



FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2006

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**GOVERNORS**

			Attendance %
Professor R Brown	Vice-Chancellor, ex-officio Governor		100
Ms T Bullen	Support Staff Governor (elected)		100
Mr J Bullock	Independent Governor	Retired June 2006	67
Dr A Burman	Independent Governor		25
Ms Ros Cassy	Independent Governor	Appointed July 2006	100
Mr C Clark	Independent Governor		100
Dr R Drabu	Co-opted External Governor	Appointed October 2005	50
Mr A Ellery	Student Governor (President of SSU)	Retired June 2006	100
Mr M Farwell	Teaching Staff Governor (elected)		100
Professor K Gregory	Independent Governor - Vice Chair		100
Councillor R Harris	Co-opted External Governor	Retired April 2006	100
Mr A Heathcock	Independent Governor		100
Mr N Hoskins	Independent Governor		100
Mr C Kean	Co-opted External Governor		100
Mr A Kent	Independent Governor		100
Rear Admiral J Lang	Independent Governor		100
Mrs B Large MBE	Independent Governor		100
Mr P Payze	Independent Governor		50
Ms P Powell	Independent Governor		100
Mr T Thomas	Academic Board Nominee (ex-officio)		100
Professor G Tonge	Independent Governor - Chair		100
Mr T Waterman	Student Governor (President of SSU)	Appointed July 2006	100
Dr S Wellington	Academic Board Nominee (elected)	Stood down December 2005	100
Capt A Winbow	Independent Governor		100

**CLERK TO THE GOVERNORS**

Mr D Parry

**AUDITORS**

BDO Stoy Hayward LLP  
 Arcadia House  
 Maritime Walk  
 Ocean Village  
 Southampton  
 SO14 3TL

**BANKERS**

Barclays Bank PLC  
 Apex Plaza  
 Reading  
 Berkshire  
 RG1 1AX

**CORPORATE OFFICE**

East Park Terrace  
 Southampton  
 SO14 0YN

## GOVERNOR'S REPORT

## CORPORATE GOVERNANCE

The University was incorporated under the Education Reform Act 1988 as a Higher Education Corporation with effect from 1 February 1989. The University is an exempt charity for the purpose of the Charities Act 1960.

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998, and the Higgs Report issued by the Financial Reporting Council in July 2003 in so far as they relate to universities. Its purpose is to help the reader of the Financial Statements understand how the principles have been applied. The University has put systems in place for identifying, evaluating and managing its significant risks. The processes are reviewed regularly by the University under the guidance of a Risk Management Group, which includes Governor representation.

**Board of Governors**

The University's Governors comprise lay and academic persons appointed under the Instrument and Articles of Government of the University, the majority of whom are non-executive. The roles of Chair and Vice-Chair of the Board of Governors are separated from the role of the University's Vice-Chancellor. The matters specifically reserved to the Governors for decision are set out in the Articles of the University, by custom and under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Board of Governors holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the operations of its business and of its subsidiary companies. The Board of Governors met four times during the year. It has four key committees which report to it: Resources Committee; Audit Committee; Governance Committee and Remuneration Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors, one of whom is the Chair. Their membership and remit is given below. The Board approves the University's Strategic Plan. An annual evaluation of the business conducted by the Board and each of its committees concluded that each committee's Terms of Reference had been covered during the year. The Board has regard to the Governance Code of Practice contained in the *Guide for Members of Higher Education Governing Bodies in the UK* in its governance arrangements and has adopted the Statement of Primary Responsibilities contained in the *Guide*.

**Resources Committee**

The Resources Committee considers and keeps under review such strategic aspects of finance and resource management as are required for the fulfilment of the Strategic Plan. These include: the recommendation to the Board of Governors of an annual budget, both revenue and capital; regular monitoring of management accounts and progress of the capital programme against approval; review and recommendation to the Board of Governors of annual Financial Statements; advice to the Board of Governors on employment policy; approval of a framework for the pay and conditions of staff other than senior post-holders. The Resources Committee receives advice from two sub-committees on matters within their purview, namely Human Resources issues and Estates issues.

The Resources Committee met three times during 2005-06. All meetings were quorate. Membership of the Resources Committee during the year is given below, with all members eligible to attend all meetings. Each member's attendance at the Committee meetings during the year is given as a percentage figure.

Membership:			Attendance %
Professor K Gregory	Independent Governor	Chair, Resources Committee	100
Mr C Clark	Independent Governor		67
Mr N Hoskins	Independent Governor		100
Mrs B Large	Independent Governor	Chair, Student Liaison Committee	67
Mr P Payze	Independent Governor	Chair, Estates Sub-Committee	100
Mrs P Powell	Independent Governor		100
Captain A Winbow	Independent Governor	Chair, Human Resources Sub-Committee	0

**Officers normally in attendance:**

Professor R Brown	Vice-Chancellor, ex-officio Governor
Professor J Latham	Pro Vice-Chancellor, Resources
Mrs K Everett	Director of Finance
Mr D Parry	Clerk to the Board of Governors

**GOVERNORS' REPORT****Audit Committee**

The Audit Committee's remit includes advising the Board of Governors on the appointment of both external and internal auditors. It also considers and agrees audit plans and scope for the internal auditors in the context of key risks faced by the University, and reviews both the internal and external auditors' respective recommendations for improvement of the University's systems of internal control, together with management's responses and implementation plans. It considers arrangements that are in place to promote economy, efficiency and effectiveness, and receives and considers reports from HEFCE as they affect the University's business and monitors compliance with the regulatory requirements. Whilst senior executives attend the meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee meets with the External and Internal Auditors on their own prior to the start of the meeting which considers the University's annual financial statements. The Chair of the Committee is a member of the Risk Management Group, which reports to the Audit Committee.

The Audit Committee met four times during 2005-06. All meetings were quorate. Membership of the Audit Committee during the year is given below, with all members eligible to attend all meetings. Each member's attendance at the Committee meetings during the year is given as a percentage figure.

Membership:			Attendance %	
Mr J Bullock	Independent Governor	Chair	Resigned June 2006	100
Mr A Heathcock	Independent Governor			75
Mr C Kean	Co-opted External Governor		Stood down July 2006	100
Mr A Kent	Independent Governor		Appointed July 2005	100

**Officers normally in attendance**

Professor J Latham	Pro Vice-Chancellor, Resources
Mrs K Everett	Director of Finance
Mr A Haslehurst	Head of Accounts, Finance Service
Mr D Parry	Clerk to the Board of Governors

At the final meeting of the Board of Governors, the Audit Committee and the Governance Committee were amalgamated. Rear Admiral John Lang stood down from the Audit Committee in July 2005 to take up the Chair of the Governance Committee.

**Governance Committee**

The Governance Committee keeps under review the membership of the Board of Governors and makes recommendations to the Board for new members and for the renewal of the terms of office for existing members. The Governance Committee also keeps under review recommended best practice with regard to institutional governance and practice in other institutions. The Governance Committee, and a special working group of the Governors set up for the purpose, make recommendations to the Board of Governors on the terms of reference for and appointment of the University's Vice-Chancellor.

