authorities Consortium	142
Coley Pharmaceutical GmbH	32	London Bus Services Ltd	133
Corus UK Ltd	27	Luxfer Group Ltd	42
Cosworth Technology Ltd	34	MacArthur Foundation	283
Crain (France)	34	Marconi Communications (GPT) Ltd	29
Defence Evaluation Research Agency	853	Marconi Space & Defence	46
Den Norske Stats Oljeselskap AS - STATOIL (Norway)	459	Merck Ltd	28
Department for Environment Food & Rural Affairs	562	Merck Sharpe & Dohme Research Laboratories	152
Department for Work & Pensions	36	Midland Expressway Ltd	32
Department of Health	2,640	Ministry of Defence (Liverpool)	356
Department of Trade & Industry	48	MSX International (USA)	33
Department of Transport Local Government & the Regions	91	MSX International Ltd (UK)	52
Depuy International Ltd	131	Mulder Design	30
Devonport Management Limited	84	Multiple Myeloma Research Foundation	50
Dimension Data Ltd	40	Nanomagnetics Ltd	20
Dow-Corning (UK) Ltd	26	National Board for Nursing Midwifery & Health Visiting for Scotland	34
Dubois Naval Architects Ltd	60	National Institute of Health	105
Eli Lilly & Co Ltd	56	New Forest District Council	35
English Heritage	224	NHS Executive South & West	614
English Nature	20	NHS Executive South East	408
Environment Agency	69		

Financial Statistics

Income from sponsored research for the year ended 31 July 2001 (continued)

	£000		£000
<i>Nokia (UK)</i>	42	<i>Sterix Limited</i>	59
<i>Nupi Spa</i>	26	<i>Team New Zealand</i>	72
<i>Nycomed Amersham PLC</i>	77	<i>Ted Hood Design Group</i>	25
<i>Office for National Statistics</i>	207	<i>UK Water Industry Research Ltd</i>	30
<i>Organon Teknika N V (Belgium)</i>	70	<i>Unilever (UK) Central Resources Ltd</i>	50
<i>Ove Arup & Partners</i>	24	<i>Unilever Research (USA)</i>	42
<i>Perini Navi Spa</i>	18	<i>United States Navy</i>	194
<i>Pfizer Ltd</i>	208	<i>University of Bristol</i>	90
<i>Phonak AG</i>	48	<i>University of Leeds</i>	32
<i>Pirelli</i>	650	<i>University of Manchester</i>	28
<i>Positive Light Inc</i>	100	<i>University of Newcastle Upon Tyne</i>	27
<i>Prozymex AS (Denmark)</i>	47	<i>University of York</i>	27
<i>Public Health Laboratory Service</i>	71	<i>Van Oossanen & Associates</i>	66
<i>Radiodetection Ltd</i>	43	<i>Viridor Waste Disposal Ltd</i>	132
<i>Reckitt & Coleman Products Ltd</i>	125	<i>Virtual Centre of Excellence in Mobile & Personal Communications Ltd</i>	82
<i>Rhone Poulenc Rorer Ltd</i>	186	<i>Wessex Renal & Transplant Unit</i>	33
<i>Roche Products Ltd</i>	111	<i>West Somerset District Council</i>	20
<i>Rolls Royce PLC</i>	508	<i>World Health Organisation</i>	47
<i>Royal Society</i>	747	<i>WS Atkins Contractors Ltd</i>	49
<i>RPS Consultants</i>	48	<i>Yaka France</i>	61
<i>Scorpien Vehicle Security Systems</i>	27	<i>Yamanouchi UK Ltd</i>	20
<i>Scottish Office - Home & Health Department</i>	31	<i>Zeneca Ltd</i>	160
<i>Southampton City Council</i>	59	<i>Other less than £20,000</i>	3,908
<i>Southampton Photonics Limited</i>	341		
<i>Southampton University Hospitals Trust</i>	66	Total Other Sources	25,481