

Financial Statements and Statistics
2013 - 2014

Financial Statements for the year ended 31 July 2014

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Operating and Financial Review

Introduction

The University achieved a surplus for the year to 31 July 2014 of £15.4 million (3.2% of income). This compares to a surplus of £5.8 million (1.3% in 2012/13). The main driver for the year on year improvement was a significant increase in student fee income whilst expenditure increases were contained to a relatively more modest level.

In the volatile world of UK Higher Education the results represent a marked improvement on last year and significant progress towards meeting our medium term financial targets. Good headway has been made as evidenced by the increasing student numbers in the 2013 intake. However, the reduction in undergraduate student recruitment in the 2012 intake will continue to impact financial performance through to 2014/15. The major changes to UK/EU undergraduate funding from 2012/13 mean that we expect the University to lose over 60% of its state support for teaching in the period between 2011/12 and 2015/16. We also anticipate losing the majority of the Higher Education Funding Council for England (HEFCE) capital grants. In the three year period to 31 July 2011 we received £54 million of capital grants, 48% of our capital spend on land and buildings. This had reduced to £23 million, 16% of capital spend on land and buildings in the three years ending 31 July 2014. Within this context the University will be focused on achieving the operating surplus target of 5% of income to enable it to invest in the world-class learning and research facilities set out in the strategic plan.

The University has over-achieved against two of the four medium term financial targets set within the University strategy (2010-2015): Salary Costs and Maximum Net Debt as a percentage of Income. We are making progress on the other two measures. The operating surplus for the year has improved from 1.3% to 3.2% of income against a target of 5% for 2015. Cash generated from ordinary activities has also improved from 5.1% to 7.1% against a target of 8% by 2015.

Financial performance only tells part of the story. The University has performed well in the global league table rankings, climbing 14 places in this year's *Times Higher Education (THE)* World University Rankings to rank 132 overall. *THE* also produces rankings based on the Table of Tables, which uses a combination of the three main domestic university league tables [1]. In this the University has risen by three places to 17th in the UK. In September 2014, Southampton entered the top 150 of the Academic Ranking of

World Universities (ARWU) – the University's highest ranking in that table. In the international table published by QS, also published in September, Southampton maintained its status in the top 100 coming 94th overall, however this represents a fall of eight places from 86th in 2013. In the National Student Survey overall satisfaction remains high for 2014, with 86% of students (87% in 2013) agreeing they were satisfied with the University, however this suggests there are still improvements that can be made. In the most recent Destination of Leavers from Higher Education survey, 94% of graduates whose destinations were known were in employment and/or further study within six months of graduating, an improvement of 5% over the previous year.

Financial Review 2013/14

Income

The University produced a surplus of £15.4 million (£5.8 million in 2012/13), which represents 3.2% of income (1.3% in 2012/13). University income increased by £37 million (8.3%) to £484 million, mainly driven by increases in both the number of enrolled students and income from research grants and contracts. Increasing income from students has been a key focus of the University because improved operating surpluses are required to fund investments against the backcloth of declining capital and teaching grants and the reductions in real cash funding of research.

Academic fees and funding council teaching grants are heavily influenced by the introduction of £9,000 fee paying students and the associated decline in teaching grant support from 2012/13. However, income from home students funded under the old arrangement also continue to impact our financial statements. Consequently, the overall impacts are more clearly analysed if we explore the year on year movements of the combined academic fees, support and teaching grants.

Together, the combined academic fees, support and teaching grants have increased by £25.4 million (13%) from £193.4 million in 2012/13 to £218.8 million in 2013/14. There are two main drivers of this:

1. Academic fees and support grants increased by 25% from £152.9 million in 2012/13 to £191.4 million in 2013/14. This reflects both an increasing number of students and a higher proportion of International students (non UK/EU). The number of full time equivalent (FTE) student numbers has increased by 7% from 21,018 in 2012/13 to 22,476 in 2013/14.

[1] The Good University (published by The Times and the Sunday Times), The Guardian and Complete University Guide.

Operating and Financial Review (continued)

A particular feature was the 22% increase in post-graduate taught students from 3,090 in 2012/13 to 3,779 in 2013/14. Fees from International students have increased by £15.8 million (29.8%) from £53.1 million to £68.9 million, primarily driven by a 24% increase in the numbers of International students.

2. The increase in academic fees is partially offset by a 32% decrease in the teaching grant from the Higher Education Funding Council for England (HEFCE) from £40.5 million in 2012/13 to £27.4 million in 2013/14.

Research grant and contracts income has increased by 8.4% to £111.0 million. Grants from the UK Research Councils have increased by 11.7% to £50 million, significantly ahead of the broadly flat funding allocations from the Research Councils nationally. Grants from the European Union are up 9.0% to £19.3 million. However, the contribution to indirect costs only increased by £0.5 million (1.7%) to £31.2 million. The lower rate of indirect cost increase is primarily due to the efficiency savings imposed on UK Universities following the Research Councils UK (RCUK) Wakeham Review which are suppressing funding below sustainable levels. The savings reduce real cash funding to institutions by limiting both allowances for future inflation on multi-year grants and the contribution to meet indirect costs. This is counter to the pronounced UK policy of full economic cost funding and further lowers the real price paid for our work.

Other operating income increased by 5.4% to £94.1 million (2012/13 £89.3 million) mainly driven by the impact of student number growth on income from residences and catering. Income from the National Health Service has increased by £1.4 million reflecting additional externally funded posts within the Faculty of Medicine.

Endowment income and interest receivable reduced from £5.0 million to £2.9 million. Last year's income included the £1.4 million surplus on the sale of over £10 million of quoted shares and securities. The average interest rate achieved on cash balances and short term deposits in 2013/14 of 1.7% is less than the 2.1% achieved in 2012/13. This reflects the reduction in rates available in the market.

Expenditure

University expenditure increased by £28 million (6.3%) from £441 million to £469 million. Direct expenditure incurred on research increased by £8.1 million (11.3%) from £71.7 million to £79.8 million.

Staff expenditure increased by 5.9% from £251 million to £265 million. Whilst staff costs have increased, staff costs as a percentage of income have decreased from 56.1% in 2012/13 to 54.8% in 2013/14. The 2013 national pay award was 1% and around 40% of staff are entitled to annual pay scale increments of 3% in addition to this. The number of average full time equivalent staff employed by the University during the year increased by 4.3%. The main investment has been in academic staff with a 7.3% increase. The planned investment in academic staff between 2011/12 and 2013/14 has been focused on improving the student experience and the student:staff ratio and optimising our submission to the 2014 Research Excellence Framework (REF). During these three years we have increased the number of education, research and enterprise staff by 377 full time equivalents (14.9%). This has resulted in improvements to our student:staff ratio from 15:1 in 2011/12 to 13:1 in 2013/14.

Other operating expenditure increased by £11.9 million (7.4%) to £173.1 million (2012/13 £161.3 million). Bursaries, fellowships, scholarships and prizes increased by £2.9 million in line with our continuing commitment to improve access to the University for talented students regardless of their background. Exchange gains were £2.4 million more than last year and relate mainly to Euro denominated loans. Recruitment costs related to International students increased by £1.8 million reflecting the focus on increasing student numbers. Consultancy fees increased by £1.7 million, the vast majority of which was externally funded through research grants and commercial arrangements with third parties.

Our expenditure includes the operations of our new campus in Johor, Malaysia where teaching commenced for a first year cohort in October 2012. The operation is planned to make deficits in the initial years as student numbers build up and new programmes come on stream. In 2013/14 the deficit was £1.5 million (2012/13 deficit of £1 million).

Balance Sheet

The University spent £47 million acquiring or constructing capital assets. The largest single item of expenditure was a further £24 million investment in the joint development with Lloyds Register of a world class facility for marine and maritime teaching and research at the new Southampton Boldrewood innovation campus. This takes the total investment in the Boldrewood facility to £105 million at 31 July 2014. A further £15 million of spend is anticipated.

Operating and Financial Review (continued)

Funding for our capital programme is increasingly reliant on our balance sheet strength and our ability to generate sufficient earnings. This is mainly driven by the reductions in capital grants from HEFCE. In the three year period to 31 July 2011 we received £54 million of capital grants, 48% of our capital spend on land and buildings. This had reduced to £23 million, 16% of capital spend on land and buildings in the three years ending 31 July 2014.

The University has maintained a strong liquidity position. Our cash and near cash decreased by £3 million to finish the year at £113 million. This is more than sufficient to meet our treasury policy requirements of holding more than two months payroll costs (approximately £44 million) in funds that are available within a month. Our cash inflow from operating activities was £32.1 million (£34.7 million in 2012/13). Last year's figure included a non-recurring £10 million donation to support the development of a cancer immunology unit. After adjusting for this, there has been a year on year increase in operating cash of £7.4 million. This is mainly attributable to the improved operating surplus.

The net current assets stand at £15.5 million (2012/13 £17.9 million). Despite the reduction in capital grants from HEFCE, capital expenditure has been funded without the need for additional long term loans. Consequently, our long term financing arrangements have fallen by £8.6 million from £97.9 million to £89.3 million in line with the capital repayment requirements of existing loans. The financing arrangements are held with a number of commercial banks with final repayments due from 2015 to 2047. Further information on this, the rates payable and security arrangements is outlined in note 17 to the financial statements.

The pension liability of the PASNAS fund has increased by £15.1 million to a deficit of £60.8 million; this is primarily due to a decrease in the discount rate assumption used to estimate the present value of future cash flows. This demonstrates the volatility that the retirement benefits accounting standard, FRS 17, can bring to the balance sheet as a result of changes in highly sensitive assumptions.

Despite the increase in the PASNAS pension liability, total net assets increased by £17 million to £381 million. This has been primarily driven by the operating surplus and has been mainly applied in acquiring fixed assets and repaying long term loans.

Performance of Investments

The continuation of historically low interest rates has again impacted on the performance of our investments. The main impact is from longer term deposits that were negotiated at better rates several years ago coming to an end and being replaced by deposits with lower rates. The rates on longer term deposits are similar to those on short term funds. As such there has been little benefit in placing funds long term so we have reduced the average longevity of deposits. We have closely monitored our deposit counterparties throughout the year. Given the market conditions, the University considers that an average return rate of 1.7% is an acceptable outcome for the year.

The University of Southampton Science Park continues to trade strongly. The net asset value on the balance sheet of the company is £22 million (2012/13 £17 million). As well as making a valuable contribution to our operating surplus, the Science Park supports our strategy with opportunities for our research to spin out into enterprise activities and for employment for our students as they graduate as well as driving economic growth and social development in our city and region.

Operating and Financial Review (continued)

Key Performance Indicators (KPIs) 2009/10 to 2013/14

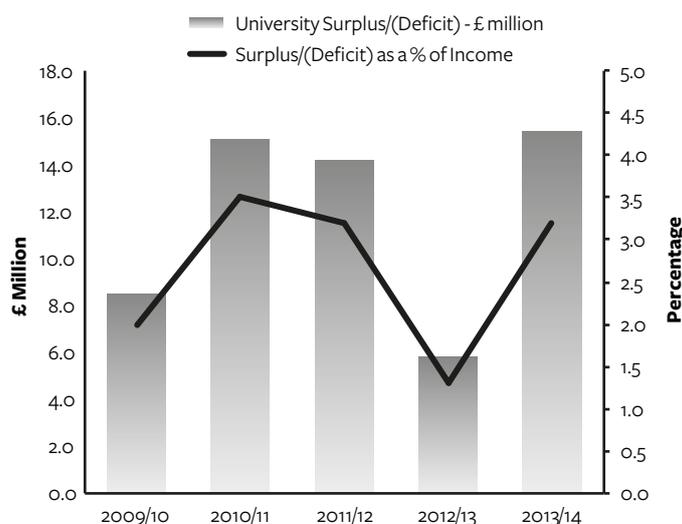
The University Strategy established high level expectations for financial performance in our 2010-2015 Strategic Plan. The University has over-achieved against two of the four medium term financial targets set within the University Strategy (2010-2015): Salary Costs as a percentage of Income and Maximum Net Debt as a percentage of Income. While we have fallen short against our other two financial targets, the surplus for the year has improved, so that we are making progress towards our 5% of income target for 2015. Progress has also been made towards the cash generation target of 8% by 2015.

Financial Measure (as a % of income)	Strategic Plan 2015 Target	2012/13 Achievement	2013/14 Achievement
Surplus on Ordinary Activity	5%	1.3%	3.2%
Cash Generation from Ordinary Activities ¹	8%	5.1%	7.1%
Maximum Net Debt	Less than 15%	-2.5%	-3.2%
Salary Costs	Less than 56%	56.1%	54.8%

The refreshed “Vision 2020” strategy (2015-2020) was approved at Council in July 2014 and is summarised below. The financial key performance indicators (KPIs) that will be used to monitor progress in future are Surplus on Ordinary Activities, Salary Costs as a percentage of income and liquid assets expressed as months of payroll costs. Further KPIs relating to cashflow and balance sheet strength will be developed within a new treasury strategy that will explore the approach to funding the next capital programme.