The Governance Committee met three times during 2005-06. All meetings were quorate. Membership of the Governance Committee during the year is given below, with all members eligible to attend all meetings except where indicated. Each member's attendance at the Committee meetings during the year is given as a percentage figure.

Membership			Attendance %
Professor R Brown	Vice-Chancellor, ex-officio Governor		100
Ms T Bullen	Support Staff Governor		67
Mr M Farwell	Teaching Staff Governor		67
Professor K Gregory	Independent Governor	Chair, Resources Committee	67
Rear Admiral John Lang	Independent Governor	Chair, Governance Committee	100
Mr T Thomas	Academic Board Nominee (ex-officio)		100
Dr S Wellington	Academic Board Nominee (elected)	Stood down December 2005	0

**Officers normally in attendance**

Mr D Parry	Clerk to the Board of Governors
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**GOVERNORS' REPORT****Remuneration Committee**

The Remuneration Committee determines the annual remuneration of the University's Vice-Chancellor and senior post-holders, the scheme for remuneration of staff on management contracts, and individual severance arrangements.

The Remuneration Committee met four times during 2005-06. All meetings were quorate. Membership of the Remuneration Committee during the year is given below, with all members eligible to attend all meetings. Each member's attendance at the Committee meeting during the year is given as a percentage figure.

Membership:			Attendance %
Professor G Tonge	Independent Governor	Chair of the Board and Chair of the Remuneration Committee	100
Dr A Burman	Independent Governor		25
Mr P Payze	Independent Governor		50
Mrs P Powell	Independent Governor		100

**Officers normally in attendance:**

Professor R Brown	Vice-Chancellor
Professor J Latham	Pro Vice-Chancellor, Resources
Mrs J West	Head of Employee Relations

**Committee re-organisation**

At its final meeting of the year in July, the Board of Governors agreed to a re-organisation of the Committee and Sub-Committee structure of the Board of Governors. This involved:

- Amalgamating the Audit and Governance Committees
- Standing down the Estates Sub-Committee and the Human Resources Sub-Committee
- The assumption by the Resources Committee of the responsibilities of the Estates Sub-Committee and the Human Resources Sub-Committee both of which had reported previously to the Resources Committee
- Changing the reporting lines of the Student Liaison Committee so that it would report directly to the Board of Governors rather than via the former Governance Committee

These changes were reported to HEFCE as part of the HEFCE Assurance Service review visit in October 2006.

**Responsibilities of the Board of Governors**

In accordance with the Education Reform Act 1988 and the Instrument and Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the University, including ensuring an effective system of internal control, and is required to present audited Financial Statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the Financial Statements are prepared in accordance with the Education Reform Act 1988, 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 Institutions Memorandum agreed between HEFCE and the Board of Governors of the University, the Board of Governors, through its designated office holder, is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

**Financial Statements**

In causing the Financial Statements to be prepared, the Board of Governors has ensured that:

- suitable accounting policies are selected and applied consistently.
- judgements and estimates are made that are reasonable and prudent.
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.
- financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Board of Governors is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the Financial Statements.

## GOVERNORS' REPORT

### Internal Controls

As the Board of Governors of Southampton Solent University, we have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Instrument and Articles and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on 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. This process has been in place throughout the year and up to the date of approval of the Financial Statements and accords with HEFCE guidance.

As the Board of Governors, we have responsibility for reviewing the effectiveness of the system of internal control. The University has established the following processes:

- the Board of Governors annually monitors the delivery of the University's Strategic Plan and considers the corporate planning proposals for the following year. As part of its monitoring process, the Board determines the annual risk matrix for the University as well as approving the Corporate Planning Statements, Annual Monitoring Statements and Financial Forecasts which are sent to HEFCE;
- the Board of Governors has requested the Audit Committee to provide oversight of risk management and a Risk Management Group has been established with Governor representation. With effect from the commencement of the 2003-04 academic year, the Audit Committee has received a report at each of its meetings on any movement in the ten major risks for the University identified for that year. Any matters of concern would be reported to the Board of Governors;
- the Board of Governors receives regular reports from the chair of the Audit Committee concerning internal control;
- the Audit Committee receives regular reports from Internal Audit (IA) which includes the IA's independent opinion on the adequacy and effectiveness of the University's system of internal control together with recommendations for improvement;
- a regular process of meetings, workshops and discussions is used at both University level and cascaded through individual faculties and services to identify and keep up to date the record of risks facing the University;
- a programme of risk awareness training is ongoing;
- a system of key performance and risk indicators has been developed;
- a robust risk prioritisation methodology based on risk ranking and cost-benefit analysis has been established;
- a University-wide risk register is maintained;
- reports are received from budget holders, department heads and project managers on internal control activities.

Our 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 University who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The University uses a third party audit firm to provide internal audit services. The firm operates to standards defined in the Accountability and Audit: HEFCE Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in August 2004. The internal auditors submit regular reports which include the IA's independent opinion on the adequacy and effectiveness of the University's system of internal control together with recommendations for improvement.

**GOVERNORS' REPORT****ANNUAL REVIEW****ACADEMIC AND RELATED OPERATIONS**

During 2003-04 the University completed a review of its Strategic Plan, following the publication of the Government's White Paper 'The future of higher education' in January 2003. A new Strategic Plan, covering the period from 2004 to 2008, was approved by the Board of Governors in November 2003. Under this Plan the University's mission is to be an accessible and creative university committed to learning and knowledge transfer, working in partnership for the success of students, staff and the wider community.

A key objective under the Strategic Plan for 2004-08 was to achieve university title and the first step towards this was realised in October 2004 when the University was granted its own taught degree awarding powers and university college status, effective from 1 November 2004. Full university status was achieved during the latter part of the academic year 2004-05 and Privy Council approval to use the name Southampton Solent University was received with effect from 8 July 2005. The achievement of this longstanding objective is a tribute to the commitment and dedication of the University's staff and students.

The University's other objectives are:

- to enhance the learning opportunities and achievements of its students;
- to increase the quality and quantity of advanced scholarship and professional development;
- to contribute to the development of the local community through staff and student engagement in economic, social and cultural activities;
- to expand and extend the international dimensions of the University's work;
- to make the University more socially diverse; to achieve a level of financial performance that allows sufficient investment in the core business of teaching, learning and advanced scholarship;
- to use our resources effectively and efficiently in order to enable these objectives to be achieved.

The University recognises that most of these objectives will only be achieved through partnership. This will not be confined to any single institution or organisation but will be through working with other higher education institutions, business, FE colleges and community organisations in different ways and for different purposes. The University already works collaboratively with many of these organisations and this trend is expected to continue and intensify over the period of the Plan.

