

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

2004 - 2005

University of Southampton and Subsidiary Undertakings

Financial Statements
for the year ended 31 July 2005

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University of Southampton and Subsidiary Undertakings

Treasurer

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Deputy Director of Finance

Andrew S Grice, BA, ACA

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London W1J 8LL*

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78 St James's Street
London SW1A 1HL*

Bankers

*Fortis Bank S.A./N.V.
23 Camomile Street
London EC3A 7PP*

External Auditors

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

Internal Auditors

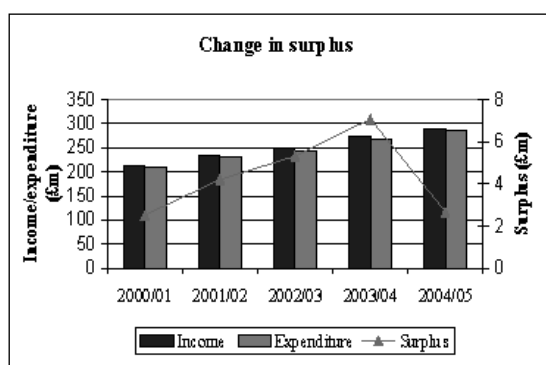
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Treasurer's Report 2004-2005

Once again I am pleased to report that the University has achieved a surplus and that the subsidiary undertakings have made an increased contribution to the overall performance. We have also been able to make significant investments in our estate and capital assets in order to enhance our research and teaching capabilities and to improve student facilities.

In the year to 31 July 2005, our income increased by 4.8% to £287 million while expenditure rose by 6.6% to £285 million, resulting in a surplus of £2.6 million. This is around £4.2 million lower than last year and reflects a decision by the University Council to increase expenditure in the knowledge that we will see increased income from tuition fees and research council grant funding in the near future.



Net cash from operations increased to £20.0 million (2004 £17.7 million). This sum has been used alongside new capital grants of £13.8 million and a £10 million loan to finance £43.2 million of capital expenditure. This is some £12 million higher than that committed in the previous year.

In my last report, I explained that the introduction of variable tuition fees for home/EU undergraduate students from 2006/07 and a significant increase in the amount contributed by the research councils to the true cost of research from 2004/05 would greatly improve the University's income base. We have begun to see some benefit from the action taken by the research councils but we will not feel the full effect of the changes until financial year 2008/09. The University Council remains committed to continuing a programme of substantial investment in the University's productive capacity and this is reflected in our spending plans for 2005/06.

The changes in the organisation of the University's financial management with budgetary responsibilities devolved to individual academic schools rather than the larger faculty units are now well embedded. The schools represent the front line of our academic delivery and they are best placed to respond to changes in the patterns of activity. The approach has been fully vindicated in the last year with schools demonstrating their ability to react quickly to outcomes that are different from those planned.

The University Council remains concerned about the financial standing of some academic areas, caused by many years of underfunding or fluctuating student demand but the past year has seen real progress in improving the longer term prospects of these areas.

Consolidated Income and Expenditure Statement

Income from Funding Council grants, which accounts for around one third of the total, rose by 8.7% to £99.8 million compared with £91.8 million in the previous year. The amount obtained from tuition fees, however, rose by just 1.4% to £57.2 million. To a large extent this was due to the amount of income from international students levelling off after two years of very rapid growth. This is a problem experienced by many UK Universities, caused by increasing competition from Universities elsewhere in the world. During the year, we undertook a major review of our recruitment and admissions procedures and it is hoped that the changes we have identified will help the University to achieve its future recruitment targets.

Income from research grants and contracts increased by 1.3% from £76.4 million to £77.4 million. As intimated earlier, we are beginning to see the benefit of full economic costing on research contracts. The difference between the amount of the research income and the direct costs of the research provides a contribution to the funding of our research infrastructure. This is essential if we are to sustain and develop our research capabilities. In the year to 31 July 2005, the contribution amounted to £14.7 million, an increase of £1.6 million on the previous year.

Other operating income increased by £2.7 million (5.6%) while our endowment income and interest

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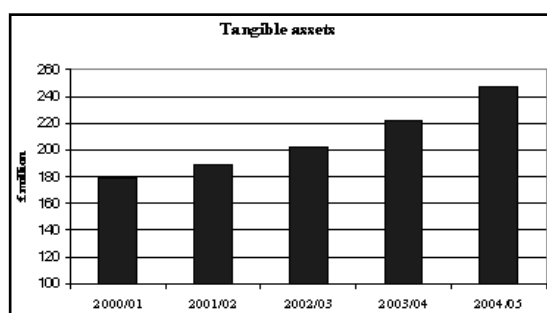
receivable increased by £0.8 million, largely through the recognition of investment gains on the reconfiguration of our equity investments.

Staff costs increased by £14.0 million (9.2%), following an increase of 10.6% in 2003/04. These costs have now reached £166.2 million and represent 58% of our total income. The University has been an early adopter of the modernised pay arrangements for University staff and, in the year ending 31 July 2005, we budgeted for a full year of significant real terms increases in our salary levels. The medium term effect of the new salary framework will see further, but more modest, real terms increases in the coming years.

The total of all other expenditure increased by 3.2% to £118.6 million, with a significant increase in maintenance expenditure offset in part by falls in expenditure on non-capitalised equipment and general consumables. Our depreciation charge increased by £1.2 million although this was balanced by an increase in the release of capital grants to income of £1.2 million.

Balance Sheet

In the year to 31 July 2005, the net value of the tangible assets of the University and its subsidiaries, after depreciation, increased by £25.6 million to £247.4 million. In the course of the year, the University added £40.9 million of new fixed assets, including work in progress. This was funded by a combination of capital grants received, cash from our own operations and a £10 million loan from Barclays Bank, negotiated this year. A further £25 million of the loan facility remains undrawn and is available for additional future capital expenditure. The terms of the new loan are more favourable than those of the loan facilities obtained previously.



In spite of the significant programme of capital investment, our cash resources remain strong. At 31 July 2005, the amount of cash, cash deposits and readily convertible investments stood at £27.4 million. This is down a little on last year's figure of £30.5 million but the level of cash and near cash holdings continues to provide comfort that the University can manage fluctuations in its operational funding requirements.

During the year, the University received formal confirmation from the Higher Education Funding Council for England of a further round of capital funding which has been made available for developments taking place between 2005 and 2008. The University's allocation from this fund amounts to almost £38 million and will be used to replace facilities that are no longer fit for the research and teaching activities that we consider are needed for the future. At the balance sheet date, there were capital commitments of £48.8 million against approved projects in the current capital plan.

The University continues to make interim disclosures under FRS 17 "Accounting for Retirement Benefits". Under FRS 17 valuation rules, there is a deficit shown against the PASNAS scheme (see note 26). It is expected that when fully applied, the standard will affect the presentation of the University's balance sheet.

Investment Performance

The University's endowment funds and general assets investments are managed on a discretionary basis by Lazard Asset Management Limited and HSBC Investments. The investment returns are benchmarked against agreed indices and the investment performance considered by the Finance Policy Committee and Standing Committee of Council. The investments have benefited from the general uplift in the market during 2004/05. At the balance sheet date, the market value of general asset investments stood at £15.5 million, £1.7 million above their book cost. At the same date, the value of our endowment assets amounted to £7.2 million, up from £6.8 million the previous year. The endowment fund is very small in relation to the size and scope of the University's activities and we have therefore taken steps to expand our development office in order to build up this source of funding.

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Commercial Activities

The University continues to pursue a number of approaches to realising the commercial benefits of our activities. I am pleased to report that Chilworth Science Park Limited produced a surplus in excess of £1 million for the first time in 2004/05 and I congratulate them on their success. We look to make further investments in the science park in the coming year.

The University spin off company Synairgen, which grew out of research undertaken into respiratory disorders, successfully floated on the Alternative Investment Market in late 2004. The University has retained a significant holding in the company. The value of our holding in Offshore Hydrocarbon Mapping Limited (OHM) has fallen significantly since July 2005 following a challenge to one of the patents licensed by the University to the company. The University has appealed against the decision made by the Patent Office and it is expected that the case will be heard in the first half of 2006. The University shows the value of its investments at the lower of cost and net realisable value and there is therefore no diminution in the balance sheet value of the OHM shares still held by the University subsidiary Southampton Asset Management Limited.

Capital Projects

During the year, the University brought a number of projects to a successful conclusion. The major refurbishment of the Hartley Library was completed and has significantly added to our capability to meet the needs of students and researchers. The Student Services Building also now stands as a most impressive facility to support the all round needs of our students. At the beginning of the academic session 2005/06, the University made first use of the expanded and re-developed outdoor sports facilities and pavilion at Wide Lane and also the new student accommodation at Wessex Lane (Montefiore 4 Block).