University Surpluses on Ordinary Activity 2009/10 – 2013/14

The surplus in 2013/14 represented 3.2% (2012/13 1.3%) of income and continues a long term trend of sound financial performance. The lower than planned level of recruitment in 2012 continues to hamper our ability to generate surpluses at the targeted level but strong recruitment in 2013 coupled with ongoing constraint of expenditure increases has produced a higher level of surplus in 2013/14.

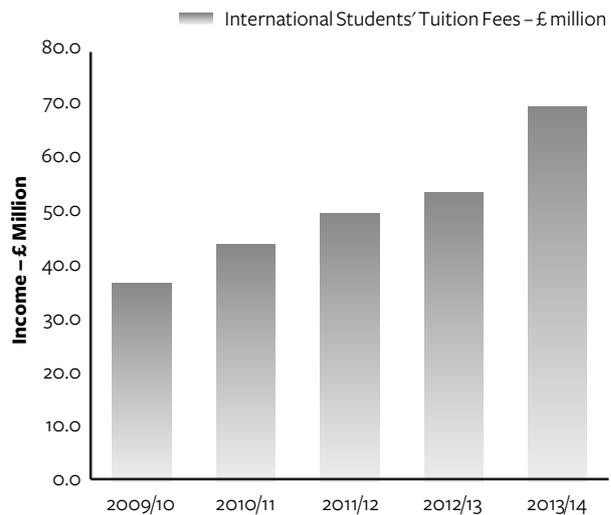
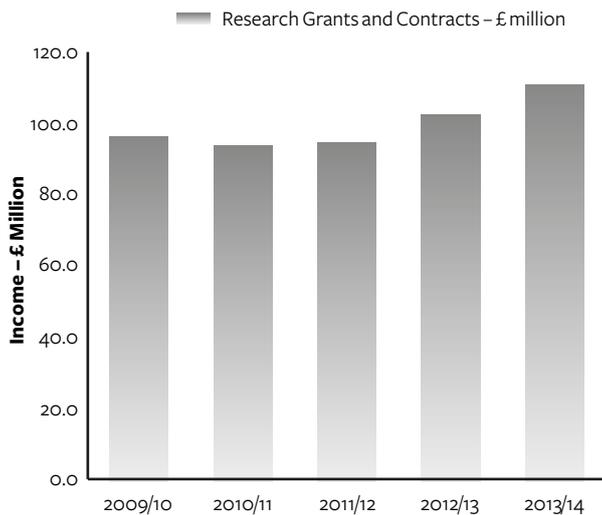


¹ Cash generation from ordinary activities is defined as the surplus excluding depreciation and HEFCE deferred capital grants released in year

Operating and Financial Review (continued)

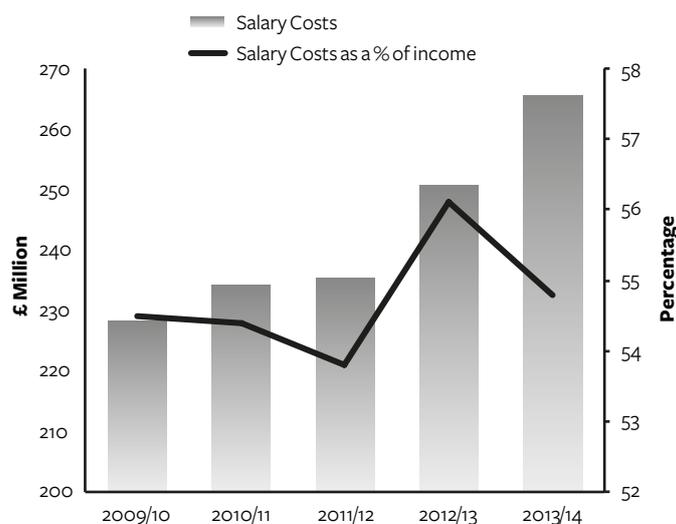
Research Grants and Contracts and International Students' Tuition Fees 2009/10 – 2013/14

We identified research grant and contract earnings and International students' tuition fees as the two key sources of income where significant growth could be achieved quickly through the University's efforts. The 2013/14 results continue the trend of strong growth. Success in winning research awards, which have shown strong growth in recent years, continues to feed through to research income and is expected to drive further increases in future years. International student numbers increased by 940 FTEs (24%) in 2013/14 and non-UK/EU students now comprise 22% of the overall student body.



Salary Costs as Proportion of Income 2009/10 – 2013/14

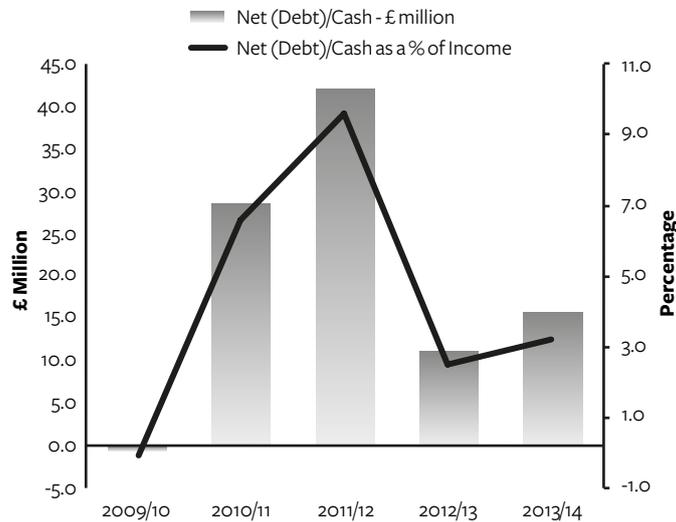
The growth in staff numbers reflect planned investments as we approached the Research Excellence Framework (REF) submission in November 2013. Salary costs as a percentage of income peaked as planned in 2012/13 and further increases in staff numbers in 2013/14 have been constrained in line with growth in student numbers and research grant and contract activity.



Operating and Financial Review (continued)

Movement of (Net Debt)/Net Cash 2009/10 – 2013/14

The University cash holdings exceed outstanding debt by £16 million (2012/13 £11 million). Despite the small increase in Net Cash compared to the prior year, it is expected to fall in the future, as the University plans to continue to fund capital programme spend from cash balances and debt as a result of the decline in HEFCE capital funding.



Vision 2020 – The University Strategy (2015-2020)

In July 2014, Council approved a refresh of the University strategy (2010-2015). The original strategy was approved in July 2010 and took us to 2015. The new strategy, “Vision 2020”, builds on the successes achieved between 2010 and 2014, reflects market developments since and now takes us through to 2020.

The vision within “Vision 2020” is to “be a distinctive, global leader in education, research and enterprise. By 2020 we expect to be clearly recognised as a successful and highly influential international university. We aspire to be a place of opportunity and inspiration that attracts the most talented staff and students from the UK and across the globe. We will grow our University resources and facilities to fully meet the expectations and ambitions of our high-performing staff and students.”

Our aims

By 2020 we will have:

Revolutionised our education

We will harness current and emerging technologies to broaden our reach and optimise student engagement in learning. Our curriculum structures, teaching delivery and extension activities will offer greater flexibility, enabling students to

personalise their learning and to participate in teaching programmes connected to all parts of the globe.

Transformed our global research competitiveness

Our future reputation depends upon our competitive edge in research. We will sustain the peaks of excellence in which we are international leaders and invest in emerging researchers and groups who are capable of global recognition. We will continue to grow our academic community in line with our overall growth and, through enhanced diversification of funding, increase our total research income to £135 million by 2020.

Become a globally connected University

We will build on our international success in research and education. By strengthening existing relationships and developing new partnerships we will increase our global presence and reach. Our international research collaborations will grow along with our international student population based in the UK and overseas.

Made important contributions to our society and the economy

We will further strengthen the economic and societal impact of the University and be a first point of engagement

Operating and Financial Review (continued)

for business and policy makers. We will achieve further success in incubating new forms of enterprise and spin-out companies and maintain our position as one of the UK's top five universities for business and enterprise.

Become a partner for growth in our city and region

We will continue to make a major contribution to economic growth and social development in our city and region, creating jobs and working with local authorities, business organisations and our Science Park to attract future inward investment.

Strengthened our community in keeping with our values

Ultimately, the University's strength lies in the vitality, quality and diversity of our people. We aspire to be an empowered and mutually supportive community. This will be evident from our behaviours, our systems of reward and recognition, and the working environment we create.

Major Financial Risks

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

A comprehensive financial risk assessment was considered by Council in approving the Vision 2020 strategy and in setting the 2014/15 University budget. The major risk areas are summarised below:

Risk of reduced recruitment of students

In the UK, competition for students has increased substantially since the introduction of £9,000 fees and the partial deregulation of intake quotas. The trend of highly volatile recruitment continues, and competition is likely to intensify for 2015 with the removal of remaining student number controls. A change of government in May 2015 could also have profound consequences. Longer term, the number of 18 year olds within the UK is declining up until 2020. The International recruitment market is also highly competitive but is influenced by different factors such as exchange rates, government visa policies and competition from other countries.

The strategy of the University is to grow overall student numbers, both in the UK and globally, but not at the cost of quality of intake and the student experience. The growth requires significant investments in facilities, information technology and new locations for study abroad. The availability

of funds to invest will, in turn, be dependent on the University's abilities to generate sufficient surpluses to service the debt requirements.

Risk of not achieving the University's strategic aim of Top 10 performance in the Research Excellence Framework (REF)

While the University used a strategic aim of a top 10 ranking as a means of ensuring quality submissions, the outcome is uncertain given the REF's new structure compared with RAE 2008. The Power ranking may be a more important outcome than Grade Point Average (GPA) for some if not the majority of disciplines. In 2008 the University was ranked 13th on GPA. Whilst the results of the REF assessment will be published in December 2014, the financial outcome will not be known until March 2015. Even if the University achieves an improved ranking it is possible the University will not receive an improved financial outcome given the government constraints on public spending. The reputational impact of the performance is important, more so for individual disciplines than the institution. Any major fall in rankings for a discipline would be significant.

Risks associated with changes in leadership

In July 2014, the Vice-Chancellor gave notice of his intention to retire within two years. The notice period provided by the Vice-Chancellor enables the University to carry out a rigorous recruitment process to ensure that the right person is selected to lead the University towards the objectives established in Vision 2020. Following the departures of the Chief Operating Officer in May 2014 and the Registrar in August 2014, a highly experienced new Interim Chief Operating Officer was appointed in October 2014. Whilst these changes inevitably cause some disruption in the short term, the University has put in place sufficient mitigating controls to keep it on track for delivering its overall strategy.

Risk of not meeting student expectation of their education and other experiences

The changes to higher education funding within the UK places a stronger emphasis on maintaining a consistent high-quality student experience. Failure to satisfy students would lead to reputational damage and eventually lower recruitment. The University has placed student experience improvements at the centre of its strategic plan. While the University's National Student Survey results in 2014 are generally positive (with an improved rank of 2 places to equal-14th in the Russell Group for overall satisfaction), our strategy demands further improvement. Therefore, we are taking targeted action

Operating and Financial Review (continued)

to address weaknesses in certain parts of the University. Moreover, by generating sufficient surpluses, the University will be able to invest in areas that further improve the student experience.

Risk that the University pension scheme will become unsustainable

The continuation of large deficits in the USS and PASNAS schemes remains a concern. The PASNAS scheme deficit has increased significantly in the year because of declines in gilt yields and discount factors. The results of the March 2014 triennial valuation of the USS scheme will be published towards the end of 2014 and it is anticipated that it will report a continuing substantial deficit. Proposals from Universities UK for changes to the USS scheme are also under consideration.

Capital Developments

2013/14 has seen the completion of the first stage of our Innovation Campus on the Boldrewood site, in collaboration with Lloyds Register. The project has been delivered within the overall cost plan and sees the establishment of world class facilities for marine and maritime teaching and research, with the University occupying the building in time for the start of the academic year 2014/15.

As part of the residences strategy the University has also taken delivery of Mayflower Hall of residence on a long term finance lease basis. This was delivered in August 2014 and within the overall budget approved by Council. The new student accommodation comprises three residential blocks of up to 17 floors and will house 1,100 students and includes a shop and gym. Situated next door to the Mayflower Theatre, the build represents a substantial investment in the city.

The first phase of the establishment of the University's Business School has also been accomplished in time for the new academic year. A repurposed building provides a dedicated home for the School in advance of further investment aligned with the University's strategy for globalisation, distinction and growth.

Future Plans

At the year-end, the University was forecasting a further £30 million capital expenditure to complete the current capital programme. This mainly relates to subsequent phases on the Boldrewood site. Work has already started on the planning and feasibility work for the next capital programme. This will include further work on the development for the Malaysian campus and a number of other initiatives.