The principle of partnership also applies to the way that staff and students work with one another within and across the University. Partnerships can only work if all partners feel that they have a recognised, valid and valued contribution to make. The concept of partnership is an indication of the way in which the University values and respects its students and staff and recognises their expertise, ideas and energy. The realisation of that capability is essential to the future development of the University.

The Board of Governors annually publishes a report, which sets out more fully the activities of the Board and its members in the furtherance of the University's mission and objectives and in the undertaking of its duties and obligations under the Instrument and Articles. Copies are available from the Clerk to the Board of Governors at the corporate address.

## GOVERNORS' REPORT

## SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

The University fully owns only one subsidiary undertaking, which has traded during the last two years: Southampton Solent University Limited. The University holds a 33% interest in Southampton Institute Education Company (SIEC).

The main activities of these undertakings are to provide library book hire services, office and teaching accommodation, long and short courses, training and facilities, consultancy services, and meals and accommodation for employees of other organisations using the companies' facilities for their own training programmes.

The financial results recorded in the accounts of the subsidiary and associated company included within the consolidated accounts of Southampton Solent University are as follows:

	2005 - 2006		2004 - 2005	
	Paid under Variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000	Paid under variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000
Southampton Solent University Limited	395	(2)	403	26
Southampton Institute Educational Company	-	-	-	-
	<u>395</u>	<u>(2)</u>	<u>403</u>	<u>26</u>

SIEC, a charitable company limited by guarantee, commenced trading in November 1996. The University is a participating member controlling 33% of the voting rights of the company through a former senior post holder.

Annual accounts for the subsidiary and associated companies are available from the Company Secretary at the University's address.

## FINANCIAL POSITION

Following surpluses for the last three years, the University projected a surplus again for the current year and this has been satisfactorily achieved with an increase in the surplus from £733k in 2004-05 (as restated) to £1,995k in 2005-06. Student recruitment for 2005-06 was better than in the five previous years, with an ongoing increase in income from overseas students. However the achievement of surpluses continues to prove challenging as the funding increases received from HEFCE each year do not cover the cost of the nationally agreed pay settlements.

The financial forecast for 2006-07 and subsequent years, as approved by the Board of Governors, envisages that a deficit will be incurred in 2006-07, followed by surpluses throughout the remainder of the forecast period. It is anticipated that, in the longer term, the introduction of variable fees will enable the University to provide a range of bursaries and scholarships for students and enhance the student experience in a variety of ways, as well as retain a sufficient level of surplus to ensure that the high quality of the University's estate can be maintained through adequate capital investment. However, in the short term, the University has decided to make a significant investment in the development of the academic portfolio. This development will take place over the two years from 2006 to 2008 and, as a result, it is anticipated that a deficit will be incurred during 2006-07.

**GOVERNORS' REPORT****ANALYSIS OF INCOME BY SOURCE**

Given below is an analysis by source of the University's income

		2005-2006 £000	2004-2005 £000
Public funds for funded activities	HEFCE and LSC Funding	32,035	31,140
	Full Time Home and EU Tuition Fees	9,760	9,281
	EU and other Government Sources	41	56
Private sources within funded activities	Tuition and Research	4,407	4,125
	Interest Receivable	698	493
	Other Private Income	288	198
Private sources for non-funded activities	Residences and Catering	9,779	8,621
	Overseas Students	4,328	4,063
	Simulator activities through Southampton Solent Limited	1,527	1,268
	Other Private Income	2,384	1,843
		<u>65,247</u>	<u>61,088</u>

**DISABLED EMPLOYEES**

The University gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the University's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

**GOVERNORS**

The Higher Education Corporation was formed by the passing of the Education Reform Act 1988 and has no shareholders. Governors, therefore, own no interest in the Corporation and receive no remuneration from the University in respect of their duties as Governors other than reimbursement of reasonable expenses for travelling and subsistence.

**AUDITORS**

A resolution to appoint BDO Stoy Hayward LLP as auditors until July 2007 was approved by the Board of Governors at their meeting of October 2004.

By order of the Board of Governors

Professor G Tonge  
Chair of the Board of Governors  
6 December 2006

Professor R Brown  
Vice-Chancellor

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON SOLENT UNIVERSITY**

We have audited the financial statements of Southampton Solent University for the year ended 31<sup>st</sup> July 2006 which comprise the Income and Expenditure Accounts and the Balance Sheets for the Group and the University, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, Statement of Historical Costs Surpluses and Deficits and the related notes. These financial statements have been prepared under the accounting policies set out on therein.

**Respective responsibilities of the Board of Governors and Auditors**

As described in the Statement of Board of Governors responsibilities the University's Board is responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you if, in our opinion, the information given in the Governor's Report is not consistent with the financial statements, the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the remuneration of the Board of Governors or other transactions is not disclosed.

We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We read the other information contained in the Governor's Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Corporate Governance Statement, the Statement of the Responsibilities of the Board of Governors and the Annual Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the University's statutes and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the University's statutes or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Basis of audit opinion**

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

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

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON SOLENT UNIVERSITY  
(CONTINUED)****Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group as at 31 July 2006 and of its surplus of income over expenditure for the year then ended;
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the University as at 31 July 2006;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: "Accounting for Further and Higher Education Institutions";
- income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received; and
- income has been applied in accordance with the University's statutes and where appropriate with the applicable Financial Memorandums with the Higher Education Funding Council for England.

*BDO Stoy Hayward LLP  
Chartered Accountants and Registered Auditors  
Southampton*

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Basis of preparation**

These Financial Statements have been prepared under the historical cost convention (modified by the revaluation of certain land and buildings), in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education Institutions, and in compliance with applicable Accounting Standards.

**Fixed Assets****i. Assets transferred - land and buildings**

The most recent valuation, as at 31 July 1998, was based on the open market value for existing use and, where this was not possible due to the specialised nature of the properties, the depreciated replacement cost basis of valuation was used according to principles set down within the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. A corresponding amount was credited to the Revaluation Reserve to which changes in valuation were credited or debited as appropriate. Under the transitional arrangements of FRS 15, this 1998 valuation is retained as the carrying amount for those assets within that valuation, subject to annual testing for indicators of impairment under FRS 11.

**ii. Assets acquired after incorporation**

Tangible asset additions whose cost of acquisition exceeds £5,000 are capitalised. Items costing less than this are written off in the year of purchase.

**Capital Grants**

Capital grants are released to revenue over the useful life of relevant assets, or where permitted applications to non-capitalised expenditure occurs, to match that expenditure in the year of application.

**Depreciation**

Depreciation is provided on all tangible assets other than freehold or long leasehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset systematically over its expected useful life, as follows:

Freehold buildings	- over 50 years
Long Leasehold buildings	- over the life of lease up to 50 years. For leases longer than 50 years, over the greater of 50 years or 75% of the life of the lease
Computer equipment	- over 3 years
Other equipment	- over 5 to 15 years
Vehicles	- over 5 years
Vessels	- over 7 years

**Stocks**

Stocks are mainly departmental and have limited realisable value. They are written off in the year, as their value is not material to the accounts of the University. Expenditure on consumables is charged fully to revenue in the year of purchase.