Our capital commitments at the balance sheet date totalled £48.8 million. In 2005/06, the University should complete the major refurbishment and new build student accommodation of Chancellors' Courts at Glen Eyre (600 rooms), the ISVR Building and the Archaeology Building. We should also have substantially completed the

Education, Engineering and Entrance Building and the Developmental Origins of Health and Diseases Building at the Southampton General Hospital site.

The very large Boldrewood complex has been a concern to the University for many years. During 2004/05 the University considered in detail both the immediate remedial works required in the building and the long term developments needed to fit in with the University's academic needs. The University Council expects to debate the Estate Strategy and decide how we should proceed early in 2006.

The External Environment

These are times of great change for the higher education sector. The result of the 2005 General Election means that variable tuition fees will become a reality for home/EU undergraduates entering universities from October 2006. During 2004/05, the University's policies on bursaries and ensuring the fair access of students to Southampton were scrutinised and approved by the Office for Fair Access (OFFA). The approval of OFFA means that the University will be charging virtually all new home/EU full time undergraduates the maximum fee allowed of £3,000 per annum from 2006/07 and we will be offering generous levels of bursary and scholarship support amounting to over 20% of the new income received.

The University's methodology for calculating the full economic cost of research work has been approved by external assessors and is being used in applications for funds from research councils from September 2005. The increases in funding make the creation of a sustainable research environment - in terms of estate, equipment and people - much more achievable.

The University is also entering the final lap of our preparations for submissions to the next research assessment exercise in 2007. This is crucial to the future of the institution given the international quality and standing of the vast majority of our research work.

It is also clear that higher education is becoming more market-orientated and the introduction of variable tuition fees can only hasten this trend.

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The University is convinced that it has an excellent range of programmes but the University Council is mindful that to maintain and enhance the quality of our research and education and the environment in which these activities take place, large investments will be needed. We remain assured that the rigour of our planning and financial management frameworks will enable the right investment decisions to be made for the long term health of the University.

Post Balance Sheet Event

On 30 October 2005, a major fire broke out in the University's Mountbatten Building sited on the West side of the Highfield campus. The fire largely destroyed the building and the specialist research facilities, including the clean rooms, housed within it. Other buildings suffered consequential but more minor damage. A large amount of specialist equipment was also destroyed in the fire.

The University carries insurance cover for its buildings and equipment and cover to meet the higher costs of continuing our business in the aftermath of insurable events. While this insurance cover will mitigate the financial costs arising from the fire, there will undoubtedly be disruption to the research work of the School of Electronics and Computer Science, the Opto-Electronics Research Centre and to the business of Innos Limited, a 100% owned University subsidiary. At the time of writing, the extent of this disruption remains unclear. We have, however, received many offers of help from a wide variety of organisations to provide accommodation and facilities that will enable our research programmes to be continued elsewhere until our own facilities can be replaced. We are extremely grateful to all those who have pledged their support to the University at a difficult and challenging time.

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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 and Policy and Resources Committee (PRC) are the other principal decision making bodies.

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 Secretary to the University Council.

The Council meets four 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 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 a number of policy committees, including those responsible for human resources, estates, and finance. Other committees deal with such matters as safety management and occupational health, information strategy, the remuneration and promotion of staff, and the review of academic and administrative 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 Council is currently undertaking another review into its effectiveness and will report back during 2005/06.

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

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

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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.

Statement of Internal Control

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

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

- clear definition of the responsibilities and delegated authority of heads of academic and administrative groups;*
- a medium and short-term planning process, supplemented by detailed annual income and expenditure and capital budgets;*
- regular reviews of performance and 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, amended most recently in February 2000, approved by the Audit Committee and Council;*
- a professional internal audit service from a major international accountancy firm, whose responsibilities cover the entire internal control systems of the institution.*

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. A process of identifying major risks and encouraging risk management awareness throughout the University was approved by Council in July 2001, and has been supplemented since then by formal risk management strategies and policies and a reporting system to monitor the management of risk. Risk management and internal control are

considered on a regular basis during the year and there is a full risk and control assessment system. Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University.

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

Role of Council in the Preparation of the Financial Statements

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

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.

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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 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 for the year ended 31 July 2005 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the University's balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out therein.

This report is made solely to the Council as a body. Our audit work has been undertaken so that we might state to the University's Council those matters we are required to state to them in an auditors' 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 University's Council as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described in the Statement of Corporate Governance, the Council is responsible for the preparation of financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Audit Code of Practice issued by the Higher Education Funding Council for England.

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 our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the Financial Memorandum dated 1 October 2003 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 financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Report of the Treasurer and the Statement of Corporate Governance. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards 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'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:

- (i) the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2005, and of the group's surplus of income over expenditure, recognised gains and losses and 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;
- (ii) in all material respects, income from the Higher Education Funding Council for England, the Learning & Skills Council and the Teacher Training Agency, 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.
- (iii) in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the Financial Memorandum dated 1 October 2003 with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency covering the period 1 August 2004 to 31 July 2005.

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Consolidated Income and Expenditure Account for the year ended 31 July 2005

	Notes	2005 £000	2004 £000
<i>INCOME</i>			
<i>Funding Council grants</i>	2	99,794	91,836
<i>Academic fees and support grants</i>	3	57,194	56,429
<i>Research grants and contracts</i>	4	77,372	76,359
<i>Other operating income</i>	5	50,570	47,884
<i>Endowment income and interest receivable</i>	6	2,505	1,662
<i>Total income</i>		<u>287,435</u>	<u>274,170</u>
 <i>EXPENDITURE</i>			
<i>Staff costs</i>	7	166,246	152,254
<i>Depreciation</i>	10	15,535	14,315
<i>Other operating expenses</i>	8	99,306	96,722
<i>Interest payable</i>	9	3,714	3,821
<i>Total expenditure</i>	10	<u>284,801</u>	<u>267,112</u>
 <i>Surplus after depreciation of assets and before taxation</i>		 <u>2,634</u>	 <u>7,058</u>
<i>United Kingdom corporation tax</i>		6	–
 <i>Surplus after depreciation of assets and taxation</i>		 <u>2,628</u>	 <u>7,058</u>
<i>Endowment income retained in year</i>		(32)	(207)
 <i>Surplus for the year</i>		 <u>2,596</u>	 <u>6,851</u>

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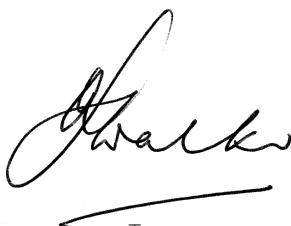
Balance Sheets as at 31 July 2005

	Notes	Consolidated		University	
		2005 £000	2004 £000	2005 £000	2004 £000
FIXED ASSETS					
<i>Tangible assets</i>	11	247,395	221,815	215,884	192,297
<i>Investments</i>	12	1,650	1,151	25,682	25,182
		<u>249,045</u>	<u>222,966</u>	<u>241,566</u>	<u>217,479</u>
ENDOWMENT ASSET INVESTMENTS	13	7,150	6,772	7,150	6,772
DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR	14	908	1,267	19,575	19,604
CURRENT ASSETS	15	80,684	86,559	79,742	82,725
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(81,818)	(79,369)	(81,369)	(81,888)
NET CURRENT ASSETS		<u>(1,134)</u>	<u>7,190</u>	<u>(1,627)</u>	<u>837</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		255,969	238,195	266,664	244,692
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(65,007)	(60,699)	(68,561)	(63,507)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(7,485)	(7,287)	(6,888)	(6,588)
TOTAL NET ASSETS		<u>183,477</u>	<u>170,209</u>	<u>191,215</u>	<u>174,597</u>
<i>Represented by:</i>					
DEFERRED CAPITAL GRANTS	19	87,280	79,132	80,714	72,746
ENDOWMENTS					
<i>Specific</i>	20	4,571	3,933	4,571	3,933
<i>General</i>	20	2,579	2,839	2,579	2,839
		<u>7,150</u>	<u>6,772</u>	<u>7,150</u>	<u>6,772</u>
RESERVES					
<i>Revaluation reserve</i>	21	10,521	8,933	–	–
<i>Income and Expenditure account</i>	22	78,526	75,372	103,351	95,079
		<u>89,047</u>	<u>84,305</u>	<u>103,351</u>	<u>95,079</u>
TOTAL FUNDS		<u>183,477</u>	<u>170,209</u>	<u>191,215</u>	<u>174,597</u>