The reduction in capital grant funding from HEFCE, together with the changes in the rules on HEFCE approvals of future commitment levels, mean that the sources for future funding will rely more heavily than ever on future earnings. Consequently, the University's ability to fund future programmes of work necessary to achieve our ambitions for students and for the University depends on its ability to generate future operating and cash surpluses. This is reflected within the targets for our future financial performance established within the University Strategic Plan as set out above. Decisions relating to the next capital programme will focus on both the alignment to strategy and the impact on financial performance to ensure that the University invests in a sustainable way.

Conclusion

The University has made significant progress against its strategic goals and has responded well to the competitive challenges arising from the new funding regime. A strong cash position has enabled it to fund an ambitious capital programme to support the University's strategic objectives to change the world for the better through our research, education, innovation and enterprise. We continue to view the future with confidence.

Mike Killingley
University Treasurer

Public Benefit

Introduction

The University of Southampton is a Chartered Corporation, established by Royal Charter on 29 April 1952 to be a teaching and examining body and to further the prosecution of research. Details of our Charter are available online at www.calendar.soton.ac.uk/sectionIII/charter.html.

For the year 2013/14, more than 23,500 full and part-time students benefited from our world-class educational programmes and our leading-edge research continues to have a tangible impact on individuals, communities and the economy. We invest heavily in the development of our students, working with partners around the world to provide a relevant, flexible education that prepares our students for their future. Through our research and enterprise activities, we connect with businesses to foster innovations that address some of society's greatest challenges.

Charitable status

The University has charitable status as one of the exempt charities listed in Schedule 3 to the Charities Act 2011. It is responsible to the Higher Education Funding Council for England (HEFCE), its principal regulator, which is charged with monitoring compliance with charity law obligations. The University reports annually on the ways in which it has delivered charitable purposes for the public benefit.

The University's governing body, the University Council, has due regard to the Charity Commission's guidance on public benefit requirements in setting and reviewing the University's objectives and activities. The members of the University Council are also the charitable trustees of the University.

Beneficiaries of the University's charitable objectives are our students, both undergraduate and postgraduate, our research collaborators, employers, policymakers and the wider public, who derive considerable benefit from the contributions of the University's teaching, research and enterprise. The local, regional and national economies also benefit significantly from our activities.

Student education, admissions and widening participation

The University of Southampton offers a distinctive education in a modern learning environment underpinned by world-class research. More than most universities of our type, we offer

choice and flexibility in study options and support students in their preparation for employment and life after university. Our programmes are designed to challenge our students to develop the critical thinking and independent learning they will need in their future careers.

Developments in our curriculum in recent years have provided our students with the opportunity to study interdisciplinary modules to broaden their learning. Additionally, in November 2013, the University launched the first of several MOOCs (massive open online courses). These courses enable anyone to study online, making our educational resources available for free, to anyone in the world with internet access. In the past year, our MOOCs have enabled tens of thousands of people to study Southampton courses ranging from the "Archaeology of Portus" to "Exploring Our Oceans".

The University of Southampton has a strong track record in supporting access and achievement by students from under-represented groups. We were one of the first universities to introduce a Widening Access to Medicine programme (BM6), one of the first to receive the Buttle Trust Quality Mark in recognition of our support for care leavers, and a founding institution in the Pathways to Law programme.

We work closely with schools, colleges and local communities to encourage prospective students to consider higher education. Ambitious local school children are able to make more informed choices about higher education through programmes developed by our Student Recruitment and Outreach office. In Southampton's primary and secondary schools and local sixth form colleges, we deliver workshops and seminars on a wide range of practical life skill topics. Through our "Learn with US" outreach programme we take a long term and targeted approach to raising aspirations among school-age children. This programme is linked to our Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups, including those who are the first generation of immediate family to apply to Higher Education or those who live, or have grown up in public care.

Since 2010, the University has provided the funding for nearly 5,000 local school students to learn more about science by visiting the Winchester Science Centre and Planetarium for free. In the past year, our physicists have engaged with over 19,000 people through their Outreach and Public Engagement activities.

Public Benefit (continued)

Over the past six years, more than 2,300 schoolchildren from Southampton and the surrounding areas have learnt about science and health through visits to our LifeLab facility. Young people discover how certain lifestyle choices could dramatically benefit not only their own health but that of their future children. A new, purpose built LifeLab facility was officially opened by HRH The Countess of Wessex in June 2014.

The impact of our commitment to widening access and student success has been evidenced in our performance indicators for UK students. We have performed consistently well in recruiting state school students, being 3rd highest in the Russell Group, with 86.3% in 2012/13. In the last five years, we have increased our proportion of first-year undergraduate black and minority ethnic students from 10.2% in 2008/09 to 15.9% in 2012/13. In 2012/13, 22.4% of our students came from low socio-economic groups and 8.1% from low participation neighbourhoods (4th highest in Russell Group).

The University's contribution to student financial support is made up primarily of two elements: contributions under the current framework that are subject to the Office for Fair Access (OFFA) agreement and contributions for undergraduates entering the University up to 2011/12 under the previous student funding framework. These bursaries and fee waivers are administered centrally, independently from decisions over admissions – the University operates a 'needs blind' admissions policy. Students in health care disciplines may be supported by non-repayable bursaries from the NHS.

The overall total for student financial support has risen in 2013/14 to £8.2 million (up from £5.9 million in 2012/13). This is analysed as follows:

- Payments in 2013/14 of £6.4 million under our current OFFA agreement, relating to bursaries and partial fee waivers of up to £3,000 per annum for students from low income households entering in 2012/13 and 2013/14. We estimate that nearly 40% of our 2013 home undergraduate intake qualified for student support with 25% receiving the full amount of £3,000 per annum; and
- Payments in 2013/14 of £1.8 million for undergraduate students entering the University from less well-off backgrounds under the previous student funding framework. These students were eligible to receive grants from government sources, and the University supplements the grants with non-repayable bursaries, which were paid to 2,840 students.

In addition, the University supported 1,900 postgraduate students through partial or full waiver of their tuition fees. The University also provides a scholarship fund for postgraduate research students, which is supplemented by financial donations from our alumni. The fund has been successful in attracting high quality individuals from a variety of backgrounds and provided support to 380 students in 2013/14.

Research impact

Southampton is ranked in the top 1% of universities worldwide (QS World Rankings) and we have a global reputation for the quality, depth and breadth of our research. Our academics are tackling some of the most pressing challenges facing society today and deliver a range of direct public benefits from their work. We have an open access policy for research which aims to maximise the visibility, usage and impact of our research through global access.

We have a close working relationship with hospitals in the region. Patients are regularly diagnosed and treated by University medical professionals. University staff work closely with colleagues at University Hospital Southampton NHS Foundation Trust in translational research, offering patients novel and effective treatment options in areas as diverse as cancer, osteoporosis, asthma and eye disease.

Thanks to Southampton research, gaming technologies may be used to provide engaging rehabilitation environments so that people who have had a stroke can practise movement and rebuild their lives. Every year, about 150,000 people in the UK have a stroke and approximately one-third require rehabilitation to help them recover movement and independence. From the mid-nineties, our researchers have investigated how innovative technologies can provide more effective rehabilitation and reduce the burden of stroke on the NHS.

Southampton engineers are also collaborating with colleagues in Medicine to explore the latest advances in nanotechnology and micro-devices to improve patient care. A new generation of portable electronic devices are offering greater flexibility and accuracy in diagnosing and treating chronic conditions such as diabetes, predicting and preventing heart attacks, and helping people with autism. The new devices and sensors can measure blood cells from a finger prick of blood, monitor heart patients in their own homes, and measure connectivity in the brains of children with autism. As treatment costs rise, there is a growing

Public Benefit (continued)

need for home monitoring of patients. These devices will help identify medical risks before they arise with patients, thus saving money otherwise spent in hospitals on emergency care.

We encourage our researchers to engage with policymakers through our Public Policy@Southampton initiative. This aims to increase the reach and impact of University of Southampton research by bringing together the expertise of world-leading researchers with the expertise and experience of key policymakers and practitioners to address issues of social, cultural, economic and political importance. Addressing issues as diverse as migration, social mobility and ageing, hosted on and off campus, the programme's reach and impact has increased significantly in the past year. Further details can be found at <http://publicpolicy.southampton.ac.uk>.

The University is a major driver of innovation with the exploitation of world-leading research and development undertaken by our academics and students. We are global leaders in the aerospace and defence sector, with research strengths in structures, power-plants, materials, fluid dynamics, electronics, optoelectronics and cyber-systems, as well as supply chains and logistics. We help a wide range of companies from multi-national blue chip companies through to SMEs find solutions to their most challenging problems using our knowledge and world-class facilities.

Over 40% of our annual research is conducted in collaboration with industrial partners. As one of the top three UK universities in terms of working with SMEs, industrial partnerships are strategically very important to us and are a proven route for wider benefit and impact of our research activities. The University of Southampton Science Park, located in Chilworth, has provided a nurturing home for many start-up and rapidly growing businesses over the past 30 years. We also run a successful business incubation programme to support high-tech, high-growth companies. This year, the University of Southampton-based SETsquared incubation centre was named the number one university business incubator in Europe and number two in the world. The centre is part of the SETsquared partnership, a collaboration between the universities of Bath, Bristol, Exeter, Southampton and Surrey, which provides services to accelerate businesses and boost enterprise.

An example of the public benefit of our external partnerships is the work undertaken by management scientists and engineers at the University with the Royal National Lifeboat Institution (RNLI) to reduce the operational costs of its fleet. The RNLI

is wholly dependent on charitable giving; saving money on operational working means the donations can be used more effectively to save even more lives.

Research highlights from 2013/14

- Researchers at the University's Optoelectronics Research Centre have been awarded over £6 million by the EPSRC to develop silicon photonics for a wide range of applications in computing, communications, domestic appliances and healthcare. Silicon photonics uses light (photons) to move huge amounts of data at very high speeds with extremely low power and is one of the most rapidly growing technologies in the world today. It is poised to transform devices, circuits and systems that provide high data transmission, higher resolution TV and faster computing and will do so at low power consumption, providing a double benefit.
- The past three decades have seen significant growth in the global container trade, by which the vast majority of manufactured goods are carried by sea. Staff at the Southampton Law School are playing a significant role in analysing and developing the laws around trade across the oceans, which influence the capacity for growth. With our dependence on imports and exports, transport of goods by sea is essential to the functioning of the UK economy.
- A consortium led by the Southampton Statistical Sciences Research Institute has been awarded £15 million by the ESRC to help launch and run a project to give access to government data for academic research. The Administrative Data Research Centre for England (ADRCE) will enable information routinely collected by government departments and other agencies, such as tax, education and health data, to be shared with researchers for approved academic projects, using anonymised data accessed in a secure environment. The vision is to see these data transformed into knowledge and evidence that can be used to inform public and economic policy – helping to tackle some of the major issues facing society, in an innovative and efficient way. Some of the research to be undertaken in the ADRCE could lead to a better understanding of how to improve and integrate public services for the benefit of our communities.
- The Alzheimer's Society is funding a Southampton study investigating chronic stress as a risk factor for developing dementia. Southampton research also suggests that inflammation in the brain caused by systemic infections could drive the development of Alzheimer's disease. These discoveries have great potential to improve the detection and management of this devastating illness.

Public Benefit (continued)

- A better educated nursing workforce may reduce unnecessary deaths in hospital according to the findings of a study across nine European countries co-led by Professor Peter Griffiths from Health Sciences. Every 10% increase in the number of bachelor's degree educated nurses within a hospital is associated with a 7% decline in patient mortality. The study shows that increasing the numbers of graduate nurses may help the NHS to realise the potential of lower patient mortality and fewer adverse patient outcomes.
- The University is leading an international project to provide sustainable electricity supplies to rural communities in Africa. The interdisciplinary research which incorporates community and government participation encompasses the social, technical, economic and cultural knowledge generation that will allow such projects to be recreated in rural communities across the world.
- An international study led by the University of Southampton and the National Vector-borne Diseases Control Programme in Namibia has used mobile phone data to measure population movements to help combat malaria more effectively.
- Scientists from Southampton have discovered that copper and copper alloys rapidly destroy norovirus. This highly-infectious virus is responsible for more than 267 million cases of acute gastroenteritis every year worldwide. In the UK, norovirus costs the NHS at least £100 million per year in times of high incidence.
- The University has made a range of contributions to events commemorating the outbreak of the Great War in 1914, ranging from a major international conference focusing on the context of the Sarajevo murders which triggered WW1, through to an exhibition exploring 100 years of knitting, which showed visitors about the practicality and utility of clothing during the First World War. As part of the WW1 anniversary events, the University put on display in its Senate Room a mural by Sir William Rothenstein painted in 1916 as a memorial to members of the British universities serving in the Great War.