**Revenue Grants**

Grants received from the Higher Education Funding Council for England, tuition fees, research grants and all other income are accounted for on an accruals basis.

**Building Maintenance**

Expenditure on building maintenance is charged to the income and expenditure account in the year in which it is incurred. The University maintains a rolling ten-year long-term maintenance plan, which is reviewed on a regular basis. Only to the extent that the costs arise under dilapidation clauses within operating leases is a regular charge made to the Income and Expenditure Account on the basis that the dilapidating event is deemed to be the passage of time, subject to periodic valuation.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Taxation**

As a Higher Education Corporation, the University is regarded as a charity and exemption from Corporation Tax is afforded by the Income and Corporation Taxes Act 1988. The income from the trading activities of its subsidiary undertakings is subject to Corporation Tax.

**Basis of Consolidation**

The University has one wholly owned subsidiary undertaking, Southampton Solent University Limited (SSUL). The University holds a 33% interest in Southampton Institute Educational Company (SIEC), a company limited by guarantee. SIEC is consolidated by virtue of dominant influence over the operating and financial policies of that company. The activities of SSUL and SIEC are consolidated within the University's accounts in accordance with FRS2.

The consolidated Financial Statements do not include those of the Solent Students' Union (formerly Southampton Institute Students' Union) as it is a separate unincorporated association in which the University has no financial interest and no control or significant influence over policy decisions.

**Listed Investments**

Listed investments are shown at market value.

**Research and Development**

Research and development expenditure is written off in the year incurred.

**Pensions**

The University has fully adopted accounting standard FRS17 Retirement Benefits during the year. The impact of this standard had been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the University's defined benefit pensions scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the University's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the University is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the income and expenditure account or the statement of recognised surpluses and deficits in accordance with FRS 17 Retirement Benefits.

**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 in practice available within 24 hours without penalty. No investments, however liquid, are included in cash.

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

**Foreign Currencies**

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

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Leased Assets**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the University, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the income and expenditure account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the income and expenditure account on a payable basis.

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2006

	Notes	2005-2006 £000	2004-2005 £000 Restated
<b>INCOME</b>			
Funding Council Grants	1	32,035	31,140
Tuition fees and education contracts	2	19,948	18,602
Research grants and contracts	3	166	179
Other income	4	12,400	10,674
Endowment and investment income	5	698	493
<b>Total income</b>		<u>65,247</u>	<u>61,088</u>
<b>EXPENDITURE</b>			
Staff costs	6	35,364	34,280
Depreciation	11	3,184	3,042
Other operating expenses	7	21,371	19,261
Interest payable	8	3,288	3,736
<b>Total expenditure</b>	9	<u>63,207</u>	<u>60,319</u>
<b>Surplus after depreciation of assets and before tax</b>		2,040	769
Taxation	10	45	36
		<u>1,995</u>	<u>733</u>

All amounts relate to continuing activities

## CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2006

	Notes	2005-2006 £000	2004-2005 £000 Restated
Surplus after depreciation of assets and tax		1,995	733
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount	20	90	90
		<u>2,085</u>	<u>823</u>

## BALANCE SHEET AS AT 31 JULY

	Notes	Consolidated		University	
		2006 £000	2005 £000 Restated	2006 £000	2005 £000 Restated
<b>Fixed Assets</b>					
Tangible Assets	11	67,446	66,440	67,446	66,440
Investments	12	50	50	50	50
		<u>67,496</u>	<u>66,490</u>	<u>67,496</u>	<u>66,490</u>
<b>Endowment Asset Investments</b>	13	<u>665</u>	<u>673</u>	<u>665</u>	<u>673</u>
<b>Current Assets</b>					
Debtors	14	3,205	3,210	4,415	4,910
Investments	31	12,474	10,107	12,474	10,107
Cash at bank and in hand	31	1,384	804	1,114	750
		<u>17,063</u>	<u>14,121</u>	<u>18,003</u>	<u>15,767</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>11,053</u>	<u>10,893</u>	<u>11,917</u>	<u>12,449</u>
<b>Net Current Assets</b>		<u>6,010</u>	<u>3,228</u>	<u>6,086</u>	<u>3,318</u>
<b>Total assets less current liabilities</b>		74,171	70,391	74,247	70,481
<b>Creditors: amounts falling due after more than one year</b>	16	35,660	37,097	35,660	37,097
<b>Provisions for liabilities and charges</b>	17	<u>1,252</u>	<u>1,179</u>	<u>1,252</u>	<u>1,179</u>
<b>Net Assets Excluding Pension Liabilities</b>		37,259	32,115	37,335	32,205
<b>Net Pension Liability</b>		16,500	15,740	16,500	15,740
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>20,759</u>	<u>16,375</u>	<u>20,835</u>	<u>16,465</u>
<b>Deferred capital grants</b>	18	<u>6,620</u>	<u>4,684</u>	<u>6,620</u>	<u>4,684</u>
<b>Endowments</b>	19	<u>665</u>	<u>673</u>	<u>665</u>	<u>673</u>
<b>Reserves</b>					
Income and Expenditure account excluding Pension Reserve		22,082	19,297	22,158	19,387
Pension Reserve	17	<u>(16,500)</u>	<u>(15,740)</u>	<u>(16,500)</u>	<u>(15,740)</u>
Income and Expenditure account including Pension Reserve		5,582	3,557	5,658	3,647
Revaluation Reserve	20	7,892	7,444	7,892	7,444
Restricted Reserve		-	17	-	17
<b>Total Reserves</b>		<u>13,474</u>	<u>11,018</u>	<u>13,550</u>	<u>11,108</u>
<b>TOTAL FUNDS</b>		<u>20,759</u>	<u>16,375</u>	<u>20,835</u>	<u>16,465</u>

Professor G Tonge  
Chair of the Board of Governors  
6 December 2006

Professor R Brown  
Vice-Chancellor

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2006

	Notes	2005-2006 £000	2004-2005 £000
Net Cash Inflow From Operating Activities	27	7,374	8,839
Returns on investments and servicing of finance	28	(2,158)	(2,615)
Taxation		(45)	(36)
Capital expenditure and financial investment	29	(1,216)	(1,473)
<b>Net Cash Inflow Before Management of liquid resources and Financing</b>		<u>3,955</u>	<u>4,715</u>
Management of liquid resources	31	(2,367)	(3,848)
Financing	30	(1,008)	(935)
<b>Increase/(Decrease) in cash</b>		<u><u>580</u></u>	<u><u>(68)</u></u>

## RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

Increase/(Decrease) in Cash		580	(68)
Repayment of Long Term Loan		1,313	918
Repayment of Capital Elements of Finance Leases		234	214
Change in Short Term Deposits		<u>2,367</u>	<u>3,848</u>
Movement in Net Debt	31	4,494	4,912
Net Debt at 1 August	31	(27,384)	(32,296)
Net Debt at 31 July	31	<u><u>(22,890)</u></u>	<u><u>(27,384)</u></u>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2006