The financial statements on pages 11 to 38 were approved by the Council on 15 December 2005, and signed on its behalf by:



Vice-Chancellor
(Chair of Policy and Resources Committee)



Treasurer



Director of Finance

The notes on pages 15 to 38 form part of these accounts

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Consolidated Cash Flow Statement for the year ended 31 July 2005

	Notes	2005 £000	2004 £000
<i>Net cash inflow from operating activities</i>	27	20,047	17,693
<i>Returns on investments and servicing of finance</i>	28	(1,036)	(2,208)
<i>Capital expenditure and financial investment</i>	29	(28,772)	(17,310)
<i>Cash outflow before use of liquid resources and financing</i>		<u>(9,761)</u>	<u>(1,825)</u>
<i>Management of liquid resources</i>	31	1,435	(2,237)
<i>Net financing</i>	30	6,692	3,100
Decrease in cash	31	<u>(1,634)</u>	<u>(962)</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

		2005 £000	2004 £000
<i>Decrease in cash in period</i>	31	(1,634)	(962)
<i>(Decrease)/increase in liquid resources</i>	31	(1,430)	2,522
<i>New loans and debt movement</i>	30	(10,000)	(6,200)
<i>Repayment of debt</i>	30	3,308	3,100
<i>Change in net debt</i>		<u>(9,756)</u>	<u>(1,540)</u>
<i>Net debt at 1 August 2004</i>	31	(28,143)	(26,603)
<i>Net debt at 31 July 2005</i>	31	<u>(37,899)</u>	<u>(28,143)</u>

University of Southampton and Subsidiary Undertakings

Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 July 2005

	Notes	2005 £000	2004 £000
<i>Surplus after depreciation of assets and taxation</i>		2,628	7,058
<i>Net movement on deferred capital grants</i>	19	8,148	9,769
<i>Unrealised gains on endowment asset investments</i>	20	518	221
<i>Realised gains on endowment asset investments</i>	20	376	34
<i>Endowments received in year</i>	20	10	27
<i>Unrealised surplus on revaluation of Chilworth Science Park</i>	21	1,588	1,161
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		13,268	18,270
<i>Total funds as per balance sheet:</i>			
<i>At 1 August 2004</i>		170,209	151,939
<i>Total recognised gains</i>		13,268	18,270
<i>At 31 July 2005</i>		183,477	170,209

The notes on pages 15 to 38 form part of these accounts

Notes to the Financial Statements for the year ended 31 July 2005

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.

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

(c) Recognition of income

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

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

Income from short-term investments, deposits and general endowment asset

investments is accrued up to the balance sheet date.

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

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

Teacher Training Agency (Training and Development Agency for Schools from 1 Sept 2005) bursaries are administered on behalf of the Funding Council and are therefore not included in the income and expenditure account.

(d) Pension schemes

Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The 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 in the income and expenditure account at the actual rate of exchange on conversion to Sterling. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

(f) Leases

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

Notes to the Financial Statements for the year ended 31 July 2005

I. Statement of principal accounting policies (continued)

(g) Land and buildings

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

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

Depreciation is charged on the following bases:

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

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.

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

(h) Equipment

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. Equipment costing over £25,000 and all equipment held by the subsidiary undertakings is capitalised.

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

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

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

(i) 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) Maintenance

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

(m) Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

I. Statement of principal accounting policies (continued)

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.

(n) *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 2005

2. Funding Council grants	2005	2004
	£000	£000
<i>Recurrent grants:</i>		
Higher Education Funding Council for England (HEFCE)	83,797	75,768
Teacher Training Agency	2,149	2,095
Learning and Skills Council	368	248
<i>Specific grants:</i>		
HEFCE	8,202	9,635
Deferred capital grants released in year (note 19)	5,278	4,090
	<u>99,794</u>	<u>91,836</u>
3. Academic fees and support grants	2005	2004
	£000	£000
<i>Full-time home/EU students</i>	29,722	29,816
<i>Full-time international students</i>	16,382	16,297
<i>Part-time students</i>	5,165	5,213
<i>Research training support grants</i>	4,312	3,601
<i>Special and short course fees</i>	1,613	1,502
	<u>57,194</u>	<u>56,429</u>

Included in the above is £10,820,000 (2004: £11,200,000) of NHS Teaching Contract Income in respect of full and part-time fees.
Other income from health authorities is disclosed under note 5.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

4. Research grants and contracts	2005	2004
	£000	£000
<i>INCOME</i>		
<i>Research councils</i>	37,462	36,875
<i>UK based charities</i>	10,710	10,695
<i>UK Central Government/local authorities/health authorities and hospitals</i>	11,550	11,457
<i>UK public corporations/industry and commerce</i>	6,844	7,007
<i>EU Government</i>	6,840	5,621
<i>EU other sources</i>	1,002	837
<i>Other overseas sources</i>	2,606	3,429
<i>Other sources</i>	358	438
	<u>77,372</u>	<u>76,359</u>
 <i>EXPENDITURE – DIRECT COSTS</i>		
<i>Salaries and wages</i>	36,881	35,121
<i>Equipment</i>	3,171	4,622
<i>Depreciation</i>	4,876	5,843
<i>Other costs</i>	17,700	17,583
	<u>62,628</u>	<u>63,169</u>
 <i>Contribution to indirect costs</i>	 <u>14,744</u>	 <u>13,190</u>
 5. Other operating income		
	2005	2004
	£000	£000
<i>Residences, catering and conferences</i>	17,015	17,537
<i>Consultancies, trading and services rendered</i>	21,432	18,653
<i>Health authorities</i>	3,356	2,495
<i>Donations and subventions</i>	1,999	2,269
<i>Deferred capital grants released in year (note 19)</i>	234	236
<i>Other income</i>	6,534	6,694
	<u>50,570</u>	<u>47,884</u>
 6. Endowment income and interest receivable		
	2005	2004
	£000	£000
<i>Income from specific endowment asset investments (note 20)</i>	130	274
<i>Income from general endowment asset investments (note 20)</i>	155	130
<i>Income from short term deposits and investments</i>	2,220	1,258
	<u>2,505</u>	<u>1,662</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

7. Staff	2005	2004
	£000	£000
<i>Staff costs:</i>		
Salaries and wages	138,485	127,364
Social Security costs	11,499	10,302
Other pension costs	16,262	14,588
	<u>166,246</u>	<u>152,254</u>

	2005	2004
	Number	Number
<i>Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:</i>		
Education, research and enterprise	2,152	2,186
Management, specialist and administrative	1,422	1,311
Technical and experimental	424	402
Community and operational	438	466
	<u>4,436</u>	<u>4,365</u>
	2005	2004
	£000	£000

<i>Emoluments of the Vice-Chancellor</i>	175	150
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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 £24,500 (2004: £21,000).

Higher Paid Staff:

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

	2005	2004
	Number	Number
£70,000 – £79,999	39	47
£80,000 – £89,999	15	23
£90,000 – £99,999	22	3
£100,000 – £109,999	15	12
£110,000 – £119,999	3	3
£120,000 – £129,999	5	3
£130,000 – £139,999	3	1
£140,000 – £149,999	–	3
£150,000 – £159,999	3	1
£160,000 – £169,999	4	1
£170,000 – £179,999	5	–
£180,000 – £189,999	–	–
£190,000 – £199,999	–	–
£200,000 – £209,999	1	–

Enhanced Pension Benefits

No payments were made by the University on behalf of staff earning in excess of £70,000 per annum (2004: none).