Private benefit arising from commercially funded research and knowledge transfer activity is incidental to the University's principal objects. The University's trustees are aware of their obligations in respect of our public benefit principles and ensure that the University has appropriate procedures and policies in place to manage any potential for conflict of interest.

Values

Southampton is a world-class university built on the quality and diversity of our community. Our staff place a high value on excellence and creativity, supporting independence of thought, and the freedom to challenge existing knowledge and beliefs through critical research and scholarship. Through our education and research, we transform people's lives and change the world for the better.

Four core values underpin our activities and shape our culture, ultimately enabling us to achieve our vision.

- Excellence: We aspire to be the best in all we do, inspiring the confidence and ambition that enable our staff and students to reach their full potential.
- Creativity: We are imaginative and resourceful, thriving in an environment that values independent thought and encourages originality and innovation amongst its staff and students.
- Community: We achieve more together, we are an inclusive, collegial community that builds tolerance, respect and mutual support amongst staff and students.
- Integrity: We are committed to the highest standards. Our personal and institutional conduct is consistent and honest, engendering trust between and within our University communities.

Public and community engagement and culture

With over 6,200 members of staff, the University is one of the largest employers in Southampton and offers a wide variety of employment opportunities. Many of our students contribute to the city through their volunteering activities, and many remain in the region after graduation, providing a skilled workforce and contributing to many of the professions.

In 2013/14 over 200 students participated in our Excel Placements Programme. Significantly, the University subsidises the cost to local SMEs and charitable organisations, enabling access to short term skilled workers that otherwise would be unaffordable. We also provide a wide range of lifelong learning courses, notably in the humanities and social sciences, which are available to members of the wider community. These courses help individuals and organisations to share ideas, learn new skills and enhance existing skills.

Our excellent sports facilities and arts venues are open to members of the community. Uniquely within UK higher

Public Benefit (continued)

education, we support three world-class arts venues that are “National Portfolio Organisations” funded by Arts Council England, providing a concentration of artistic and cultural activity on campus. These are the John Hansard Gallery, the Turner Sims concert hall and the Nuffield theatre. In July 2014 the campus arts venues were awarded more than £3 million over three years (2015-18) by Arts Council England, as part of its National Portfolio funding programme.

The three arts venues are members of the Art at the Heart consortium – a partnership of arts organisations working with Southampton City Council to raise the profile of the city’s arts. The John Hansard Gallery, while continuing to be a University of Southampton arts venue, will be relocating to the city centre in 2016 as part of Southampton’s new arts complex.

Each year, the University hosts a popular festival as part of National Science and Engineering Week, with a series of events to encourage young people to develop an interest in science and engineering. We also host a “Bringing Research to Life Roadshow” to inform the general public about what our researchers do. Annual attendance at these events exceeds 10,000. Further details can be found at www.southampton.ac.uk/per/university/roadshow.page

The University works closely with the Students’ Union, local agencies and our neighbours to promote the positive benefits of the University’s presence in the community and to ensure that we mitigate any potentially negative impact that might arise.

Access to world-leading knowledge

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

The University houses a large and valuable collection of archives, including the Wellington Papers and the Broadlands Archives – a large collection of original documents relating to the lives and work of, among others, the Seventh Earl of Shaftesbury, Viscount Palmerston and Earl Mountbatten of Burma.

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

Creating a sustainable organisation

We recognise that there is a tension between the University’s aspirations for globalisation and growth, and our desire to minimise the environmental impacts of our activities. Our vision is to embed the principles of sustainability into all aspects of our work, integrating sustainable development into our business planning and policy-making (Vision 2020).

In July 2014, the University achieved a major milestone in being awarded the EcoCampus Platinum award, following almost three years work to implement an environmental management system (EMS). EcoCampus Platinum is equivalent to the international standard for environmental management systems – ISO 14001.

The EMS builds on many years of work to improve the University’s environmental performance, including the commissioning of the Combined Heat and Power plant on Highfield Campus and the development of the unilink bus network as part of our Green Travel Plan. The EcoCampus auditors found strong evidence of involvement of people at all levels of the organisation over a sustained period. They highlighted, in particular, the impressive and proactive range of activities being carried out in collaboration with our Students’ Union focusing on student and staff partnership projects and the curriculum.

The University has an aspirational target to achieve a 20% reduction in carbon dioxide equivalent emissions by 2020 (from a 2005/06 baseline), and we have a strategic carbon management plan in place. This is a very challenging target, given that we had already established plans for significant growth from 2005/06 levels of activity.

Since 2005/06 our student full time equivalent numbers have increased by 20%, yet in 2013/14 our energy and carbon dioxide emissions were approximately 5% below the 2005/06 baseline. A particularly mild winter was undoubtedly a key reason for this result, however, greater use of the University’s Combined Heat and Power plant was also a contributory factor, as were the many energy saving projects funded through the University’s carbon management plan. After taking the growth of the University into account, carbon emissions per FTE (staff and students) for 2013/14 were 20% below the 2005/06 figures.

Our unilink bus service continues to flourish, carrying five million passengers in the last year. In September 2013, a new

Public Benefit (continued)

fleet of buses came into operation and we increased capacity on the U6 route, which connects the University with our partners at Southampton's teaching hospital. A new smart card "The Key" was introduced which gives access to the wider Go South Coast bus network to encourage cross ticketing and hence increased bus use.

The University continues to improve its waste management. In 2012/13 we achieved the 60% recycling target following introduction of a comprehensive recycling and waste management scheme. In 2013/14, we recycled over 70% of the waste generated, with none of the remaining waste being sent to landfill.

The strong student and staff partnership continues to deliver projects that benefit both the University operations and local businesses, and which also equip our students with the skills to contribute to a low carbon and sustainable society. The Business Ethics and Environment Students (BEES) programme, funded by the National Union of Students' Green Fund, will see student-led auditing help local businesses address ethical and environmental impacts of their activities.

Corporate Governance

Summary of Corporate Governance

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

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

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

www.southampton.ac.uk/aboutus/councilmembers/

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

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

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

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

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

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

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

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

Statement of Internal Control

The Council is responsible for maintaining a sound system of internal control which supports the achievement of policies,

Corporate Governance (continued)

aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible.

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

- clear definition of the responsibilities and delegated authority of heads of academic and administrative groups;
- a medium and short-term planning process, supplemented by detailed annual income and expenditure and capital budgets;
- regular reviews of performance and at least termly reviews of financial performance and updates of forecasts of out-turns;
- clearly defined and formalised requirements for control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations, amended most recently in March 2014, approved by the Audit Committee and Council;
- a professional internal audit service, whose responsibilities cover the entire internal control systems of the institution.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system. Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council reviews the University risk register at each meeting, and last reviewed the University Key Performance Indicators in July 2014.

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

Role of Council in the Preparation of the Financial Statements

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

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

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

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

The Council has taken reasonable steps to:

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

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

Corporate Governance (continued)

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.

Members of the Council

There are five classes of Council membership.

Class 1: Officers

Class 2: Lay members appointed by the Council

Class 3: Members of University staff appointed by the Senate

Class 4: Members of University non-teaching staff

Class 5: Representatives of the Union of Students

Membership for the period 1 August 2013 – 12 November 2014

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 12 Nov 2014	Attendance Aug 2013 – Jul 2014	Membership of other Committees of Council (including joint committees)
Dr G Rider	Class 1 Chair	August 2012	July 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Dr M P Read CBE	Class 1 Vice-Chair	August 2008	July 2015	5/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Mr M S Killingley	Class 1 Treasurer	August 2009	July 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor D Nutbeam	Class 1 Vice-Chancellor	October 2009		6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor A A Wheeler	Class 1 Provost and Deputy Vice-Chancellor	August 2007		5/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Mr M C Burrow	Class 2	May 2010	May 2016	5/6	Audit Committee
Rear Admiral P D Greenish CBE	Class 2	March 2011	July 2017	4/6	Health and Safety Audit and Assurance Committee (from 1 August 2014)
Ms S Kumar	Class 2	March 2012	July 2015	4/6	
Mr T P O'Brien CBE	Class 2	April 2009	July 2015	5/6	

Corporate Governance (continued)

Dr D J Price CBE	Class 2	October 2010	July 2016	5/6	Audit Committee Senior Salaries Committee
Ms R C Rivaz	Class 2 (until 31 July 2014) Class 1 (from 1 August 2014)	August 2006	July 2017	4/6	Health and Safety Audit and Assurance Committee (until 31 July 2014) Standing Committee of Council (from 1 August 2014) Nominations Committee (from 1 August 2014) Senior Salaries Committee (from 1 August 2014)
Mr J A Trewby CB	Class 2	October 2009	July 2015	6/6	
Professor Dame Jessica Corner	Class 3	August 2014	July 2017	0/0	
Professor J Falkingham	Class 3	May 2011	July 2014	6/6	
Professor D McGhee	Class 3	August 2012	July 2015	5/6	
Professor P G Smith	Class 3	May 2011	July 2014	5/6	
Professor J A Vickers	Class 3	March 2012	July 2015	6/6	Nominations Committee
Mrs H E Smith	Class 4	April 2010	July 2014	6/6	
Mr A Reyes-Hughes	Class 4	August 2014	July 2017	0/0	
Mr D Gilani	Class 5	July 2013	June 2014	5/5	
Mr D Mendoza-Wolfson	Class 5	July 2014	June 2015	1/1	

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

We have audited the group and parent institution financial statements (the "financial statements") of the University of Southampton for the year ended 31 July 2014 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Parent Institution Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Council and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and institution's affairs as at 31 July 2014 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

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

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

12 November 2014

Consolidated Income and Expenditure Account for the year ended 31 July 2014

	Notes	2014 £000	Restated 2013 £000
Income			
Funding Council grants	2	84,965	97,655
Academic fees and support grants	3	191,355	152,874
Research grants and contracts	4	110,971	102,376
Other operating income	5	94,140	89,317
Endowment income and interest receivable	6	2,860	4,999
Total income		484,291	447,221
Expenditure			
Staff costs	7	265,462	250,770
Depreciation	10	24,483	22,120
Other operating expenses	8	173,145	161,276
Interest payable	9	5,697	7,329
Total expenditure	10	468,787	441,495
Surplus after depreciation of assets		15,504	5,726
(Surplus)/deficit for the year transferred to/from accumulated income in endowment funds	20	(110)	109
Surplus for the year		15,394	5,835

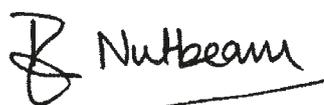
All income and expenditure is in respect of continuing operations.

The income for 2012/13 has been restated for some minor reclassifications, see Note 1, section q (Comparatives).

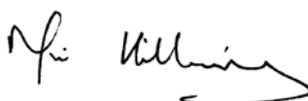
Balance Sheets as at 31 July 2014

	Notes	Consolidated		University	
		2014 £000	2013 £000	2014 £000	2013 £000
Fixed assets					
Tangible assets	11	505,921	481,261	474,203	452,405
Investments	12	1,385	1,575	14,238	2,372
		<u>507,306</u>	<u>482,836</u>	<u>488,441</u>	<u>454,777</u>
Endowment asset investments	13	12,101	11,802	12,101	11,802
Debtors: amounts falling due after more than one year	14	473	503	583	17,493
Current assets					
Creditors: amounts falling due within one year	16	(144,263)	(143,208)	(141,598)	(140,640)
Net current assets		<u>15,494</u>	<u>17,922</u>	<u>17,607</u>	<u>19,124</u>
Total assets less current liabilities		<u>535,374</u>	<u>513,063</u>	<u>518,732</u>	<u>503,196</u>
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	18	(246)	(744)	-	-
Net assets excluding pension liability		<u>443,960</u>	<u>412,456</u>	<u>436,331</u>	<u>412,804</u>
Pension liability	26	(62,678)	(47,940)	(62,678)	(47,940)
Total net assets		<u>381,282</u>	<u>364,516</u>	<u>373,653</u>	<u>364,864</u>
Represented by:					
Deferred capital grants	19	177,366	166,783	177,366	166,783
Endowments					
Permanent	20	10,260	9,962	10,260	9,962
Expendable	20	1,841	1,840	1,841	1,840
		<u>12,101</u>	<u>11,802</u>	<u>12,101</u>	<u>11,802</u>
Reserves					
Revaluation reserve	21	7,502	4,666	-	-
Pension reserve	26	(62,678)	(47,940)	(62,678)	(47,940)
Income and Expenditure account	22	246,991	229,205	246,864	234,219
		<u>191,815</u>	<u>185,931</u>	<u>184,186</u>	<u>186,279</u>
Total funds		<u>381,282</u>	<u>364,516</u>	<u>373,653</u>	<u>364,864</u>

The financial statements on pages 22 to 59 were approved by the Council on 12 November 2014, and signed on its behalf by:



Professor Don Nutbeam
Vice-Chancellor



Mike Killingley
Treasurer



Sarah Pook
Director of Finance

The notes on pages 26 to 59 form part of these financial statements

Consolidated Cash Flow Statement for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Net cash inflow from operating activities	27	32,106	34,702
Returns on investments and servicing of finance	28	(1,291)	102
Capital investment and financial investment	29	(26,976)	(64,664)
Cash inflow/(outflow) before use of liquid resources and financing		3,839	(29,860)
Management of liquid resources	31	10,013	60,878
Net financing	30	(7,085)	(7,696)
Increase in cash	31	6,767	23,322

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2014 £000	2013 £000
Increase in cash in period	31	6,767	23,322
Decrease in liquid resources	31	(10,016)	(60,885)
New loans and debt movement	30	-	(250)
Exchange rate gain/(loss)	30	756	(1,194)
Repayment of debt	30	7,085	7,946
Change in net debt		4,592	(31,061)
Net cash at 1 August 2013	31	11,068	42,129
Net cash at 31 July 2014	31	15,660	11,068

The notes on pages 26 to 59 form part of these financial statements

Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 July 2014

	Notes	2014 £000	2013 £000
Surplus after depreciation of assets		15,504	5,726
Net movement on deferred capital grants	19	10,583	(452)
Unrealised appreciation on endowment asset investments	20	351	1,142
Realised gains on endowment asset investments	20	(303)	(35)
Endowments received in year	20	70	748
Unrealised gain on revaluation of University of Southampton Science Park	21	2,836	232
Actuarial (loss)/gain on defined benefit pension schemes		(12,275)	25,786
Total recognised gains relating to the year		<u>16,766</u>	<u>33,147</u>
 Total funds as per balance sheet:			
At 1 August 2013		364,516	331,369
Total recognised gains		<u>16,766</u>	<u>33,147</u>
At 31 July 2014		<u>381,282</u>	<u>364,516</u>

Notes to the Financial Statements for the year ended 31 July 2014

1. Statement of principal accounting policies

a. Accounting convention

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

b. Basis of consolidation

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

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

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

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

c. Recognition of income

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

Fee income is credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursary payments are accounted for gross as expenditure and not deducted from income. Income from short courses is recognised in line with the expenditure incurred during the year, with any surplus recognised on completion.

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

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

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

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

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

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

d. Pension schemes

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

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

e. Foreign currencies

Transactions denominated in foreign currencies are recorded in the income and expenditure account at the actual rate of exchange on conversion to sterling. Monetary assets and

Notes to the Financial Statements for the year ended 31 July 2014

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.

g. Land and buildings

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

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

Depreciation is charged on the following bases:

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

Land is not depreciated.

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

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

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

h. Equipment

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

Equipment capitalised by the University is generally stated at cost and depreciated over three years. Large scale items of equipment and computer infrastructure are depreciated over a period equal to their expected useful economic life. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods of between 3 and 10 years.

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

i. Deferred capital grants

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

j. Heritage assets

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

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

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

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

k. Gifts in kind

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

l. Investments

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

Notes to the Financial Statements for the year ended 31 July 2014

m. Stocks

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

n. Cash flows and liquid resources

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

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

o. Maintenance

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

p. Provisions

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

q. Comparatives

Where accounting practice has changed, the prior year comparatives have been revised accordingly. The income recorded for 2012/13 has been restated to reclassify income received to more accurately reflect the substance of the transaction. Income received to fund student fees was not netted off against the fee waivers, therefore an amount of £270,000 has been moved from other operating income to academic fees and support grants (reflected in Note 3 and Note 5).

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

r. Taxation

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

The Institution receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Notes to the Financial Statements for the year ended 31 July 2014

2. Funding Council grants

	2014	2013
	£000	£000
Recurrent grants:		
Higher Education Funding Council for England (HEFCE)	72,146	85,262
National College for Teaching and Leadership	159	585
Specific grants:		
HEFCE	7,012	6,536
Deferred capital grants released in year (note 19)	5,648	5,272
	<u>84,965</u>	<u>97,655</u>

3. Academic fees and support grants

	2014	Restated 2013
	£000	£000
Full-time Home/EU students	99,749	79,351
Full-time international students	68,337	52,567
Part-time Home/EU students	1,948	2,738
Part-time international students	528	542
Research training support grants	14,528	13,297
Special and short course fees	6,265	4,379
	<u>191,355</u>	<u>152,874</u>

Included in the above is £18,539,000 (2013: £18,928,000) of NHS Teaching Contract income in respect of full and part time fees.

Other income from health authorities is disclosed under note 5.

Fee income is stated net of waivers and discounts.

4. Research grants and contracts

	2014	2013
	£000	£000
Income		
Research councils	50,053	44,818
UK based charities	14,434	14,729
UK Central Government/local authorities/health authorities and hospitals	13,240	12,483
UK public corporations/industry and commerce	8,296	7,778
EU Government	16,231	15,350
EU other sources	3,034	2,329
Other overseas sources	4,517	3,747
Other sources	1,166	1,142
	<u>110,971</u>	<u>102,376</u>

Notes to the Financial Statements for the year ended 31 July 2014

4. Research grants and contracts (continued)

	2014 £000	2013 £000
Expenditure - direct costs		
Salaries and wages	46,452	41,570
Equipment	3,689	3,065
Depreciation	3,996	3,751
Other costs	25,661	23,342
	<u>79,798</u>	<u>71,728</u>
Contribution to indirect costs	<u>31,173</u>	<u>30,648</u>

Included within income above are deferred capital grants released in the year of £4,024,000 (2013: £3,751,000) (see note 19).

5. Other operating income

	2014 £000	Restated 2013 £000
Residences, catering and conferences	28,873	27,056
Consultancies, trading and services rendered	35,965	35,456
Health authorities	9,429	8,035
Other donations and subventions	2,594	2,519
Deferred capital grants released in year (note 19)	457	362
Other income	16,822	15,889
	<u>94,140</u>	<u>89,317</u>

6. Endowment income and interest receivable

	2014 £000	2013 £000
Income from permanent endowment asset investments (note 20)	248	368
Income from expendable endowment asset investments (note 20)	330	7
Income from short term deposits and investments	2,282	4,624
	<u>2,860</u>	<u>4,999</u>

Notes to the Financial Statements for the year ended 31 July 2014

7. Staff

	2014 £000	2013 £000
Staff costs:		
Salaries and wages	216,787	203,496
Social Security costs	16,930	16,159
Other pension costs	31,393	30,419
Severance and early retirement	352	696
	<u>265,462</u>	<u>250,770</u>

	2014 Number	2013 Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:		
Education, research and enterprise	2,725	2,539
Management, specialist and administrative	1,885	1,841
Technical and experimental	365	362
Community and operational	439	448
	<u>5,414</u>	<u>5,190</u>

	2014 £000	2013 £000
Emoluments of the Vice-Chancellor	280	294
Pension contributions	40	40
Total remuneration of the Vice-Chancellor	<u>320</u>	<u>334</u>

The Vice-Chancellor donated £1,000 (2013: £1,000) to the University during the year as a member of the Hartley Circle.

Notes to the Financial Statements for the year ended 31 July 2014

7. Staff (continued)

Higher Paid Staff:

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

	2014		2013	
	Total	Clinical	Total	Clinical
£100,000 - £109,999	28	7	26	8
£110,000 - £119,999	29	17	30	16
£120,000 - £129,999	16	7	11	4
£130,000 - £139,999	6	3	9	5
£140,000 - £149,999	15	9	10	7
£150,000 - £159,999	10	8	8	7
£160,000 - £169,999	5	4	5	5
£170,000 - £179,999	4	4	1	1
£180,000 - £189,999	2	1	2	2
£190,000 - £199,999	1	-	-	-
£200,000 - £209,999	-	-	1	1
£210,000 - £219,999	3	3	2	2
£220,000 - £229,999	-	-	-	-
£230,000 - £239,999	-	-	-	-
£240,000 - £249,999	-	-	-	-
£250,000 - £259,999	-	-	-	-
£260,000 - £269,999	-	-	-	-
£270,000 - £279,999	-	-	-	-
£280,000 - £289,999	1	-	-	-
£290,000 - £299,999	-	-	1	-

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

Compensation for loss of office:

No compensation was paid for loss of office in respect of higher paid employees (2013: £0).

Notes to the Financial Statements for the year ended 31 July 2014

8. Other operating expenses

	2014	2013
	£000	£000
Non capitalised equipment	20,093	18,020
Loss/(gain) on disposal of equipment	54	(73)
Loss on disposal of land and buildings	188	82
Impairment of property value	-	(2)
Impairment of equipment	67	-
Consumables and laboratory expenditure	16,624	16,649
Office expenses and professional fees	25,897	22,140
Travel costs	14,119	13,135
Repairs, refurbishment and scheduled maintenance	20,370	19,986
Heat, light, water and power	8,517	8,398
Books and periodicals	4,721	4,690
Bursaries, fellowships, scholarships and prizes	29,001	26,119
External agencies and staff secondments	9,363	8,828
Rents, rates and hire of facilities	6,332	5,240
Catering supplies	2,203	2,054
Conference fees	2,709	2,531
Grant to Students' Union	2,468	2,434
Loss on disposal of current asset investments	-	128
Diminution of current asset investments valuation below historic cost	3	7
External auditors' remuneration	72	61
Auditors' remuneration in respect of other services	75	106
Other expenses	10,269	10,743
	<u>173,145</u>	<u>161,276</u>

Payments to members of the Council

Lay members and non University staff officers of the Council were reimbursed for expenses totalling £2,795 (2013: £823) during the year.

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

Notes to the Financial Statements for the year ended 31 July 2014
9. Interest payable

	2014	2013
	£000	£000
Loans not wholly repayable within five years	3,730	4,246
Loans wholly repayable within five years	736	593
Net finance cost of defined benefit pension schemes	1,231	2,490
	<u>5,697</u>	<u>7,329</u>

10. Analysis of 2014 expenditure by activity

	Staff costs	Depreciation	Other operating expenses	Interest payable	2014 Total	2013 Total
	£000	£000	£000	£000	£000	£000
Academic departments	143,692	1,719	31,366	-	176,777	166,897
Academic services	16,999	3,657	15,259	-	35,915	35,753
Research grants and contracts (note 4)	46,452	3,996	29,350	-	79,798	71,728
Residences, catering and conferences	6,194	1,653	12,981	2,805	23,633	22,680
Premises	9,159	12,683	21,740	-	43,582	41,907
Administration and central services	18,491	43	11,313	-	29,847	27,368
General educational expenditure	5,754	-	32,657	-	38,411	32,154
Consultancies, trading and services rendered	17,411	732	17,405	338	35,886	31,529
Other activities	1,310	-	1,074	2,554	4,938	11,479
	<u>265,462</u>	<u>24,483</u>	<u>173,145</u>	<u>5,697</u>	<u>468,787</u>	<u>441,495</u>

The depreciation charge has been funded by:

Deferred capital grants released (note 19)	10,129
General income	14,354
	<u>24,483</u>

Notes to the Financial Statements for the year ended 31 July 2014**11. Tangible assets****Consolidated**

	Land and buildings		Assets in		Furniture	Heritage	Total
	Completed	Completed	course of	Investment	fittings and	Assets	
	freehold	leasehold	construction	properties	equipment		
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 August 2013	370,331	84,692	93,708	27,694	112,960	6,000	695,385
Additions at cost	1,088	189	40,404	268	4,867	-	46,816
Transfers at cost	90,972	19	(97,830)	134	6,705	-	-
Revaluation	-	-	-	2,836	-	-	2,836
Disposals at cost	(38)	-	-	(25)	(8,091)	-	(8,154)
Assets written down at cost	-	-	(346)	-	(1,037)	-	(1,383)
At 31 July 2014	462,353	84,900	35,936	30,907	115,404	6,000	735,500
Depreciation							
At 1 August 2013	(94,532)	(30,019)	-	(130)	(89,443)	-	(214,124)
Charge for year	(10,158)	(4,612)	-	(13)	(9,700)	-	(24,483)
Eliminated on disposal	21	-	-	-	8,037	-	8,058
Eliminated on assets written down at cost	-	-	-	-	970	-	970
At 31 July 2014	(104,669)	(34,631)	-	(143)	(90,136)	-	(229,579)
Net book value							
At 31 July 2014	357,684	50,269	35,936	30,764	25,268	6,000	505,921
At 1 August 2013	275,799	54,673	93,708	27,564	23,517	6,000	481,261

Notes to the Financial Statements for the year ended 31 July 2014**11. Tangible assets (continued)****University**

	Land and buildings		Assets in course of construction £000	Equipment £000	Heritage Assets £000	Total £000
	Completed freehold £000	Completed leasehold £000				
Cost or valuation						
At 1 August 2013	370,331	84,692	93,274	111,420	6,000	665,717
Additions at cost	1,088	189	40,148	4,734	-	46,159
Transfers at cost	90,972	19	(97,696)	6,705	-	-
Disposals at cost	(38)	-	-	(8,091)	-	(8,129)
Assets written down at cost	-	-	-	(1,037)	-	(1,037)
At 31 July 2014	462,353	84,900	35,726	113,731	6,000	702,710
Depreciation						
At 1 August 2013	(94,531)	(30,019)	-	(88,762)	-	(213,312)
Charge for year	(10,159)	(4,612)	-	(9,452)	-	(24,223)
Eliminated on disposal	21	-	-	8,037	-	8,058
Eliminated on assets written down at cost	-	-	-	970	-	970
At 31 July 2014	(104,669)	(34,631)	-	(89,207)	-	(228,507)
Net book value						
At 31 July 2014	357,684	50,269	35,726	24,524	6,000	474,203
At 1 August 2013	275,800	54,673	93,274	22,658	6,000	452,405

At 31 July 2014, completed freehold land and buildings included £6,231,000 (2013: £6,231,000) in respect of land, which is not depreciated.