	Notes	2005-2006 £000	2004-2005 £000 Restated
Surplus after Depreciation of Assets and Tax		1,995	1,357
Reimbursement of Debt Charge Principal to Revaluation Reserve	20	538	197
Unrealised (loss)/gain on Endowment Asset Investments	13	(8)	36
Actuarial (loss)/gain on pension scheme		(60)	1,568
Movement on Restricted reserve		(17)	-
<b>Total recognised gains and losses relating to the year</b>		<u>2,448</u>	<u>3,158</u>
Prior year adjustment	25	(15,116)	
<b>Total recognised gains and losses since last annual report</b>		<u><u>(12,668)</u></u>	
<b>Reconciliation</b>			
Opening reserves and endowments as previously stated		26,807	
Prior year adjustment	25	(15,116)	
Opening reserves and endowments as restated		11,691	
Total recognised gains for the year		<u>2,448</u>	
Closing reserves and endowments		<u><u>14,139</u></u>	

## NOTES TO THE ACCOUNTS

At 31 July 2006

<b>1. FUNDING COUNCIL GRANTS</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Recurrent Grant		
HEFCE	28,924	27,939
LSC	1,178	1,189
Specific HEFCE grants		
Debt Charge Interest Reimbursement	22	37
Special Initiatives	873	869
Deferred Capital Grants released in Year		
Buildings (Note 18)	200	205
Equipment (Note 18)	838	901
	<u>32,035</u>	<u>31,140</u>
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Full time undergraduate and postgraduate fees home and EC	9,316	8,994
Part time undergraduate and postgraduate fees home and EC	1,581	1,429
Overseas (Non-EC) domicile students	4,328	4,063
Non credit bearing course fees	4,279	3,829
Other	444	287
	<u>19,948</u>	<u>18,602</u>
<b>3. RESEARCH GRANTS AND CONTRACTS</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
EC Grants	41	44
OST Research Council	51	47
Other sources	74	88
	<u>166</u>	<u>179</u>
<b>4. OTHER INCOME</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Residences, Catering and Conferences	9,779	8,621
Other Services Rendered	385	169
Other Income	2,236	1,884
	<u>12,400</u>	<u>10,674</u>

## NOTES TO THE ACCOUNTS

At 31 July 2006

<b>5. ENDOWMENT AND INVESTMENT INCOME</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Income from Endowments (Trust Funds) (Note 19)	35	35
Income from Short Term Investments	<u>663</u>	<u>458</u>
	<u>698</u>	<u>493</u>
<b>6. STAFF COSTS</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
		Restated
Wages and Salaries	29,037	28,422
Social Security Costs	2,328	2,280
Other Pension Costs	3,690	3,348
Redundancy Costs	<u>309</u>	<u>230</u>
	<u>35,364</u>	<u>34,280</u>
Average staff numbers by major category:	<b>Number</b>	<b>Number</b>
Academic Departments	657	670
Academic Services	105	120
Research Grants and Contracts	4	5
Residences, Catering and Conference Premises	24	27
Administration	44	53
	<u>204</u>	<u>191</u>
	<u>1,038</u>	<u>1,066</u>
Emoluments of Vice-Chancellor and remuneration of senior staff:	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Emoluments of Vice-Chancellor	151,018	135,602
Employers' pension contributions (Teachers Superannuation Scheme)	17,087	15,690
Other benefits	<u>2,309</u>	<u>2,102</u>
	<u>170,414</u>	<u>153,394</u>
Remuneration of other higher paid staff earning over £70,000 excluding employers' pension contributions, but including the payments for compensation for loss of office and actuarial payments to pension schemes for early retirement:	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
£70,000 to £79,999	3	1
£80,000 to £89,999	2	2
£130,000 or over	1	-

Severance and actuarial payments in respect of staff whose remuneration was less than £70,000 have not been taken into account in this analysis.

## NOTES TO THE ACCOUNTS

At 31 July 2006

7. OTHER OPERATING EXPENSES	2006 £000	2005 £000
Consumables and other Academic Related Expenditure	2,755	2,276
General Educational Expenditure	1,210	1,396
Books and Periodicals	902	1,001
Heat, Light, Water and Power	1,386	1,175
Repairs and General Maintenance	2,397	2,439
Provision for Dilapidation	5	5
Other Premises Related Expenditure	1,888	1,797
Grants to Student's Union	292	306
Rents and Rates	146	145
External Auditors' Remuneration - Audit Fees *	30	28
External Auditors' Remuneration - Other Fees	5	7
Internal Auditors' Remuneration - Audit Fees	29	28
Internal Auditors' Remuneration - Other Fees	-	-
Operating Lease Rentals Land/Buildings	3,693	3,562
Operating Lease Rentals Plant/Machinery	51	63
Travel and Subsistence	559	550
Other Expenses	6,023	4,483
	<u>21,371</u>	<u>19,261</u>

\* £24,600 relates to fee payable by the University (2005: £24,000)

8. INTEREST PAYABLE	2006 £000	2005 £000
		Restated
Loans not wholly repayable within five years	1,851	1,926
Finance Leases	1,097	1,118
Pension finance costs	340	692
	<u>3,288</u>	<u>3,736</u>

## 9. ANALYSIS OF 2005-2006 EXPENDITURE BY ACTIVITY

	Staff Costs £000	Depreciation £000	Other Operating Expenses £000	Interest Payable £000	Total £000
Academic Departments	23,139	544	4,756	-	28,439
Academic Services	3,312	935	2,319	-	6,566
Research Grants and Contracts	85	-	55	-	140
Residences, Catering and Conferences	560	351	6,994	2,133	10,038
Premises	1,299	1,122	3,243	673	6,337
Administration	6,969	232	4,004	482	11,687
Total per Income and Expenditure Account	<u>35,364</u>	<u>3,184</u>	<u>21,371</u>	<u>3,288</u>	<u>63,207</u>

## 10. TAXATION

A corporation tax charge of £45,000 (2005: £36,000) arises on consolidation as a result of taxable profits in a subsidiary undertaking.

Under the Education Reform Act 1988 the University obtained charitable status, consequently it is not liable to corporation tax on its income and gains. No deferred taxation has been provided in the accounts on the basis that future taxable profits of all subsidiary companies will be paid to the University by way of Deed of Covenant.