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

8. Other operating expenses	2005	2004
	£000	£000
<i>Non capitalised equipment</i>	12,367	15,995
<i>Loss on disposal of equipment</i>	416	3
<i>Impairment of property value</i>	670	–
<i>Consumables and laboratory expenditure</i>	11,104	12,052
<i>Office expenses and professional fees</i>	13,619	14,078
<i>Residences, catering and conferences operating expenses</i>	8,332	8,176
<i>Travel costs</i>	8,225	8,053
<i>Repairs, refurbishment and scheduled maintenance</i>	11,637	9,619
<i>Heat, light, water and power</i>	4,141	3,213
<i>Books and periodicals</i>	2,612	2,358
<i>Fellowships, scholarships and prizes</i>	12,616	11,280
<i>Rents, rates and hire of facilities</i>	3,767	3,924
<i>Grant to Students' Union</i>	1,550	1,496
<i>Appreciation of current asset investments valuation back to historic cost</i>	(5)	(285)
<i>External auditors' remuneration</i>	51	52
<i>Auditors' remuneration in respect of other services</i>	55	27
<i>Other expenses</i>	8,149	6,681
	<u>99,306</u>	<u>96,722</u>
9. Interest payable	2005	2004
	£000	£000
<i>Loans not wholly repayable within five years</i>	3,618	3,690
<i>Loans wholly repayable within five years</i>	96	131
	<u>3,714</u>	<u>3,821</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

10. Analysis of 2005 expenditure by activity

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	2005 Total £000	2004 restated Total £000
<i>Academic departments</i>	89,441	3,203	15,223	–	107,867	97,881
<i>Academic services</i>	9,330	1,229	8,185	–	18,744	17,685
<i>Research grants and contracts (note 4)</i>	36,881	4,876	20,871	–	62,628	63,169
<i>Residences, catering and conferences</i>	3,848	223	8,332	1,118	13,521	13,322
<i>Premises</i>	6,315	5,435	19,725	–	31,475	26,994
<i>Administration and central services</i>	7,352	23	2,008	–	9,383	10,179
<i>Consultancies, trading and services rendered</i>	7,986	428	7,354	361	16,129	12,482
<i>Other activities</i>	5,093	118	17,608	2,235	25,054	25,400
	<u>166,246</u>	<u>15,535</u>	<u>99,306</u>	<u>3,714</u>	<u>284,801</u>	<u>267,112</u>

The depreciation charge has been funded by:

<i>Deferred capital grants released</i>	5,512
<i>General income</i>	10,023
	<u>15,535</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

II. Tangible assets

	Consolidated					University					
	Land and buildings		Assets in	Investment	Furniture	Land and buildings		Assets in	Equipment	Total	
	Completed	Completed	course of	properties	fittings and	Completed	Completed	course of	Equipment	Total	
	freehold	leasehold	construction	£000	equipment	freehold	leasehold	construction	£000	£000	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Cost or valuation											
<i>At 1 August 2004</i>	197,639	19,411	20,328	17,538	52,960	307,876	188,937	19,411	19,344	45,819	273,511
<i>Additions at cost</i>	9,753	894	19,738	12	10,471	40,868	8,718	894	19,369	9,973	38,954
<i>Transfers at cost</i>	8,969	–	(8,969)	–	–	–	8,048	–	(8,048)	–	–
<i>Revaluation</i>	339	–	548	701	–	1,588	–	–	–	–	–
<i>Disposals at cost</i>	(345)	–	–	–	(946)	(1,291)	(345)	–	–	(1,117)	(1,462)
<i>Assets written down at cost</i>	–	–	(670)	–	–	(670)	–	–	(670)	–	(670)
<i>At 31 July 2005</i>	216,355	20,305	30,975	18,251	62,485	348,371	205,358	20,305	29,995	54,675	310,333
Depreciation											
<i>At 1 August 2004</i>	(40,884)	(3,160)	–	–	(42,017)	(86,061)	(40,717)	(3,160)	–	(37,337)	(81,214)
<i>Charge for year</i>	(4,855)	(453)	–	–	(10,227)	(15,535)	(4,657)	(453)	–	(8,775)	(13,885)
<i>Eliminated on disposal</i>	90	–	–	–	530	620	90	–	–	560	650
<i>Assets written down</i>	–	–	–	–	–	–	–	–	–	–	–
<i>At 31 July 2005</i>	(45,649)	(3,613)	–	–	(51,714)	(100,976)	(45,284)	(3,613)	–	(45,552)	(94,449)
Net book value											
<i>At 31 July 2005</i>	170,706	16,692	30,975	18,251	10,771	247,395	160,074	16,692	29,995	9,123	215,884
<i>At 1 August 2004</i>	156,755	16,251	20,328	17,538	10,943	221,815	148,220	16,251	19,344	8,482	192,297

Included in the balances for freehold land and buildings is expenditure of £8,147,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £12,700,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, Chilworth Science Park, has been included on the basis of freehold open market value for existing use as at 31 July 2005 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 £1,588,000 during the year. The historical and net book value of these assets at 31 July 2005 amounted to £10,843,000 (2004: £10,480,000) which included interest capitalised amounting to £291,000 (2004: £291,000).

In addition to the above expenditure on tangible assets a further £48,803,000 has been committed by the University and its subsidiary undertakings (note 25).

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

12. Fixed asset investments	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Investment in subsidiary undertakings at cost	–	–	24,479	24,478
Other investments	1,650	1,151	1,203	704
	1,650	1,151	25,682	25,182

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

Shareholdings held by the University and University group companies are as follows:

	Percentage holding	Nature of activity
<i>Held by the University</i>		
Henry Robinson Hartley Limited	100.00	Library services
Marinetech South Limited	21.43	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
Southampton World Learning Limited	100.00	Remote learning
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	13.00	Management services
ECS Partners Limited	100.00	Consultancy
Innos Limited	100.00	Microfabrication services
Manor Centre Limited	100.00	Post Office franchise
Southampton Asset Management Limited (SAM Limited)	80.00	Innovation and patents
Southampton Innovations Limited (SI Limited)	100.00	Innovation and patents
Southampton Residences Limited	100.00	Property management services
Southampton University Research into Sustainability and the Environment (SUNRISE) Limited	100.00	Waste management research
Southampton University Services Limited	50.00 *	Educational services
The University of Southampton Consulting Limited	100.00	Consultancy
US(CA) Limited	100.00	Historical archives
<i>Investments held by SI Limited</i>		
Active Navigation Limited	4.16	Software development
AquaGene Incorporated	3.25 **	Biotechnology
Exosect Limited	19.99	Insect destruction
Hunter-Fleming Limited	0.47	Pharmaceuticals
LME Design Automation Limited	2.33	Microchip software
Mesophotonics Limited	5.67	Photonics
Nurin Limited	5.00	Neurological protection
Photonic Innovations Limited (PI Limited)	50.00	Optoelectronics
Thermotic Developments Limited	8.34	Beverage packaging
<i>Investments held by SAM Limited</i>		
Activotec SPP Limited (formerly Southampton Polypeptides Ltd)	16.12	Synthetic peptides
Capsant Neurotechnologies Limited	15.97	Neurological protection
Ilika Technologies Limited	19.26	Combinatorial chemistry
iQur Limited (formerly HepCgen Ltd)	14.32	Hepatitis C testing
Karus Therapeutics Limited	19.96	Drug discovery
Nanotecture Limited	13.65	Nanotechnology
Offshore Hydrocarbon Mapping plc	13.42 ***	Offshore oil surveying
Perpetuum Limited	23.60	Harvesting power
Shellform Technical Limited	2.00	Engineering
Symetrica Limited	7.27	Radiation
SynAIRgen plc	16.58 ***	Respiratory disorders
<i>Investments held by PI Limited</i>		
Southampton Photonics Incorporated	less than 1.00 **	Optical fibre technology
Stratophase Limited	14.08	Optoelectronics

* Company limited by guarantee, maximum liability £1.

** All companies listed above are registered in England and Wales with the exception of AquaGene Inc and Southampton Photonics Inc which are registered in the USA.

*** Company listed on the Alternative Investments Market.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

13. Endowment asset investments	Consolidated and University	
	2005	2004
	£000	£000
<i>Balance at 1 August 2004</i>	6,772	6,169
<i>Additions</i>	5,655	681
<i>Disposals</i>	(5,796)	(299)
<i>Appreciation on valuation for year</i>	519	221
<i>Balance at 31 July 2005</i>	<u>7,150</u>	<u>6,772</u>
 <i>Represented by:</i>		
<i>Fixed interest stocks</i>	–	662
<i>Equities</i>	83	134
<i>Unit trusts and managed funds</i>	5,801	4,074
<i>Total stocks, equities and managed funds at market value *</i>	<u>5,884</u>	<u>4,870</u>
<i>Short term deposits</i>	1,266	1,541
<i>Cash balances</i>	–	361
<i>Total</i>	<u>7,150</u>	<u>6,772</u>
 <i>* Total stocks, equities and managed funds at cost</i>	 <u>5,262</u>	 <u>5,124</u>

14. Long term debtors and prepayments	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
<i>Amounts owed by subsidiary undertakings</i>	–	–	9,711	8,840
<i>Prepayments to subsidiary undertakings</i>	–	–	8,956	9,497
<i>Other prepayments</i>	908	1,267	908	1,267
	<u>908</u>	<u>1,267</u>	<u>19,575</u>	<u>19,604</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