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

The investment property, University of Southampton Science Park, has been valued as at 31 July 2014 by Vail Williams LLP. In accordance with SSAP 19, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £2,836,000 during the year. The historical cost of these assets at 31 July 2014, net of assistance grants, amounted to £21,845,000 (2013: £21,467,000).

In addition to the above expenditure on tangible assets a further £91,209,000 has been committed by the University and its subsidiary undertakings (note 24).

Notes to the Financial Statements for the year ended 31 July 2014

11. Tangible assets (continued)

On 16 September 2014 the University entered into a finance lease with Legal and General Pensions Limited relating to student accommodation and ancillary accommodation at Mayflower Plaza, Southampton. The lease has a term of 38 years, with the Basic Rent commencing at £3,905,881 per annum.

Heritage assets

	2014 £000	2013 £000
At 1 August	6,000	6,000
Additions purchased with grants and donations (note 5)	-	-
Additions purchased with University funds	-	-
At 31 July	<u>6,000</u>	<u>6,000</u>

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

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

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

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

Notes to the Financial Statements for the year ended 31 July 2014

12. Fixed asset investments

	Consolidated £000	University £000
Cost		
At 1 August 2013	1,885	2,372
Additions	-	12,579
Disposals	(96)	(213)
At 31 July 2014	<u>1,789</u>	<u>14,738</u>
Impairment		
At 1 August 2013	(310)	-
Additions	(105)	(500)
Disposals	11	-
At 31 July 2014	<u>(404)</u>	<u>(500)</u>
Net Book Value		
At 31 July 2014	<u>1,385</u>	<u>14,238</u>
At 1 August 2013	<u>1,575</u>	<u>2,372</u>
Investments comprise:		
Investment in subsidiary undertakings at valuation/cost	-	13,186
Other investments	1,385	1,052
	<u>1,385</u>	<u>14,238</u>

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

Notes to the Financial Statements for the year ended 31 July 2014

12. Fixed asset investments (continued)

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

	Percentage holding	Nature of activity
Held by the University		
ECS Partners Limited (ECSP Limited)	100.00	Consultancy
IT Innovation Limited	100.00	Dormant
IT Innovation Centre Limited	100.00	Dormant
Photonic Innovations Limited	50.00	Investment company
Southampton Asset Management Limited (SAM Limited)	80.00	Investment company
Southampton Innovations Limited (SI Limited)	100.00	Investment company
Southampton International Singapore Limited	100.00 *	Research
USMC Sdn Bhd (Malaysia)	100.00	Education
University of Southampton Holdings Limited (USH Limited)	100.00	Holding company
The University of Southampton Science Park Limited (SSP Limited)	100.00	Science park management
Investments held by USH Limited		
The University of Southampton Consulting Limited	100.00	Dormant
Investments held by SI Limited		
Photonic Innovations Limited (PI Limited)	50.00	Optoelectronics

* Company limited by guarantee, maximum liability Singapore Dollars S\$1,000.

During the course of 2013/14, there was a transfer of ownership of the non-dormant investments held by University of Southampton Holdings Limited to the University of Southampton. This comprised investments in ECSP Limited, SAM Limited, SI Limited and SSP Limited, with a net book value of £12.1 million.

Notes to the Financial Statements for the year ended 31 July 2014

13. Endowment asset investments

	Consolidated and University	
	2014 £000	2013 £000
Balance at 1 August	11,802	9,982
(Disposals)/additions to stocks, equities and managed funds	(174)	738
Increase in market value of investments	351	1,142
Increase/(decrease) in endowment fund cash balances	122	(60)
Balance at 31 July	12,101	11,802
Represented by:		
Equities	118	107
Unit trusts and managed funds	10,292	10,126
Total stocks, equities and managed funds at market value*	10,410	10,233
Short term deposits	1,691	1,569
Total	12,101	11,802
*Total stocks, equities and managed funds at cost	8,111	8,282

14. Long term debtors and prepayments

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Prepayments	473	503	392	414
Amounts owed by subsidiary undertakings	-	-	191	17,079
	473	503	583	17,493

Notes to the Financial Statements for the year ended 31 July 2014
15. Current assets

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Stock	707	626	707	626
Debtors and prepayments:				
Grants from HEFCE	57	849	57	849
Student debtors	1,101	797	1,101	797
Research grants and contracts	23,578	22,972	23,578	22,972
Amounts due from group undertakings	-	-	3,093	2,009
Prepayments to group undertakings	-	-	87	99
Other prepayments	9,388	6,536	9,111	6,229
Trade and other debtors	12,084	13,259	10,164	11,627
	46,208	44,413	47,191	44,582
Short term deposits and investments	54,618	64,634	54,618	64,634
Cash at bank and in hand (redeemable within 24 hours)	58,224	51,457	56,689	49,922
	<u>159,757</u>	<u>161,130</u>	<u>159,205</u>	<u>159,764</u>

Short term deposits and investments are represented by:

	2014 £000	2013 £000
Quoted shares and securities *	58	75
Cash on deposit (not redeemable within 24 hours)	54,560	64,559
	<u>54,618</u>	<u>64,634</u>
* Market value of quoted shares and securities (held at lower of cost and net realisable value above)	<u>251</u>	<u>229</u>

Notes to the Financial Statements for the year ended 31 July 2014**16. Creditors: amounts falling due within one year**

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Bank loans	6,788	6,991	6,119	6,360
Other loans - HEFCE	1,125	125	1,125	125
Advance income on research	46,079	42,771	46,079	42,771
Social Security and other taxation	9,837	10,999	9,837	10,987
Amounts owed to group undertakings	-	-	66	39
Trade and other creditors	19,539	26,727	18,563	25,810
Accruals and deferred income	60,895	55,595	59,809	54,548
	<u>144,263</u>	<u>143,208</u>	<u>141,598</u>	<u>140,640</u>

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

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Bank loans	85,081	92,594	77,933	84,777
Other loans - HEFCE	4,188	5,313	4,188	5,313
Accruals and deferred income	1,899	1,956	280	302
	<u>91,168</u>	<u>99,863</u>	<u>82,401</u>	<u>90,392</u>

Loans are repayable as follows:

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Bank loans:				
Between one and two years	5,208	6,835	4,498	6,166
Between two and five years	12,509	14,658	10,106	12,394
Over five years	67,364	71,101	63,329	66,217
	<u>85,081</u>	<u>92,594</u>	<u>77,933</u>	<u>84,777</u>
Other loans - HEFCE:				
Between one and two years	1,188	1,125	1,188	1,125
Between two and five years	3,000	3,188	3,000	3,188
Over five years	-	1,000	-	1,000
	<u>4,188</u>	<u>5,313</u>	<u>4,188</u>	<u>5,313</u>

Notes to the Financial Statements for the year ended 31 July 2014**17. Creditors: amounts falling due after more than one year (continued)**

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

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2014 £000	Balance outstanding 2013 £000
University:					
HSBC	1993	2018	variable	2,042	2,684
National Westminster Bank	1996	2016	fixed	1,461	2,338
National Australia Bank	1997	2018	fixed	480	628
National Australia Bank	1997	2018	fixed	696	931
National Australia Bank	1997	2019	fixed	2,512	3,140
National Westminster Bank	1999	2019	fixed	2,005	2,431
Barclays Bank	1999	2020	fixed	1,444	1,719
Barclays Bank	2004	2015	fixed	-	663
Barclays Bank	2005	2015	fixed	-	1,084
Barclays Bank	2006	2026	variable	7,022	8,404
Barclays Bank	2006	2036	fixed	10,271	10,755
Barclays Bank	2007	2047	fixed	50,000	50,000
				77,933	84,777
Subsidiaries:					
Santander	2007	2023	fixed	7,148	7,817
				85,081	92,594

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

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

18. Provisions for liabilities and charges

	Consolidated and University Maintenance Fund £000
At 1 August 2013	744
Utilised during year	(498)
Transfer from Income and Expenditure account	-
At 31 July 2014	246

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

Notes to the Financial Statements for the year ended 31 July 2014**19. Deferred capital grants**

	Consolidated and University		
	Funding Council £000	Other grants £000	Total £000
At 1 August 2013			
Buildings	142,162	18,716	160,878
Equipment	-	5,905	5,905
Total	<u>142,162</u>	<u>24,621</u>	<u>166,783</u>
Additions			
Buildings	10,293	2,386	12,679
Equipment	1,020	7,013	8,033
Total	<u>11,313</u>	<u>9,399</u>	<u>20,712</u>
Released to Income and Expenditure account			
Buildings	(5,350)	(1,044)	(6,394)
Equipment	(298)	(3,437)	(3,735)
Total	<u>(5,648)</u>	<u>(4,481)</u>	<u>(10,129)</u>
At 31 July 2014			
Buildings	147,105	20,058	167,163
Equipment	722	9,481	10,203
Total	<u>147,827</u>	<u>29,539</u>	<u>177,366</u>
Released to Income and Expenditure account			
Funding body grants (note 2)			(5,648)
Research grants and contracts			(4,024)
Other income (note 5)			(457)
Total			<u>(10,129)</u>

Notes to the Financial Statements for the year ended 31 July 2014
20. Endowments

	Consolidated and University				2014 Total £000	2013 Total £000
	Restricted Permanent £000	Unrestricted Permanent £000	Total Permanent £000	Restricted Expendable £000		
At 1 August						
Capital	6,571	2,305	8,876	1,851	10,727	8,847
Accumulated income	865	221	1,086	(11)	1,075	1,135
	<u>7,436</u>	<u>2,526</u>	<u>9,962</u>	<u>1,840</u>	<u>11,802</u>	<u>9,982</u>
Additions	37	-	37	33	70	748
Disposals	-	-	-	(303)	(303)	(35)
Appropriations from Income and Expenditure reserves	-	71	71	-	71	74
Investment income	177	71	248	330	578	375
Expenditure	(160)	(71)	(231)	(237)	(468)	(484)
	17	-	17	93	110	(109)
Increase in market value of investments	91	82	173	178	351	1,142
At 31 July	<u>7,581</u>	<u>2,679</u>	<u>10,260</u>	<u>1,841</u>	<u>12,101</u>	<u>11,802</u>
At 31 July						
Capital	6,752	2,389	9,141	1,772	10,913	10,727
Accumulated income	829	290	1,119	69	1,188	1,075
	<u>7,581</u>	<u>2,679</u>	<u>10,260</u>	<u>1,841</u>	<u>12,101</u>	<u>11,802</u>

21. Revaluation reserve

	Consolidated	
	2014 £000	2013 £000
At 1 August	4,666	4,434
Increase in year of University of Southampton Science Park valuation	2,836	232
At 31 July	<u>7,502</u>	<u>4,666</u>

Notes to the Financial Statements for the year ended 31 July 2014

22. Reconciliation of Income and Expenditure reserves

	Consolidated £000	University £000
Balance at 1 August 2013	229,205	234,219
Surplus for the year	15,394	10,253
Add back pension deficit	2,463	2,463
Transfer to endowments (note 20)	(71)	(71)
Balance at 31 July 2014	246,991	246,864

The above reserves have arisen from accumulated annual surpluses. A total of £237,151,000 (2013: £216,294,000) from within these sums has been applied to finance capital developments within the University.

23. Related party transactions

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

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

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2014 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Director of Finance. There were two related party transactions during the year ended 31 July 2014 significant enough to warrant disclosure in the Financial Statements.

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

Mr David Gilani and Mr David Mendoza-Wolfson were members of Council (Class 5 membership) as representatives of the Union of Students. Mr Mendoza-Wolfson (Mr Gilani for the period July 2013 to June 2014) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a block grant from the University, which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

Notes to the Financial Statements for the year ended 31 July 2014

23. Related party transactions (continued)

In addition, Professor Dame Jessica Corner, Dean of the Faculty of Health Sciences and a member of Council from August 2014, is also Chief Clinician at Macmillan Cancer Support. The University is in receipt of a number of research grants from Macmillan Cancer Support, funding research into people affected by cancer. Income to the University was a total of £247,000 in 2013/14.