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 11. TANGIBLE ASSETS

## Consolidated

	Freehold and Long Land £000	Leasehold Buildings £000	Assets under Construction £000	Equipment £000	Total £000
At 1 August 2005					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	47,209	63	25,883	77,110
Additions	-	-	1,474	2,716	4,190
Disposals	-	-	-	(20,356)	(20,356)
Transfers	-	1,532	(1,532)	-	-
At 31 July 2006	<u>10,409</u>	<u>63,923</u>	<u>5</u>	<u>8,243</u>	<u>82,580</u>
Depreciation					
At 1 August 2005	-	9,445	-	22,861	32,306
Disposals	-	-	-	(20,356)	(20,356)
Provided during period	-	1,446	-	1,738	3,184
At 31 July 2006	<u>-</u>	<u>10,891</u>	<u>-</u>	<u>4,243</u>	<u>15,134</u>
Net book value at 31 July 2006	<u>10,409</u>	<u>53,032</u>	<u>5</u>	<u>4,000</u>	<u>67,446</u>
Net book value at 31 July 2005	<u>10,409</u>	<u>52,946</u>	<u>63</u>	<u>3,022</u>	<u>66,440</u>

## University

	Freehold and Long Land £000	Leasehold Buildings £000	Assets under Construction £000	Equipment £000	Total £000
At 1 August 2005					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	47,209	63	24,905	76,132
Additions	-	-	1,474	2,716	4,190
Disposals	-	-	-	(19,246)	(19,246)
Transfers	-	1,532	(1,532)	-	-
At 31 July 2006	<u>10,409</u>	<u>63,923</u>	<u>5</u>	<u>8,375</u>	<u>82,712</u>
Depreciation					
At 1 August 2005	-	9,445	-	21,883	31,328
Disposals	-	-	-	(19,246)	(19,246)
Provided during period	-	1,446	-	1,738	3,184
At 31 July 2006	<u>-</u>	<u>10,891</u>	<u>-</u>	<u>4,375</u>	<u>15,266</u>
Net book value at 31 July 2006	<u>10,409</u>	<u>53,032</u>	<u>5</u>	<u>4,000</u>	<u>67,446</u>
Net book value at 31 July 2005	<u>10,409</u>	<u>52,946</u>	<u>63</u>	<u>3,022</u>	<u>66,440</u>

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 11. TANGIBLE ASSETS (CONTINUED)

Included in Land and Buildings are two assets with a combined net book value of £11,095,346 (2005: £11,290,966) held under finance leases. Depreciation for the year on these leased assets was £195,620 (2005: £195,621).

The University commissioned a revaluation of its land and buildings held at valuation, undertaken by Chesterton International Ltd as at 31 July 1998. The valuation was undertaken in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. The basis of the valuation was the open market value for existing use. Those properties for which no open market value was readily ascertainable were valued on the depreciated replacement cost basis. Other assets continue to be shown at historic cost.

Under the transitional arrangements of FRS 15 this valuation (after impairment charges) has been retained as the carrying amount for those assets within the valuation.

## 12. INVESTMENTS

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Subsidiaries	-	-	-	-
Other investments	50	50	50	50
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

**Subsidiary Undertakings**

The University owns 100% of the issued ordinary share capital of £2 of Southampton Solent University Limited, a company registered in England.

The University has control of 33% of Southampton Institute Educational Company (SIEC), a company limited by guarantee. SIEC is consolidated by virtue of dominant influence over the operating and financial policies of that company.

**Other Investments**

The University has an investment of £50,000 representing an 11% share of the capital of Learning Network South East (LNSE), a company formed by the collaboration of a number of Institutions in order to provide internet access. This service was previously provided through UKERNA who were funded directly by the Higher Education Funding Council for England.

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and University	
	2006	2005
	£000	£000
MIM Britannia Maximum Income Fund	623	637
Shares and securities not incorporated in above funds	38	29
Cash balances and accruals	4	7
	<u>665</u>	<u>673</u>

## 14. DEBTORS

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade debtors	1,580	1,160	1,219	909
Other debtors	1,625	2,050	1,572	2,023
Amount owed by subsidiary undertaking	-	-	1,624	1,978
	<u>3,205</u>	<u>3,210</u>	<u>4,415</u>	<u>4,910</u>

## 15. CREDITORS: amounts falling due within one year

	Consolidated		University	
	Restated		Restated	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade Creditors	4,234	4,773	4,039	4,551
Taxation and social security	756	715	756	715
Salary and wages creditor	765	812	765	812
Other creditors	4,211	3,396	4,106	3,310
Amounts due to subsidiary companies	-	-	1,164	1,864
Hampshire County Council debt charge	-	188	-	188
Bank Loan (Note 22b)	833	775	833	775
Obligations under finance leases (Note 22a)	254	234	254	234
	<u>11,053</u>	<u>10,893</u>	<u>11,917</u>	<u>12,449</u>

## 16. CREDITORS: amounts falling due after more than one year

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
Debts on transferred assets				
- due in two to five years	-	308	-	308
- due after more than five years	-	42	-	42
Long term Bank loan (Note 22b)	23,165	23,998	23,165	23,998
Obligations under finance leases (Note 22a)	12,495	12,749	12,495	12,749
	<u>35,660</u>	<u>37,097</u>	<u>35,660</u>	<u>37,097</u>

During the year the repayment of the debt on transferred assets was accelerated and fully paid.

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 17 PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated and University

	Pension Enhancement £000	Dilapidation £000	Reorganisation £000	Total £000
At 1 August 2005 as previously stated	363	801	378	1,542
Prior year adjustment	(363)	-	-	(363)
At 1 August 2005 as restated	-	801	378	1,179
Charge to Income & Expenditure account	-	5	309	314
Payments made in year	-	-	(241)	(241)
At 31 July 2006	-	806	446	1,252

The amounts provided for under Dilapidation and Reorganisation comply with the requirements of FRS12. The Reorganisation provision is made to cover the cost of redundancy and severance payments for changes to the University's staff structures.

The Dilapidation provision is based on a professional valuation carried out at 31 July 2004, and management are not aware of any events since that date which would indicate any material change to that provision.

## PENSIONS

Retirement benefits for employees of Southampton Solent University are provided by defined benefit schemes, which are funded by contributions from the University and employees. Payments are made to the Teachers' Superannuation Scheme for academic staff and to the Hampshire County Council Superannuation Scheme for non-academic staff. These are both independently administered schemes. Both of these are defined benefit schemes.

The Teachers' Superannuation Scheme is valued every ten years by the Government Actuary and was last valued at 31 March 2001. The scheme has been notionally invested in Government securities. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%. The estimated notional value of the assets at the valuation date was £142,880 million. This represented 100% of the scheme's liabilities. Contributions are paid by the University at the rate specified by the Government Actuary. The employers' contribution is currently 13.5%. As the Teachers Superannuation Scheme is unable to identify the University's share of the underlying assets and liabilities, contributions to that scheme are accounted for as if it was a defined contribution scheme.

The Hampshire County Council Superannuation Scheme (HCC) is valued every three years by a professionally qualified independent actuary using the Projected Unit method, the rates of contribution being determined by the actuary. The latest actuarial assessment of the Hampshire County Council Superannuation Scheme was at 31 March 2004. Levels of employers' contributions are set out below:

		At 31 March 2005	At 31 March 2006	At 31 March 2007	At 31 March 2008	At 31 March 2009	At 31 March 2010
Non teaching staff	HCC	13%	15.0%	16.5%	17.7%	17.7%	17.7%

The University also has unfunded obligations in respect of enhanced pension entitlements to staff who took early retirement under a reorganisation programme in 1993.