15. Current assets	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Stock	268	269	219	231
Debtors and Prepayments:				
Grants from HEFCE	2,566	3,956	2,566	2,773
Student debtors	2,203	4,523	2,203	4,523
Research grants and contracts	28,981	26,832	28,981	26,832
Prepayments to group undertakings	–	–	525	525
Other prepayments	2,898	1,880	2,211	1,764
Trade and other debtors	16,331	18,598	18,639	19,386
	52,979	55,789	55,125	55,803
Investments	20,471	21,901	20,471	21,901
Cash at bank and on deposit (redeemable within 24 hours)	6,966	8,600	3,927	4,790
	<u>80,684</u>	<u>86,559</u>	<u>79,742</u>	<u>82,725</u>

Investments are represented by:

	2005 £000	2004 £000
Quoted shares and securities *	13,736	12,944
Cash at bank and on deposit (not redeemable within 24 hours)	6,735	8,957
	<u>20,471</u>	<u>21,901</u>
* Market value of quoted shares and securities (held at lower of cost and net realisable value above)	<u>15,466</u>	<u>13,297</u>

16. Creditors: amounts falling due within one year	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank loans	3,817	3,294	3,075	2,641
Other loans	187	187	187	187
HEFCE specific grant	2,572	305	2,572	4,116
Advance income on research	29,225	25,054	29,225	25,054
Social Security and other taxation	6,395	5,976	5,690	5,215
Amounts owed to group undertakings	–	–	2,597	2,079
Trade and other creditors	15,422	20,061	15,174	19,475
Accruals and deferred income	24,200	24,492	22,849	23,121
	<u>81,818</u>	<u>79,369</u>	<u>81,369</u>	<u>81,888</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

17. Creditors: amounts falling due after more than one year	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Bank loans	60,165	53,809	56,586	49,652
Other loans	1,167	1,354	1,167	1,354
Amounts owed to group undertakings	–	–	8,956	9,497
Accruals and deferred income	3,675	5,536	1,852	3,004
	<u>65,007</u>	<u>60,699</u>	<u>68,561</u>	<u>63,507</u>

Amounts repayable after more than one year in respect of bank loans outstanding as at 31 July 2005, may be analysed as follows:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2005 £000	Balance outstanding 2004 £000
<i>University:</i>					
HSBC *	1993	2018	fixed	6,651	7,000
HSBC *	1995	2015	fixed	1,346	1,518
National Westminster Bank	1996	2016	fixed	7,224	7,626
National Australia Bank	1997	2020	fixed	16,934	18,108
National Westminster Bank *	1999	2019	fixed	5,012	5,242
Barclays Bank *	1999	2019	fixed	3,919	4,194
Barclays Bank *	2004	2024	variable	5,815	5,964
Barclays Bank	2005	2025	fixed	9,685	–
				<u>56,586</u>	<u>49,652</u>
<i>Subsidiaries:</i>					
HSBC *	1999	2011	variable	2,928	3,447
HSBC *	2003	2018	variable	651	710
				<u>60,165</u>	<u>53,809</u>

* Loans secured on specific assets

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

18. Provisions for liabilities and charges

Maintenance	Consolidated			University	
	Fund £000	Pensions £000	Total £000	Pensions £000	Total £000
At 1 August 2004	699	6,588	7,287	6,588	6,588
Utilised during year	(306)	(396)	(702)	(396)	(396)
Transfer from Income and Expenditure account	204	696	900	696	696
At 31 July 2005	<u>597</u>	<u>6,888</u>	<u>7,485</u>	<u>6,888</u>	<u>6,888</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

19. Deferred capital grants	Consolidated			University		
	Funding Council £000	Other grants £000	Total £000	Funding Council £000	Other grants £000	Total £000
<i>At 1 August 2004</i>						
Buildings	62,861	14,029	76,890	57,952	13,189	71,141
Equipment	2,242	–	2,242	1,605	–	1,605
Total	65,103	14,029	79,132	59,557	13,189	72,746
<i>Additions</i>						
Buildings	3,316	4,792	8,108	2,704	4,776	7,480
Equipment	5,552	–	5,552	5,552	–	5,552
Total	8,868	4,792	13,660	8,256	4,776	13,032
<i>Transfer to Income and Expenditure account</i>						
Buildings	(1,976)	(234)	(2,210)	(1,864)	(217)	(2,081)
Equipment	(3,302)	–	(3,302)	(2,983)	–	(2,983)
Total	(5,278)	(234)	(5,512)	(4,847)	(217)	(5,064)
<i>At 31 July 2005</i>						
Buildings	64,201	18,587	82,788	58,792	17,748	76,540
Equipment	4,492	–	4,492	4,174	–	4,174
Total	68,693	18,587	87,280	62,966	17,748	80,714

20. Endowments	Consolidated and University		
	Specific £000	General £000	Total £000
<i>At 1 August 2004</i>	3,933	2,839	6,772
<i>Additions</i>	10	–	10
<i>Unrealised appreciation of endowment asset investments</i>	353	165	518
<i>Realised gains from sales in year</i>	243	133	376
<i>Income for year</i>	130	155	285
<i>Expenditure for year</i>	(98)	(155)	(253)
<i>Appropriated to Income and Expenditure reserves</i>	–	(558)	(558)
At 31 July 2005	4,571	2,579	7,150
<i>Representing:</i>			
<i>Fellowship and scholarship funds</i>	1,067	–	1,067
<i>Prize funds</i>	507	–	507
<i>Chair and lectureship funds</i>	1,633	–	1,633
<i>Other funds</i>	1,364	2,579	3,943
	4,571	2,579	7,150

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

21. Revaluation Reserve

	Consolidated	
	2005	2004
	£000	£000
<i>At 1 August 2004</i>	8,933	7,772
<i>Revaluation increase in year of Chilworth Science Park</i>	<u>1,588</u>	<u>1,161</u>
<i>At 31 July 2005</i>	<u>10,521</u>	<u>8,933</u>

22. Reconciliation of Income and Expenditure Reserves

	Consolidated	University
	£000	£000
<i>Balance at 1 August 2004</i>	75,372	95,079
<i>Surplus for the year</i>	2,596	7,714
<i>Transfer from general endowments (note 20)</i>	558	558
<i>Balance at 31 July 2005</i>	<u>78,526</u>	<u>103,351</u>
<i>Attributable to:</i>		
<i>University departments</i>	19,538	19,538
<i>Central reserves</i>	<u>58,988</u>	<u>83,813</u>
	<u>78,526</u>	<u>103,351</u>

The above reserves have arisen from accumulated annual surpluses. A total of £73,385,000 (2004: £62,517,000) from within these sums has been applied to finance capital developments within the University.

The University surplus and central reserves include approximately £5,800,000 relating to transactions with University group companies which are eliminated on consolidation.

23. Liability insurance

The University of Southampton has effected insurance cover in respect of liability for all members and officers who participate in the management of the University and its subsidiary undertakings.

24. Related party transactions

The University has complied with the Financial Reporting Standard on related party transactions and there are no transactions to report.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

25. Capital commitments	Consolidated	
	2005	2004
	£000	£000
<i>Contracted commitments at 31 July 2005</i>		
<i>Education, Engineering and Entrance Building*</i>	15,402	–
<i>Chancellors' Courts Student Residences (Glen Eyre)</i>	14,457	100
<i>Developmental Origins of Health & Diseases Building*</i>	8,342	–
<i>Institute of Sound and Vibration Research Building*</i>	5,286	–
<i>Archaeology Building*</i>	2,477	–
<i>Wide Lane Sports Development*</i>	845	–
<i>District Heating & Energy Centre*</i>	536	2,708
<i>Human Performance Laboratory*</i>	481	–
<i>Montefiore Student Residences</i>	351	5,172
<i>Teaching & Research Vessel</i>	332	950
<i>Boldrewood Refurbishment*</i>	130	1,258
<i>Infection Inflammation & Repair Refurbishment*</i>	101	2,493
<i>Student Services Building*</i>	39	5,055
<i>Hartley Library Refurbishment*</i>	18	1,232
<i>Learning & Resource Centre*</i>	6	465
<i>Oncology Building*</i>	–	243
<i>Benham Campus Chilworth Electrical Cabling</i>	–	235
<i>Indoor Sports Facility</i>	–	89
<i>Students Union Redevelopment</i>	–	47
	48,803	20,047

* Commitments wholly or partly funded by external grants

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

26. University pension schemes

The University is a member of four defined benefit schemes, Universities Superannuation Scheme (USS); Teachers Superannuation Scheme (TSS); National Health Pension Scheme (NHPS) and Hampshire County Council (HCC). These schemes are externally funded and contracted out of the State Earnings-Related Pension Scheme. The number of members of each scheme employed by the University as at 31 July 2005 was USS 2,696; TSS 37; NHPS 97 and HCC 24. 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 USS, NHPS and TSS schemes and hence contributions for these 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.