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

24. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2014:

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
Commitments contracted for	12,378	39,175	12,378	39,175
Authorised but not contracted for	78,831	60,794	78,831	60,794
	<u>91,209</u>	<u>99,969</u>	<u>91,209</u>	<u>99,969</u>

Projects funded from the Council Approved £170m capital programme for the period 2011-2015 are now complete or nearing completion. The University is currently in the process of planning the next phase of its capital programme for the period 2015-2020.

25. Lease obligations

At 31 July 2014 the University was committed to making the following payments under non-cancellable operating leases in the next financial year:

	2014			2013		
	2 - 5 years £000	Over 5 years £000	Total £000	2 - 5 years £000	Over 5 years £000	Total £000
Land and Buildings	50	889	939	80	877	957
Equipment	1,744	-	1,744	1,759	-	1,759
	<u>1,794</u>	<u>889</u>	<u>2,683</u>	<u>1,839</u>	<u>877</u>	<u>2,716</u>

Notes to the Financial Statements for the year ended 31 July 2014

26. University pension schemes

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

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

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

Employer contributions in 2014/15 are expected to be:

	Rate %	£000
USS	16.00	25,313
PASNAS	17.25	6,333
TPS	14.10	78
NHPS	14.00	996
MRCPS	14.90	170
HCC	15.60	39
NEST	3.00	41

HCC contributions include a fixed fee of £24,533 which is payable over and above the salary based rate of 15.6%.

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

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

	USS	PASNAS	HCC
Date of valuation	31 March 2011	31 July 2012	31 March 2013
Market valuation of assets	£32,434 million	£120 million	£4,341 million
Past service liabilities	£47,594 million	£156 million	£5,428 million
Deficit of assets	(£15,160) million	(£36) million	(£1,087) million

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

Notes to the Financial Statements for the year ended 31 July 2014

26. University pension schemes (continued)

USS

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

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

As at 31 March 2014, USS had over 154,000 active members and the University had 4,149 active members participating in the scheme.

The total pension cost for the year was £24,219,000 (2013: £22,326,000) which includes £2,046,064 (2013: £1,945,000) of contributions outstanding at the Balance Sheet date, payable in August 2014.

NHPS/TPS/MRCPS

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

The number of members of these schemes employed by the University as at 31 July 2014 was TPS 12; NHPS 118 and MRCPS 18.

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

	Pension cost		Outstanding at 31 July	
	2014 £000	2013 £000	2014 £000	2013 £000
NHPS	1,001	932	81	79
TPS	77	79	6	6
MRCPS	166	41	14	14

Notes to the Financial Statements for the year ended 31 July 2014

26. University pension schemes (continued)

NEST

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

The total pension cost for the year was £36,012 (2013: £4,807) which includes £3,343 (2013: £4,582) of contributions outstanding at the Balance Sheet date, payable in August 2014.

The number of members of this scheme as at 31 July 2014 was 96.

Federated Superannuation Scheme for Universities (FSSU)

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year a total of £5,957 (2013: £5,819) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

PASNAS

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

As at 31 July 2014 there was a total of 1,973 active members of PASNAS.

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

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

	31 July 2014	31 July 2013
Increase in salaries	3.55% pa until 2015 then 4.05% pa	3.65% pa until 2015 then 4.15% pa
Increase in pensions – pre 01/10/10 (CPI)	2.55% pa	2.65% pa
Increase in pensions – post 01/10/10 (CPI max 2.5%)	2.10% pa	2.15% pa
Discount rate	4.30% pa	4.75% pa
Inflation (RPI)	3.55% pa	3.65% pa
Inflation (CPI)	2.55% pa	2.65% pa
Mortality	110% of SAPS with CMI 2011 projections and a long term rate of improvement of 1.25% pa	110% of SAPS with CMI 2011 projections and a long term rate of improvement of 1.25% pa

Notes to the Financial Statements for the year ended 31 July 2014**26. University pension schemes (continued)**

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

	Long term rate of return expected at July 2014	Value 31 July 2014 £000	Long term rate of return expected at July 2013	Value 31 July 2013 £000	Long term rate of return expected at July 2012	Value 31 July 2012 £000
Gilts	3.5%	19,262	3.8%	17,789	2.9%	16,581
Bonds	4.3%	14,817	4.8%	13,684	4.4%	13,028
Equities	6.2%	72,605	6.5%	69,786	5.6%	54,481
Target return funds	4.6%	31,116	4.5%	27,367	4.8%	26,056
Property	6.2%	7,409	6.5%	5,473	5.6%	5,922
Cash deposits	3.6%	2,963	3.7%	2,737	3.1%	2,369
Total		<u>148,172</u>		<u>136,836</u>		<u>118,437</u>

	2014	2013
	£000	£000

Analysis of the amount shown in the balance sheet

Fair value of scheme assets	148,172	136,836
Present value of liabilities	(208,960)	(182,566)
Net liability on balance sheet	<u>(60,788)</u>	<u>(45,730)</u>

Analysis of the amount charged to staff costs within operating surplus

Current service cost	(7,256)	(7,115)
Total operating charge	<u>(7,256)</u>	<u>(7,115)</u>

Analysis of the amount charged to interest payable within operating surplus

Expected return on scheme assets	7,584	5,723
Interest on scheme liabilities	(8,795)	(8,183)
Net finance cost	<u>(1,211)</u>	<u>(2,460)</u>

Analysis of amount recognised in the STRGL

Experience gain on assets	1,645	11,089
Experience (loss)/gain on liabilities	(95)	1,066
Changes in assumptions underlying the present value of the scheme liabilities	(14,165)	13,481
Actuarial (loss)/gain recognised in the STRGL	<u>(12,615)</u>	<u>25,636</u>

Notes to the Financial Statements for the year ended 31 July 2014**26. University pension schemes (continued)**

	2014 £000	2013 £000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(45,730)	(67,259)
Movement in the year:		
Current service cost	(7,256)	(7,115)
Contributions	6,024	5,468
Net finance cost	(1,211)	(2,460)
Actuarial (loss)/gain in the STRGL	(12,615)	25,636
Deficit in scheme at end of year	<u>(60,788)</u>	<u>(45,730)</u>
Analysis of movement in fair value of fund assets		
Assets at beginning of year	136,836	118,437
Employer contributions	6,024	5,468
Employee contributions	2,273	2,069
Benefits paid	(6,190)	(5,950)
Expected return on scheme assets	7,584	5,723
Actuarial experience gain on assets	1,645	11,089
Assets at end of year	<u>148,172</u>	<u>136,836</u>
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(182,566)	(185,696)
Current service cost	(7,256)	(7,115)
Interest on scheme liabilities	(8,795)	(8,183)
Employee contributions	(2,273)	(2,069)
Benefits paid	6,190	5,950
Actuarial experience (loss)/gain on liabilities	(95)	1,066
Changes in assumptions underlying the present value of the scheme liabilities	(14,165)	13,481
Liabilities at end of year	<u>(208,960)</u>	<u>(182,566)</u>

Notes to the Financial Statements for the year ended 31 July 2014

26. University pension schemes (continued)

	2014	2013	2012	2011	2010
History of experience gains and losses					
Experience gains on assets (£000)	1,645	11,089	(5,482)	5,000	10,182
Percentage of scheme assets	1.1%	8.1%	4.6%	4.3%	9.6%
Experience (losses)/gains on liabilities (£000)	(95)	1,066	2,428	1,365	(352)
Percentage of scheme liabilities	0.0%	0.6%	1.3%	0.8%	0.2%
Total amount recognised in STRGL (£000)	(12,615)	25,636	(18,498)	11,552	(13,212)
Percentage of scheme liabilities	6.0%	14.0%	10.0%	7.1%	8.2%

HCC

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

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

	31 July 2014	31 July 2013
Increase in salaries	3.7% pa	4.5% pa
Increase in pensions	2.2% pa	2.6% pa
Discount rate	4.1% pa	4.4% pa
RPI inflation	3.2% pa	3.5% pa
CPI inflation	2.2% pa	2.6% pa

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

	Retiring today	Retiring in 20 years
Male	24.4	26.5
Female	26.2	28.5

The number of members of this scheme employed by the University as at 31 July 2014 was 7.

Notes to the Financial Statements for the year ended 31 July 2014
26. University pension schemes (continued)

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

	Long term rate of return expected at July 2014	Value 31 July 2014 £000	Long term rate of return expected at July 2013	Value 31 July 2013 £000	Long term rate of return expected at July 2012	Value 31 July 2012 £000
Equities	7.5%	2,408	7.8%	2,290	7.5%	1,966
Government bonds	3.2%	956	3.3%	974	2.5%	999
Property	6.8%	308	7.3%	299	7.0%	289
Corporate bonds	3.7%	52	4.0%	48	3.2%	51
Cash	1.1%	152	0.9%	120	1.4%	123
Other	7.5%	124	7.8%	259	7.5%	192
Total		4,000		3,990		3,620

	2014 £000	2013 £000
Analysis of the amount shown in the balance sheet		
Fair value of scheme assets	4,000	3,990
Present value of liabilities	(5,890)	(6,200)
Net liability on balance sheet	(1,890)	(2,210)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	(60)	(60)
Total operating charge	(60)	(60)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	250	200
Interest on scheme liabilities	(270)	(230)
Net finance cost	(20)	(30)
Analysis of amount recognised in the STRGL		
Experience (loss)/gain on assets	(40)	380
Experience gain/(loss) on liabilities	300	(10)
Changes in assumptions underlying the present value of the scheme liabilities	80	(220)
Actuarial gain recognised in the STRGL	340	150

Notes to the Financial Statements for the year ended 31 July 2014**26. University pension schemes (continued)**

	2014	2013
	£000	£000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(2,210)	(2,330)
Movement in the year:		
Current service cost	(60)	(60)
Employer contributions	60	60
Net finance cost	(20)	(30)
Actuarial gain in STRGL	340	150
Deficit in scheme at end of year	<u>(1,890)</u>	<u>(2,210)</u>
 Analysis of movement in fair value of fund assets		
Assets at beginning of year	3,990	3,620
Employer contributions	60	60
Employee contributions	20	20
Benefits paid	(280)	(290)
Expected return on scheme assets	250	200
Actuarial experience (loss)/gain on assets	(40)	380
Assets at end of year	<u>4,000</u>	<u>3,990</u>
 Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(6,200)	(5,950)
Current service cost	(60)	(60)
Interest on scheme liabilities	(270)	(230)
Employee contributions	(20)	(20)
Benefits paid	280	290
Actuarial experience gain/(loss) on liabilities	300	(10)
Changes in assumptions underlying the present value of the scheme liabilities	80	(220)
Liabilities at end of year	<u>(5,890)</u>	<u>(6,200)</u>

Notes to the Financial Statements for the year ended 31 July 2014

26. University pension schemes (continued)

	2014	2013	2012	2011	2010
History of experience gains and losses					
Experience (losses)/gains on assets (£000)	(40)	380	(90)	810	280
Percentage of scheme assets	0.0%	9.5%	2.5%	22.5%	8.0%
Experience gains/(losses) on liabilities (£000)	300	(10)	(30)	(380)	60
Percentage of scheme liabilities	5.1%	0.2%	0.5%	7.0%	1.0%
Total amount recognised in STRGL (£000)	340	150	(470)	280	410
Percentage of scheme liabilities	5.8%	2.4%	7.9%	5.2%	7.0%

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

	2014	2013
	£000	£000
Surplus after depreciation of assets	15,504	5,726
Depreciation	24,483	22,120
Loss on disposal of tangible fixed assets	334	3
Loss on disposal of fixed asset investments	49	134
Write down of fixed asset investments	94	3
Deferred capital grants released to income (note 19)	(10,129)	(9,385)
Current service cost of defined benefit pension schemes	1,232	1,647
Exchange rate (gain)/loss on loans	(756)	1,194
Investment income	(2,860)	(4,999)
Interest payable	5,697	7,329
Diminution of current asset investments valuation below historic cost	3	7
Increase in stock	(81)	(60)
Increase in debtors	(2,418)	(605)
Increase in creditors and accruals	1,452	11,502
(Decrease)/increase in provisions	(498)	86
Net cash inflow from operating activities	32,106	34,702

Notes to the Financial Statements for the year ended 31 July 2014

28. Returns on investments and servicing of finance

	2014 £000	2013 £000
Income from endowments	578	375
Income from short term deposits and investments	2,623	4,641
Other interest received	-	1
Interest paid	(4,492)	(4,915)
	<u>(1,291)</u>	<u>102</u>

29. Capital investment and financial investment

	2014 £000	2013 £000
Tangible assets acquired	(47,872)	(73,207)
Endowment asset investment disposals/(acquisitions)	52	(678)
Total fixed and endowment asset investments acquired	(47,820)	(73,885)
Receipts from sales of fixed asset investments	47	20
Receipts from sales of tangible assets	175	73
Deferred capital grants received	20,855	8,415
Endowment (disposals)/acquisitions	(233)	713
	<u>(26,976)</u>	<u>(64,664)</u>