Where the university ceases to trade and there is no successor establishment, the Secretary of State for Education and Employment becomes the compensating authority.

## NOTES TO THE ACCOUNTS

At 31 July 2005

## 17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

## FRS 17

Details in respect of the pension liabilities are provided in accordance with FRS 17. As noted earlier it is not possible to identify the University's share of the underlying assets and liabilities of the Teachers Superannuation Scheme and therefore the following disclosures relate to the Hampshire County Council Superannuation Scheme and unfunded obligations.

## Hampshire County Council Superannuation Scheme, including pension enhancements

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2004 and updated by Hewitt Bacon and Woodrow, independent actuaries, to take account of the requirements of FRS 17 in order to assess the University's share of the assets and liabilities of the scheme as at 31 July 2006, 31 July 2005 and 31 July 2004. The major assumptions used by the actuary for the purposes of FRS 17 were:

	31 July 2006	31 July 2005	31 July 2004
Discount Rate	5.1% pa	5.0% pa	5.7% pa
Rate of increase in salaries	4.6% pa	4.2% pa	4.4% pa
Rate of increase in pensions in payment	3.1% pa	2.7% pa	2.9% pa
Rate of inflation	3.1% pa	2.7% pa	2.9% pa

The University's share of the assets in the scheme and the expected rate of return were:

	At 31 July 2006		At 31 July 2005		At 31 July 2004	
	Rate of Return	Value	Rate of Return	Value	Rate of Return	Value
Equities	7.4%	21,494	7.4%	18,559	8.0%	12,630
Bonds	4.4%	1,246	4.4%	5,489	5.0%	4,030
Property	6.4%	6,541	6.4%	1,046	7.0%	730
Other assets	4.7%	1,869	4.7%	1,046	4.8%	910
		<u>31,150</u>		<u>26,140</u>		<u>18,300</u>
Average rate of return	6.6%		6.6%		7.1%	

The following amounts were measured in accordance with the requirements of FRS17:

	31 July 2006 £000	31 July 2005 £000
Share of assets in Hampshire County Council Pension Fund	31,150	26,140
Estimated share of liabilities in Hampshire County Council Pension Fund	(47,650)	(41,880)
Share of deficit in the scheme - net pension liability	<u>(16,500)</u>	<u>(15,740)</u>

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

In total, the movement in the University's share of the scheme deficit during the year is made up as follows:

	2006 £000	2005 £000 Restated
Deficit on scheme at 1 August	(15,740)	(16,386)
Movement in year		
- Service cost	(1,950)	(1,660)
- Contributions	1,620	1,430
- Other financial charges/gains	(370)	(692)
- Actuarial gain/loss	(60)	1,568
Deficit on scheme at 31 July	<u>(16,500)</u>	<u>(15,740)</u>

The following components of the pensions charge are recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2005:

	31 July 2006 £000	31 July 2005 £000
Analysis of amounts charged to operating surplus:		
Current service cost	(1,950)	(1,660)
Past service cost	(30)	(20)
Total operating charge	<u>(1,980)</u>	<u>(1,680)</u>
Analysis of amounts charged to interest payable:		
Expected return on pension scheme assets	1,780	1,350
Interest on expected scheme liabilities	(2,120)	(2,000)
Total interest payable charge	<u>(340)</u>	<u>(650)</u>

Analysis of amounts recognised in statement of total recognised gains and losses:

	31 July 2006	31 July 2005	31 July 2004	31 July 2003	31 July 2002
Actual return less expected return on pension scheme assets					
Amount £,000	1,640	3,010	240	(290)	(3,400)
% of scheme assets	5.3%	11.5%	1.3%	(1.8%)	(24.6%)
Experience gains and losses arising on scheme liabilities:					
Amount £,000	(80)	3,190	10	50	(682)
% of scheme liabilities	(0.2%)	7.7%	0.0%	0.2%	(2.8%)
Changes in assumptions underlying the present value of scheme liabilities					
Amount £,000	(1,620)	(4,600)	40	(4,190)	887
% of scheme liabilities	(3.4%)	(11.1%)	0.1%	(13.5%)	3.7%
Total actuarial (loss)/gain recognised					
Amount £,000	(60)	1,600	290	(4,430)	(3,195)
% of scheme liabilities	(0.1%)	3.9%	0.8%	(14.3%)	(13.3%)

## NOTES TO THE ACCOUNTS

At 31 July 2006

## 18. DEFERRED CAPITAL GRANTS

Consolidated and University

	Buildings £000	Equipment £000	Total £000
At 1 August 2005	3,280	1,404	4,684
Cash Received	1,561	1,413	2,974
Released to Income and Expenditure	(200)	(838)	(1,038)
At 31 July 2006	<u>4,641</u>	<u>1,979</u>	<u>6,620</u>

## 19. ENDOWMENTS

Consolidated and University

	2006 £000	2005 £000
At 1 August	673	637
(Decrease)/increase in cash balances, investments	(7)	36
Income for year	35	36
Examination Fees for year	(1)	(1)
Transferred to Income and Expenditure Account (Note 5)	(35)	(35)
At 31 July	<u>665</u>	<u>673</u>
Representing:		
Amenities Fund	18	20
Murals Fund	16	16
Southampton Research Fund	139	139
Merged Research Fund*	492	498
At 31 July	<u>665</u>	<u>673</u>

\* Incorporates Drewry, Rynicker, Moyana, Sandell, Waller, Warsash and Sail Training Funds

## 20. REVALUATION RESERVE

Consolidated and University

	2006 £000	2005 £000
At 1 August	7,444	7,337
Transfer to the Income and Expenditure Account (Note 21)		
Depreciation for period on revalued inherited assets	(90)	(90)
HCC debt charge principal repaid	538	197
At 31 July	<u>7,892</u>	<u>7,444</u>

## 21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated	University
	2006	2006
	£000	£000
At 1 August as previously stated	18,763	18,763
Prior year adjustment (Note 25)	<u>(15,116)</u>	<u>(15,116)</u>
At 1 August as restated	3,557	3,647
Retained surplus for the period	1,995	1,981
(Loss) on pension liability	(60)	(60)
Transfers from revaluation reserve (Note 20)	<u>90</u>	<u>90</u>
At 31 July	<u>5,582</u>	<u>5,658</u>