HCC has been able to apportion a percentage of its funds assets and liabilities relating to the University and therefore the scheme has been treated as a defined benefit scheme in the accounts. The requirements of FRS 17 for the year ending July 2005 are shown below.

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. As at 31 July 2005 a total of 1,546 University employees were members of PASNAS.

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

	USS	PASNAS	HCC
Date of valuation	31 March 2002	1 August 2003	31 March 2004
Market valuation of assets	£19,938 million	£60.6 million	£1,925 million
Past service liabilities	£19,776 million	£68.5 million	£2,901 million
Surplus of assets	£162 million	–	–
Past service deficit	–	–	(£976) million
Smoothing adjustment	–	–	£65 million
Deficit of assets	–	(£7.9 million)	(£911) million

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

USS

At the March 2002 valuation date the assets were sufficient to cover 101% 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 14.25% of salaries but USS agreed that contributions would be maintained at 14.0% of salaries. This reduction of 0.25% of 12 years from the date of valuation has been funded by £82.5 million of its reserves. This has left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

The total pension cost due for the University was £12,726,000 (2004: £11,777,000) which includes £1,073,000 (2004: £997,000) of contributions outstanding at the Balance Sheet date, payable in August 2005.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

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 £58,000 (2004: £57,000) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

PASNAS

The last full valuation on 1 August 2003 indicated that the scheme's assets represented 88% of the benefits that had accrued to members after allowing for expected increases in earnings. As the fund shows a deficit of £7.9 million, the University, following actuarial advice, increased its contribution from 10.33% to 12.8% from 1 August 2004.

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

Valuation date	31 July 2005	31 July 2004	31 July 2003	31 July 2002	31 July 2001
Increase in salaries	4.45% pa	4.75% pa	4.35% pa	4.15% pa	4.60% pa
Increase in pensions	2.70% pa	3.00% pa	2.60% pa	2.40% pa	2.60% pa
Discount rate of scheme liabilities	5.00% pa	5.70% pa	5.30% pa	5.70% pa	6.25% pa
Inflation assumption	2.70% pa	3.00% pa	2.60% pa	2.40% pa	2.60% pa

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

	Long term rate of return expected at July 2005	Value 31 July 2005	Long term rate of return expected at July 2004	Value £000	Long term rate of return expected at July 2003	Value £000	Long term rate of return expected at July 2002	Value £000	Long term rate of return expected at July 2001	Value £000
Gilts	4.70%	21,059	5.00%	18,525	4.60%	10,773	5.00%	5,769	6.25%	–
Bonds	5.00%	6,869	5.70%	6,053	5.30%	11,413	5.70%	4,999	6.25%	11,646
Equities	6.00%	24,935	6.70%	21,229	6.30%	21,843	6.70%	28,070	7.25%	36,578
Managed funds	6.00%	22,724	6.70%	17,348	6.30%	15,937	6.70%	19,648	7.25%	23,847
Cash deposits	4.70%	2,182	5.00%	662	4.60%	787	5.00%	2,054	6.00%	3,242
Total market value of assets		77,769		63,817		60,753		60,540		75,313
Present value of scheme liabilities (Deficit)/surplus in the scheme		(105,558)		(86,742)		(78,453)		(63,299)		(61,641)
		(27,789)		(22,925)		(17,700)		(2,759)		13,672

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 disclosed above.

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

	2005 £000	2004 £000	2003 £000	2002 £000
Analysis of the amount charged to operating surplus				
Current service cost	<u>4,149</u>	<u>3,380</u>	<u>3,160</u>	<u>2,587</u>
Total operating charge	<u>4,149</u>	<u>3,380</u>	<u>3,160</u>	<u>2,587</u>
Analysis of the amount credited to other operating income				
Expected return on pension scheme assets	3,889	3,442	3,860	5,281
Interest on pension scheme liabilities	<u>(4,944)</u>	<u>(4,232)</u>	<u>(3,590)</u>	<u>(3,544)</u>
Net return	<u>(1,055)</u>	<u>(790)</u>	<u>270</u>	<u>1,737</u>
Analysis of amount recognised in the STRGL				
Actual return less expected return on pension scheme assets	8,221	(378)	(3,090)	(18,169)
Experience losses arising on the scheme liabilities	165	(3,193)	(140)	(1,769)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(11,208)</u>	<u>180</u>	<u>(9,160)</u>	<u>4,049</u>
Actuarial loss recognised in the STRGL	<u>(2,822)</u>	<u>(3,391)</u>	<u>(12,390)</u>	<u>(15,889)</u>
Movement in deficit during the year				
(Deficit)/surplus in scheme at beginning of the year	(22,925)	(17,700)	(2,759)	13,672
Movement in the year:				
Current service cost	(4,149)	(3,380)	(3,161)	(2,587)
Contributions	3,162	2,336	340	308
Other finance (cost)/ income	(1,055)	(790)	270	1,737
Actuarial loss in STRGL	<u>(2,822)</u>	<u>(3,391)</u>	<u>(12,390)</u>	<u>(15,889)</u>
Deficit in scheme at end of year	<u>(27,789)</u>	<u>(22,925)</u>	<u>(17,700)</u>	<u>(2,759)</u>

	2005 £000	2004 £000	2003 £000	2002 £000
History of experience gains and losses				
Difference between actual and expected returns on assets	8,221	(378)	(3,090)	(18,169)
Percentage of scheme assets	10.6%	0.6%	5.1%	30.0%
Experience losses on liabilities	165	(3,193)	(140)	(1,769)
Percentage of scheme liabilities	0.2%	3.7%	0.2%	2.8%
Total amount recognised in STRGL	<u>(2,822)</u>	<u>(3,391)</u>	<u>(12,390)</u>	<u>(15,889)</u>
Percentage of scheme liabilities	2.7%	3.9%	15.8%	25.1%

HCC

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

Valuation date	31 July 2005	31 July 2004	31 July 2003	31 July 2002	31 July 2001
Increase in salaries	4.20% pa	4.40% pa	4.20% pa	3.90% pa	4.00% pa
Increase in pensions	2.70% pa	2.90% pa	2.70% pa	2.40% pa	2.50% pa
Discount rate of scheme liabilities	5.00% pa	5.70% pa	5.50% pa	6.00% pa	5.90% pa
Inflation assumption	2.70% pa	2.90% pa	2.70% pa	2.40% pa	2.50% pa

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

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

	Long term rate of return expected at July 2005	Value 31 July 2005 £000	Long term rate of return expected at July 2004	Value 31 July 2004 £000	Long term rate of return expected at July 2003	Value 31 July 2003 £000	Long term rate of return expected at July 2002	Value 31 July 2002 £000	Long term rate of return expected at July 2001	Value 31 July 2001 £000
Equities	7.40%	2,418	8.00%	1,898	7.80%	1,840	7.90%	1,840	7.90%	2,370
Bonds	4.40%	730	5.00%	605	4.80%	550	4.90%	600	4.90%	480
Property	6.40%	133	7.00%	110	6.80%	140	6.90%	160	6.90%	170
Other	4.70%	129	4.80%	137	3.30%	130	3.40%	140	3.40%	220
Total market value of assets		3,410		2,750		2,660		2,740		3,240
Present value of scheme liabilities		(4,920)		(5,310)		(5,140)		(4,350)		(4,000)
Deficit in the scheme		(1,510)		(2,560)		(2,480)		(1,610)		(760)

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 disclosed above.