30. Analysis of changes in consolidated financing during the year

	2014 £000	2014 £000	2013 £000	2013 £000
Balance at 1 August		105,023		111,525
New loans and increased debt	-		250	
Exchange rate (gain)/loss on loans	(756)		1,194	
Capital repayments	(7,085)		(7,946)	
		<u>(7,841)</u>		<u>(6,502)</u>
Balance at 31 July		<u>97,182</u>		<u>105,023</u>

Notes to the Financial Statements for the year ended 31 July 2014**31. Analysis of changes in net (debt)/cash**

	At 1 August 2013 £000	Cash flows £000	Other non cash changes £000	At 31 July 2014 £000
Cash at bank and in hand	51,457	6,767	-	58,224
Short term deposits and investments	64,634	(10,013)	(3)	54,618
Debt due within one year	(7,116)	7,085	(7,882)	(7,913)
Debt due after one year	(97,907)	-	8,638	(89,269)
	<u>11,068</u>	<u>3,839</u>	<u>753</u>	<u>15,660</u>

32. Access funds

	Consolidated and University	
	2014 £000	2013 £000
Balance at 1 August	3	-
Net HEFCE grant	274	249
	<u>277</u>	<u>249</u>
Disbursed to students	(171)	(246)
Balance at 31 July	<u>106</u>	<u>3</u>

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

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

	Consolidated and University				At
	At 1 August 2013 £000	Income received £000	Disbursements £000	Returned to NCTL £000	31 July 2014 £000
Initial Teacher Training bursaries	223	2,073	(1,809)	(233)	254
	<u>223</u>	<u>2,073</u>	<u>(1,809)</u>	<u>(233)</u>	<u>254</u>

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

Notes to the Financial Statements for the year ended 31 July 2014

34. Linked charities

	Consolidated and University					Change in market value £000	At 31 July 2014 £000
	At 1 August 2013 £000	Transfers £000	Income £000	Expenditure £000			
Miss Betty Evelyn Veal Will Trust	62	-	1	-	-	63	
The Southampton University Development Trust	1,551	(4)	49	(47)	57	1,606	
The Spitfire Mitchell Memorial Fund	213	-	1	-	-	214	
	<u>1,826</u>	<u>(4)</u>	<u>51</u>	<u>(47)</u>	<u>57</u>	<u>1,883</u>	

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

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

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

Financial Statistics

Financial Statistics

Financial Indicators	2014	Restated			
		2013	2012	2011	2010
Key financial metrics					
Surplus after depreciation of assets as % of total income	3.2%	1.3%	3.2%	3.6%	2.0%
Net liquidity/ (total expenditure - depreciation) (days)	93	101	140	137	114
External borrowing as % of total income	20.1%	23.5%	25.5%	27.2%	28.9%
Discretionary reserves (excl. pension liability) as % of total income	51.4%	51.7%	50.4%	47.5%	44.4%
Net cash inflow from operating activities as % of total income	6.6%	7.8%	10.9%	10.7%	8.5%
Staff costs as % of total income	54.8%	56.1%	53.8%	54.4%	54.5%
Long term liabilities as % of income and expenditure reserves	36.9%	43.6%	48.1%	55.6%	63.4%
Net (cash)/debt as % of total income	(3.2)%	(2.5)%	(9.6)%	(6.6)%	0.1%
Current assets / Current liabilities	1.11:1	1.13:1	1.51:1	1.71:1	1.50:1
Source of income					
Funding Council grants	17.5%	21.8%	25.1%	28.4%	28.9%
Home/EU fees and support grants	25.4%	22.4%	19.8%	18.9%	19.1%
International fees	14.2%	11.8%	11.2%	10.1%	8.6%
Research grants and contracts	22.9%	22.9%	21.6%	21.8%	23.0%
Other operating income	19.4%	20.0%	21.3%	19.8%	19.5%
Endowment income and interest receivable	0.6%	1.1%	1.0%	1.0%	0.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

Financial Statistics

Income from sponsored research for the year ended 31 July 2014

From Research Councils	£000
Arts and Humanities Research Council	754
Biotechnology and Biological Sciences Research Council	2,903
British Academy	167
Economic and Social Research Council	5,485
Engineering and Physical Sciences Research Council	26,092
Medical Research Council	6,504
Natural Environment Research Council	5,911
Royal Society	1,174
Science and Technology Facilities Council	1,063
Total Research Councils	50,053
From UK-based Charitable Bodies	£000
Action Medical Research	40
Alzheimer's Research UK	216
Alzheimer's Society	73
Arthritis Research UK	422
Asthma UK	33
Breast Cancer Campaign	193
Breast Cancer Research Trust	38
British Heart Foundation	368
British Liver Trust	48
British Lung Foundation	67
British Skin Foundation	32
Bupa Foundation	129
Cancer Research UK	4,724
Crohn's in Childhood Research Association	58
Diabetes UK	76
Dunhill Medical Trust	41
Equality Challenge Unit	30
Fight for Sight	105
Gerald Kerkut Charitable Trust	134
Health Foundation	71
Kay Kendall Leukaemia Fund	162
Leukaemia and Lymphoma Research	1,545
Leverhulme Trust	808
Lloyd's Register Foundation	370
Macmillan Cancer Support	387
Marie Curie Cancer Care	62
Marine Biological Association of the UK	198
Meningitis UK	46
Multiple Sclerosis Society	49
Nuffield Foundation	71
Prostate Cancer UK	108

Financial Statistics

Income from sponsored research for the year ended 31 July 2014 (Continued)

Psoriasis Association	23
Roy Castle Lung Cancer Foundation	42
Royal Academy of Engineering	443
Royal College of Anaesthetists	73
Royal College of Pathologists	37
Royal College of Surgeons of England	50
Royal Commission for the Exhibition of 1851	53
Sir Halley Stewart Trust	23
Sparks	42
TFC Frost Charitable Trust	24
Wellcome Trust	1,980
Wessex Medical Research	343
Wolfson Foundation	29
World Cancer Research Fund	69
Worldwide Cancer Research	60
Others less than £20,000	439
Total UK-based Charitable Bodies	14,434

From Other Sources

	£000
ABB Switzerland Ltd	103
AIMES Grid Services CIC	21
Airbus Operations GmbH	31
Airbus Operations Ltd	119
Airbus Operations S.A.S.	238
Aircraft Research Association Ltd	21
Alcan International Ltd	57
AMC Medical Research B.V.	55
Andrew W. Mellon Foundation	46
AneCom AeroTest GmbH	64
ARM Ltd	131
AstraZeneca (UK) Ltd	84
AstraZeneca AB	40
Astute Electronics Ltd	23
BAE Systems (Marine) Ltd	23
BAE Systems (Operations) Ltd	198
BAE Systems Integrated Systems Technologies Ltd	24
Bayer Animal Health GmbH	24
Beijing Aerospace Times Optical-Electronic Technology Co., Ltd	77
Bill & Melinda Gates Foundation	221
BioInvent International AB	107
Biomedical Sciences Institute (Singapore)	889
Biothera	36
Bradford and Airedale Primary Care Trust	84
British Council	36

Financial Statistics

Income from sponsored research for the year ended 31 July 2014 (Continued)

British Gas Trading Ltd	33
British International Rowing Association, UK Sport	23
British Telecom Plc	21
Calouste Gulbenkian Foundation	109
Cambridge University Hospitals NHS Foundation Trust	49
Carbon Trust	82
Central and North West London NHS Foundation Trust	29
CERN - The European Organization for Nuclear Research	25
Cetim	67
Copper Development Association Inc.	159
Covesion Ltd	68
Critical Software Technologies Ltd	50
Cytec Engineered Materials Ltd	46
Department for Business, Innovation and Skills	28
Department for Environment, Food and Rural Affairs	149
Department for International Development	191
Department for Transport	27
Department of Energy and Climate Change	60
Department of Health	1,470
Deutsche Forschungsgemeinschaft	32
Dykstra Naval Architects	22
E.ON New Build & Technology Ltd	22
E.V. Analytics Ltd	60
EADS UK Ltd	63
EchoVista Systems Ltd	57
Energy Technologies Institute	119
English Heritage	35
English Institute of Sport Ltd	231
Environment Agency	156
European Association of National Metrology Institutes (EURAMET)	191
European Commission	15,770
European Office of Aerospace Research and Development	67
European Organisation for Research and Treatment of Cancer	81
European Regional Development Fund	210
European Space Agency	198
F. Hoffmann-La Roche Ltd	116
Fiberight Ltd	38
Fluid Gravity Engineering Ltd	27
Food and Agriculture Organization of the United Nations	68
Forestry Commission	73
GE Global Research	93
GlaxoSmithKline Biologicals S.A.	957
GlaxoSmithKline Plc	197
Global Research Foundation	51
H R Wallingford Ltd	29

Financial Statistics

Income from sponsored research for the year ended 31 July 2014 (Continued)

Hampshire Hospitals NHS Foundation Trust	43
Helmholtz Centre for Ocean Research Kiel (GEOMAR)	31
Higher Education Academy	37
Honeywell International Inc.	88
Hoover Ltd	36
Huawei Technologies Duesseldorf GmbH	151
Hyundai Motor Group	104
IBM UK Ltd	75
Imperial College London	45
Informa UK Ltd	54
Institute of Education	57
International Development Research Centre	113
International Institute for Environment and Development	90
Invibio Ltd	47
Jaguar Land Rover Ltd	37
Janssen-Cilag Ltd	126
John Templeton Foundation	262
Kent County Council	23
Lenfest Ocean Program	24
London Capital Group Holdings Plc	27
Lonza Biologics Plc	83
LSI Logic Europe Ltd	60
LTS International Ltd	36
Makhteshim Chemical Works Ltd	23
Marin Academy	24
Mead Johnson Nutrition	63
MedImmune LLC	33
Merck Serono Ltd	26
Microsoft Corporation	36
Microsoft Ltd	116
Ministry of Higher Education (Malaysia)	28
Momenta	233
National Grid Electricity Transmission Plc	769
National Institutes of Health (USA)	441
National Physical Laboratory	76
Netherlands Organisation for Scientific Research (NWO)	62
Network Rail	125
NHS National Cancer Action Team	31
NHS National Institute for Health and Care Excellence	82
NHS National Institute for Health Research	5,484
NHS South Central Strategic Health Authority	237
Nordic Research Council	54
Nottingham Trent University	39
Novartis Institutes for BioMedical Research	81

Financial Statistics

Income from sponsored research for the year ended 31 July 2014 (Continued)

Novo Nordisk Ltd	36
Nutricia Research B.V.	127
Office for National Statistics	139
Ohio Aerospace Institute	31
Ordnance Survey	68
Oxford Instruments Plc	42
Partnership for Clean Competition	21
Pfizer Inc.	30
Pfizer Ltd	125
Pharma Quality Europe S.R.L.	38
Portsmouth Hospitals NHS Trust	37
Procter & Gamble	33
Qatar National Research Fund	61
QinetiQ Ltd	32
Railway Safety and Standards Board Ltd	24
Region Haute-Normandie	187
Rolls-Royce Corporation	25
Rolls-Royce Plc	962
Royal Brompton & Harefield NHS Foundation Trust	20
Royal Centre for Defence Medicine	124
RWE npower plc	46
SAKK - Swiss Group for Clinical Cancer Research	25
Samsung Electronics Co., Ltd	49
Schlumberger Ltd (USA)	139
Secure Meters (UK) Ltd	150
Selex ES Ltd	48
Shell International Trading & Shipping Company Ltd	20
Shire Development LLC	23
Shire Pharmaceuticals Ltd	145
SiGNa Chemistry, Inc. (USA)	22
Sirena Marine Denizcilik Sanayi ve Ticaret A.S.	25
Solent NHS Trust	104
Southampton City Council	260
Southampton City Primary Care Trust	75
Space ConneXions Ltd	232
SPI Lasers UK Ltd	208
Star Financial Systems Ltd	41
Statoil (Norway)	38
Techimp S.p.A.	26
Technical University of Denmark	22
Technology Strategy Board	1,611
Total Foundation	156
TotalSim Ltd	23
Touchlight Genetics Ltd	73

Financial Statistics

Income from sponsored research for the year ended 31 July 2014 (Continued)

Transport for London	24
TWI Ltd	44
UCB Celltech	121
UK Sport	24
Unilever	217
United Nations Office at Geneva	21
United Nations Population Fund	30
University College London	53
University Hospital Southampton NHS Foundation Trust	905
University of Bath	27
University of Birmingham	36
University of Exeter	20
University of Massachusetts	58
University of Minnesota	109
University of Oxford	37
University of the Witwatersrand	35
Vitacress Conservation Trust	23
Wolfson Microelectronics Plc	22
Others less than £20,000	4,842
Total Other Sources	46,484
Total Income from Sponsored Research	110,971

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