## 22. OBLIGATIONS UNDER LEASES AND LOANS

a) Finance leases	Consolidated and University	
	2006	2005
	£000	£000
Amounts payable:		
Within one year	1,347	1,347
In more than one and less than two years	1,347	1,347
In more than two and less than five years	4,041	4,041
After more than five years	<u>17,719</u>	<u>19,066</u>
	24,454	25,801
Less: finance charges allocated to future periods	<u>11,705</u>	<u>12,818</u>
	<u>12,749</u>	<u>12,983</u>
Analysed as:		
Amounts due in less than one year	254	234
Amounts due after more than one year	<u>12,495</u>	<u>12,749</u>
	<u>12,749</u>	<u>12,983</u>

b) Loans	Consolidated and University	
	2006	2005
	£000	£000
Instalments due within one year	833	775
Instalments due in more than one and less than two years	880	833
Instalments due in more than two and less than five years	2,482	2,641
Instalments not due within five years	<u>19,803</u>	<u>20,524</u>
	23,998	24,773
Analysed as:		
Amounts due within one year	833	775
Amounts due after more than one year	<u>23,165</u>	<u>23,998</u>
	<u>23,998</u>	<u>24,773</u>

## c) The current annual commitment under non-cancellable operating leases for land and building is as follows:

	Consolidated and University	
	2006	2005
	£000	£000
Amounts payable under leases expiring after more than five years	<u>3,660</u>	<u>3,535</u>

**23. CAPITAL COMMITMENTS**

	Consolidated and University	
	2006	2005
	£000	£000
Authorised and contracted	<u>-</u>	<u>-</u>
Authorised but not contracted	<u>2,778</u>	<u>3,523</u>

**24. CONTINGENT LIABILITIES**

At 31 July 2006 the Governors were not aware of any contingent liabilities for which full provision has not been made. The provision for dilapidation shown in Note 17 is in respect of conditions in operating leases for two halls of residence. The balance on the provision is the estimated cost of rectification at 31 July 2006 and current estimates of the eventual costs of rectification at the end of the lease periods are between £5m and £8m. The leases in question expire in 2021 (Emily Davis Hall) and 2024 (Hamwic). The University's annual spend on maintenance over the past three financial years has been £2.8m (2005-06), £2.4m (2004-05), £2.5m (2003-04).

**25. PRIOR YEAR ADJUSTMENT**

The prior year adjustment relates to the implementation of FRS 17, "Retirement Benefits", which replaces SSAP 24 "Accounting for Pension Costs". Contributions to the University's defined pension scheme were charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' expected working lives with the University. FRS17 requires that the pension scheme surplus or deficit is recognised in full.

The effect of this accounting policy change is an increase in staff costs of £360,000 (2005: £230,000) and an increase in other finance costs of £340,000 (2005: £692,000), resulting in a decrease in surplus of £700,000 (2005: £922,000)

Analysis of the prior year adjustment:

	Consolidated and University
	2005
	£000
Adjustment to opening Income and Expenditure Account Reserve at 1 August 2004	(16,387)
Adjustment to Income and Expenditure Account for year ended 31 July 2005	(922)
Adjustment to Statement of Total Recognised Gains and Losses for the year ended 31 July 2005	1,568
Release of SSAP24 Pension liabilities	625
Total Prior Year Adjustment	<u>(15,116)</u>

**26. POST BALANCE SHEET EVENTS**

The Governors are not aware of any post balance sheet events that they feel attention should be drawn to.

## 27. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £000	2005 £000
Surplus before taxation	2,040	769
Less interest receivable	<u>(663)</u>	<u>(458)</u>
	1,377	311
Add back interest payable	<u>3,288</u>	<u>3,736</u>
Surplus from Operating Activities	4,665	4,047
Release of Capital Grant	(1,038)	(1,106)
Depreciation	3,184	3,042
Pension contribution less amounts charge to operating surplus	360	230
Increase/(Decrease) in debtors	(122)	528
Increase in creditors	253	2,293
Increase/(Decrease) in restricted reserves and provisions	<u>72</u>	<u>(195)</u>
Net Cash Inflow from Operating Activities	<u><u>7,374</u></u>	<u><u>8,839</u></u>

## 28. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006 £000	2005 £000
Interest Received	790	429
Interest Paid under Finance Leases	(1,097)	(1,118)
Other Interest Paid	<u>(1,851)</u>	<u>(1,926)</u>
Returns on Investments and Servicing of Finance	<u><u>(2,158)</u></u>	<u><u>(2,615)</u></u>

## 29. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2006 £000	2005 £000
Purchase of Fixed Assets	(4,190)	(3,144)
Deferred Capital Grants received	<u>2,974</u>	<u>1,671</u>
	<u><u>(1,216)</u></u>	<u><u>(1,473)</u></u>

## 30. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	At 1 August 2005	Capital Repayments In the year	At 31 July 2006
	£000	£000	£000
HCC Loan Account	539	(539)	-
Barclays Bank Loan	1,338	(273)	1,065
Kimber College Finance Lease	4,998	(219)	4,779
Sir James Matthews Building finance lease	7,986	(15)	7,971
Deanery College Loan	12,681	(271)	12,410
Chantry College Loan	7,246	(155)	7,091
David Moxon Annex Loan	3,507	(75)	3,432
	<u>38,295</u>	<u>(1,547)</u>	<u>36,748</u>

Changes in financing as disclosed in the Cashflow Statement may be analysed as follows:

	2006 £000	2005 £000
Repayment of Loans	(1,313)	(918)
Repayment of Capital Element of Finance Leases	(234)	(214)
Funding Council Grant Reimbursement	539	197
	<u>(1,008)</u>	<u>(935)</u>

## 31. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2005	Cash Flow	Non Cash Movement	At 31 July 2006
	£000	£000	£000	£000
Cash	804	580	-	1,384
Short Term Deposit	10,107	2,367	-	12,474
Debt Due within one year	(1,197)	1,547	(1,087)	(737)
Debt Due after one year	(37,098)	-	1,087	(36,011)
	<u>(27,384)</u>	<u>4,494</u>	<u>-</u>	<u>(22,890)</u>

## 32. ACCESS FUNDS

	2006 £000	2005 £000
Balance brought forward	22	(7)
Adjustment advised to HEFCE	-	7
	<u>22</u>	<u>-</u>
Funding Council Grants	489	580
Interest Earned	3	4
Loans Repaid by Students	-	12
	<u>514</u>	<u>596</u>
Disbursed to Students	(495)	(574)
Administration Costs	(19)	-
Balance Unspent/(overspent) at 31 July	<u>-</u>	<u>22</u>

## 33. RELATED PARTY TRANSACTIONS

The following companies are deemed to be related parties by virtue of the fact that Governors or senior post holders of the University are partners, directors or have influence over the financial and operating policies of the other party. Sales and purchases as shown below are all on arms length basis. The grant made to Solent Students Union (SSU) is part of the normal operations of the University, as is the grant for an approved capital purchase by the SSU.

Southampton Solent University	Payments to third parties through PSR client account £000	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000	Grants and Loans made to related party £000
Solent Students Union						
Trade	-	6	19	-	-	-
Grant	-	-	-	-	24	291
Paris Smith & Randall (PSR)	-	-	3	-	-	-