	2005 £000	2004 £000	2003 £000	2002 £000
Analysis of the amount charged to operating surplus				
Current service cost	110	(100)	90	120
Total operating charge	110	(100)	90	120
Analysis of the amount credited to other operating income				
Expected return on pension scheme assets	190	180	190	230
Interest on pension scheme liabilities	(300)	(280)	(260)	(240)
Net loss	(110)	(100)	(70)	(10)
Analysis of amount recognised in the STRGL				
Actual return less expected return on pension scheme assets	410	40	(50)	(710)
Experience gains and (losses) arising in the scheme liabilities	1,450	–	10	(260)
Changes in assumptions underlying the present value of the Scheme liabilities	(670)	–	(750)	150
Actuarial gain/(loss) recognised in the STRGL	1,190	40	(790)	(820)
Movement in deficit during the year				
Deficit in scheme at beginning of the year	(2,560)	(2,480)	(1,610)	(760)
Movement in the year:				
Current service cost	(110)	(100)	(90)	(120)
Contributions	80	80	80	100
Other finance income	(110)	180	190	230
Interest cost	–	(280)	(260)	(240)
Actuarial gain/(loss) in STRGL	1,190	40	(790)	(820)
Deficit in scheme at end of year	(1,510)	(2,560)	(2,480)	(1,610)

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

	2005 £000	2004 £000	2003 £000	2002 £000
<i>History of experience gains and losses</i>				
Difference between actual and expected returns on assets	410	40	(50)	(710)
Percentage of scheme assets	12.0%	1.5%	1.9%	25.9%
Experience gains and (losses) on liabilities	1,450	–	10	(260)
Percentage of scheme liabilities	29.5%	–	0.2%	6.0%
Total amount recognised in STRGL	1,190	40	(790)	(820)
Percentage of scheme liabilities	24.2%	0.8%	15.4%	18.9%

If FRS 17 had been fully applied for both PASNAS and HCC in the financial statements, the combined effect on net assets and Income and Expenditure reserves as at 31 July 2005 would be as follows:

	Net Assets £000	Income and Expenditure Reserves £000
As currently stated	183,477	78,526
Net pension liability	(29,299)	(29,299)
As restated	<u>154,178</u>	<u>49,227</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

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

	2005	2004
	£000	£000
<i>Surplus after depreciation of assets and taxation</i>	2,628	7,058
<i>Depreciation</i>	15,535	14,315
<i>Loss on disposal of tangible fixed assets</i>	679	44
<i>Deferred capital grants released to income</i>	(5,512)	(4,326)
<i>Investment income</i>	(2,505)	(1,662)
<i>Interest payable</i>	3,714	3,821
<i>Appreciation of current asset investments valuation back to historic cost</i>	(5)	(285)
<i>Decrease in stock</i>	1	114
<i>Decrease/(Increase) in debtors</i>	1,366	(8,901)
<i>Increase in creditors and accruals</i>	3,948	6,968
<i>Increase in provisions</i>	198	547
<i>Net cash inflow from operating activities</i>	<u>20,047</u>	<u>17,693</u>

28. Returns on investments and servicing of finance

	2005	2004
	£000	£000
<i>Income from endowments</i>	285	404
<i>Income from short term deposits and investments</i>	2,228	1,176
<i>Other interest received</i>	86	42
<i>Interest paid</i>	(3,635)	(3,830)
	<u>(1,036)</u>	<u>(2,208)</u>

29. Capital investment and financial investment

	2005	2004
	£000	£000
<i>Tangible assets acquired</i>	(43,239)	(30,817)
<i>Fixed asset investments acquired</i>	(499)	(89)
<i>Endowment asset investments acquired (note 13)</i>	(5,655)	(681)
<i>Total fixed and endowment asset investments acquired</i>	<u>(49,393)</u>	<u>(31,587)</u>
<i>Receipts from sales of endowment assets</i>	6,172	333
<i>Receipts from sales of tangible assets</i>	662	-
<i>Deferred capital grants received</i>	13,777	13,917
<i>Endowments received (note 20)</i>	10	27
	<u>(28,772)</u>	<u>(17,310)</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

30. Analysis of changes in consolidated financing during the year

	2005 £000	2005 £000	2004 £000	2004 £000
<i>Balance at 1 August 2004</i>		58,644		55,544
<i>New loans and increased debt</i>	10,000		6,200	
<i>Capital repayments</i>	(3,308)		(3,100)	
		<u>6,692</u>		<u>3,100</u>
<i>Balance at 31 July 2005</i>		<u>65,336</u>		<u>58,644</u>

31. Analysis of changes in net debt

	At 1 August 2004 £000	Cash flows £000	Other non cash changes £000	At 31 July 2005 £000
<i>Cash at bank and in hand</i>	8,600	(1,634)	–	6,966
<i>Short term deposits</i>	21,901	(1,435)	5	20,471
<i>Debt due within one year</i>	(3,481)	3,308	(3,831)	(4,004)
<i>Debt due after one year</i>	(55,163)	(10,000)	3,831	(61,332)
	<u>(28,143)</u>	<u>(9,761)</u>	<u>5</u>	<u>(37,899)</u>

32. Access funds

	Consolidated and University	
	2005 £000	2004 £000
<i>Balance at 1 August 2004</i>	(10)	(16)
<i>Net HEFCE grant</i>	1,020	968
	<u>1,010</u>	<u>952</u>
<i>Disbursed to students</i>	(818)	(962)
<i>Balance at 31 July 2005</i>	<u>192</u>	<u>(10)</u>

University of Southampton and Subsidiary Undertakings

Notes to the Financial Statements for the year ended 31 July 2005

33. Teacher Training Agency (TTA) bursaries

	At 1 August 2004 £000	Consolidated and University			At 31 July 2005 £000
		Income received £000	Disbursements £000	Returned to TTA £000	
<i>Initial Teacher Training bursaries</i>	134	2,430	(2,302)	(131)	131
<i>Secondary Shortage Subject Scheme</i>	56	42	(30)	(1)	67
	<u>190</u>	<u>2,472</u>	<u>(2,332)</u>	<u>(132)</u>	<u>198</u>

34. Post balance sheet event

On 30 October 2005, a major fire broke out in the University's Mountbatten Building sited on the West side of the Highfield campus. The fire largely destroyed the building and the specialist research facilities, including the clean rooms, housed within it. Other buildings suffered consequential but more minor damage. A large amount of specialist equipment was also destroyed in the fire.

The University carries insurance cover for its buildings and equipment and cover to meet the higher costs of continuing our business in the aftermath of insurable events. While this insurance cover will mitigate the financial costs arising from the fire, there will undoubtedly be disruption to the research work of the School of Electronics and Computer Science, the Opto-Electronics Research Centre and to the business of Innos Limited, a 100% owned University subsidiary. At the time of writing, the extent of this disruption remains unclear. We have, however, received many offers of help from a wide variety of organisations to provide accommodation and facilities that will enable our research programmes to be continued elsewhere until our own facilities can be replaced.

Financial Statistics

Financial Indicators

	2005	2004	2003	2002	2001
Source of income					
<i>HEFCE grants plus home fees and support grants/Total income</i>	48.0%	47.4%	48.8%	47.0%	47.4%
<i>Overseas fees/Total income</i>	5.8%	6.0%	4.9%	4.1%	4.1%
<i>Research grants and contracts/Total income</i>	27.4%	28.3%	28.8%	30.3%	28.1%
<i>Other operating income/Total income</i>	17.9%	17.7%	16.9%	18.0%	19.4%
<i>Surplus for the year/Total income</i>	0.9%	2.5%	2.1%	1.8%	1.2%
Long term solvency					
<i>Days of total general funds and provisions to total expenditure</i>	117	119	119	116	119
<i>Ratio of long term liabilities to general funds</i>	82.8%	80.5%	84.4%	95.1%	103.4%
Short term solvency					
<i>Net liquid assets to current liabilities</i>	0.4:1	0.4:1	0.5:1	0.5:1	0.5:1
<i>Days ratio of net liquid assets to total expenditure</i>	41	50	49	58	45
<i>Current assets/Current liabilities</i>	0.99:1	1.09:1	1.08:1	1.16:1	1.18:1
<i>Ratio of movement in net liquid assets in year to same assets at start</i>	-12.9%	10.5%	-10.1%	39.6%	-8.1%
<i>Days of total income represented by debtors</i>	34	44	35	39	38

Financial Statistics

Income from sponsored research for the year ended 31 July 2005

From Research Councils	£000		
<i>Arts and Humanities Research Council</i>	1,002	<i>Nancie Finnie Charitable Trust</i>	22
<i>Biotechnology and Biological Sciences Research Council</i>	2,435	<i>National Asthma Campaign</i>	138
<i>British Academy</i>	168	<i>Onyx Environmental Trust</i>	86
<i>Council for the Central Laboratory of the Research Councils</i>	69	<i>Rayne Foundation</i>	41
<i>Economic and Social Research Council</i>	800	<i>Research into Ageing</i>	138
<i>Engineering and Physical Sciences Research Council</i>	16,192	<i>Royal Academy of Engineering</i>	191
<i>Medical Research Council</i>	1,622	<i>Royal College of Surgeons</i>	45
<i>Natural Environment Research Council</i>	13,755	<i>Royal National Lifeboat Institute</i>	133
<i>Particle Physics and Astronomy Research Council</i>	1,037	<i>Rufford Maurice Laing Foundation</i>	45
<i>Plymouth Marine Laboratory</i>	47	<i>Samantha Dickinson Research Trust</i>	25
<i>Tyndall Centre for Climate Change Research</i>	334	<i>Sir Jules Thorn Charitable Trust</i>	61
Total Research Councils	37,462	<i>Smith & Nephew Foundation</i>	40
		<i>Southampton Complementary Medical Research Trust</i>	29
		<i>Stroke Association</i>	89
		<i>Tenovus</i>	816
		<i>Wellcome Trust</i>	1,711
		<i>Wessex Cancer Trust</i>	106
		<i>Wessex Medical Trust</i>	449
		<i>World Cancer Research Fund</i>	34
		<i>Others less than £20,000</i>	397
		Total UK-based Charitable Bodies	10,710
From UK-based Charitable Bodies	£000		
<i>Action Medical Research</i>	74	From Other Sources	£000
<i>Air Charity</i>	42	<i>ABN AMRO</i>	83
<i>Alzheimer's Society</i>	47	<i>ABP Marine Environmental Research Ltd</i>	27
<i>Anna Douglas-Pennant Charitable Trust</i>	33	<i>AEA Technology Rail</i>	71
<i>Arthritis Research Campaign</i>	113	<i>Alfred Mann Foundation</i>	119
<i>Association for International Cancer Research</i>	154	<i>Applera Corporation</i>	21
<i>Automobile Association Foundation</i>	39	<i>Arab Shipbuilding & Repair</i>	28
<i>Breast Cancer Campaign</i>	95	<i>Arakis Ltd</i>	26
<i>British Diabetic Association</i>	181	<i>Asahi Glass Co Ltd</i>	108
<i>British Heart Foundation</i>	521	<i>AstraZeneca</i>	351
<i>British Lung Foundation</i>	85	<i>AXA PPP Healthcare</i>	53
<i>British Skin Foundation</i>	21	<i>BAE Systems</i>	309
<i>Brook Advisory Centre</i>	43	<i>Bayer AG</i>	102
<i>Cancer Research UK</i>	1,743	<i>Bio Vex Ltd</i>	25
<i>Charles Hayward Foundation</i>	29	<i>Black and Veatch</i>	38
<i>Employment Institute Trust</i>	36	<i>British Petroleum</i>	39
<i>Epilepsy Research Foundation</i>	35	<i>Callisto (France)</i>	50
<i>Health Foundation</i>	137	<i>Carbon Trust</i>	72
<i>Henry Smith Charity</i>	26	<i>Celltech Group PLC</i>	86
<i>International Centre for Underutilised Crops</i>	40	<i>Confidential Enquiry into Maternal and Child Health</i>	66
<i>International Spinal Research Trust</i>	52	<i>Countryside Agency</i>	84
<i>Joseph Rowntree Memorial Foundation</i>	30	<i>Countryside Council for Wales</i>	35
<i>Leukaemia Busters</i>	112	<i>Department for Education and Skills</i>	34
<i>Leukaemia Research Fund</i>	1,640	<i>Department for Environment Food and Rural Affairs</i>	520
<i>Leverhulme Trust</i>	245		
<i>Lloyds Register</i>	240		
<i>MacMillan Cancer Relief</i>	183		
<i>Mason Medical Research Foundation</i>	34		
<i>Meningitis Research Foundation</i>	42		
<i>Multiple Sclerosis Society</i>	41		

Financial Statistics

Income from sponsored research for the year ended 31 July 2005 (continued)

<i>Department for Transport</i>	160	<i>National Grid Transco PLC</i>	441
<i>Department of Health</i>	5,067	<i>National Institute of Health (USA)</i>	264
<i>Department of Trade and Industry</i>	1,384	<i>National Physical Laboratory</i>	22
<i>Depuy International Ltd</i>	163	<i>Neurodan A/S (Denmark)</i>	35
<i>Dynatronics Ltd</i>	47	<i>NHS Executive Northern & Yorkshire</i>	133
<i>Eli and Edythe Broad Foundation</i>	44	<i>NHS Executive South East</i>	133
<i>Emirates Team New Zealand</i>	134	<i>NHS National Research & Development</i>	
<i>English Heritage</i>	208	<i>Programme</i>	174
<i>English Nature</i>	88	<i>NHS UK Transplant</i>	71
<i>Environment Agency</i>	269	<i>Nippon Sheet Glass Inc (USA)</i>	59
<i>European Regional Development Fund</i>	35	<i>Nissan Motor Company (Japan)</i>	24
<i>European Space Agency</i>	136	<i>Novartis Pharmaceuticals</i>	84
<i>European Union</i>	6,464	<i>Novo Nordisk Ltd</i>	85
<i>Evotec OAI</i>	32	<i>Nycomed Amersham PLC</i>	145
<i>ExxonMobil</i>	63	<i>Office for National Statistics</i>	221
<i>Food Standards Agency</i>	729	<i>Ohio Aerospace Institute</i>	34
<i>Ford Foundation</i>	101	<i>ONO Pharmaceutical Co Ltd (Japan)</i>	25
<i>Foreign and Commonwealth Office</i>	20	<i>Ordnance Survey</i>	30
<i>Forestry Commission</i>	64	<i>Oxford Instruments PLC</i>	38
<i>Gaztransport & Technigaz</i>	51	<i>Parchment Housing Group Ltd</i>	32
<i>GBR Team Challenge Co Ltd</i>	38	<i>Pfizer Ltd</i>	111
<i>General Motors Corporation</i>	136	<i>Pronova Biocare AS (Norway)</i>	116
<i>Genmab BV (Netherlands)</i>	36	<i>QinetiQ PLC</i>	247
<i>GlaxoSmithKline PLC</i>	503	<i>Radiodetection Ltd</i>	52
<i>Hampshire and Isle of Wight Workforce</i>		<i>Reckitt Benckiser PLC</i>	27
<i>Development Confederation</i>	40	<i>Research Fund Waldenstroms Ltd</i>	25
<i>Health and Safety Executive</i>	70	<i>Roche Products Ltd</i>	31
<i>Hewlett Packard Ltd</i>	62	<i>Rolls-Royce PLC</i>	390
<i>Higher Education Funding Council for</i>		<i>Ron Holland Design</i>	42
<i>England</i>	166	<i>Royal Dutch Shell</i>	30
<i>Highways Agency</i>	24	<i>Royal Society</i>	561
<i>ICI PLC</i>	32	<i>Samsung Electronics Ltd</i>	86
<i>Immunex Corporation</i>	37	<i>Schlumberger WCP Ltd</i>	23
<i>Intercytex Ltd</i>	21	<i>Serco Integrated Transport</i>	64
<i>International Copper Association</i>	49	<i>Sloan Foundation (USA)</i>	74
<i>John Wyeth & Brothers Ltd</i>	128	<i>Southampton City Council</i>	60
<i>Johnson & Johnson (Belgium)</i>	25	<i>Southampton Community Health</i>	32
<i>Johnson Matthey PLC</i>	43	<i>Southampton Photonics Ltd</i>	228
<i>K-Challenge</i>	33	<i>Southampton University Hospitals NHS</i>	
<i>Kings College London</i>	139	<i>Trust</i>	209
<i>Local Authorities Consortium</i>	58	<i>Space Connexions Ltd</i>	82
<i>Locus+</i>	55	<i>SRL Medisearch Inc</i>	113
<i>London Bus Services Ltd</i>	101	<i>Swedish International Development</i>	
<i>Luna Rossa SRL</i>	146	<i>Cooperation Agency</i>	42
<i>Maritime and Coastguard Agency</i>	97	<i>Target Socio-Economic Research</i>	34
<i>Merck & Co Inc</i>	70	<i>Thames Water Utilities Ltd</i>	24
<i>Michigan Technological University</i>	21	<i>Thrasher Research Fund</i>	25
<i>Mott MacDonald</i>	22	<i>TNO - Netherlands Organisation for Applied</i>	
<i>Mulder Design</i>	29	<i>Scientific Research</i>	33
<i>Nanotecture Ltd</i>	27	<i>Toshiba Corporation</i>	21

Financial Statistics

Income from sponsored research for the year ended 31 July 2005 (continued)

<i>UCB Farchim SA</i>	38	<i>University of Newcastle upon Tyne</i>	81
<i>UK Sport</i>	55	<i>Van Oossanen & Associates</i>	36
<i>Unilever</i>	109	<i>Virtual Centre of Excellence in Mobile and Personal Communications Ltd</i>	97
<i>United States Air Force</i>	126	<i>Vodafone Ltd</i>	35
<i>United States Anti-Doping Agency</i>	121	<i>World Anti-Doping Agency</i>	60
<i>United States Federal Aviation Administration</i>	67	<i>World Bank</i>	43
<i>University College London</i>	23	<i>Others less than £20,000</i>	3,550
<i>University Corporation for Atmospheric Research</i>	80		
<i>University of Leeds</i>	35	<i>Total Other Sources</i>	<u>29,200</u>