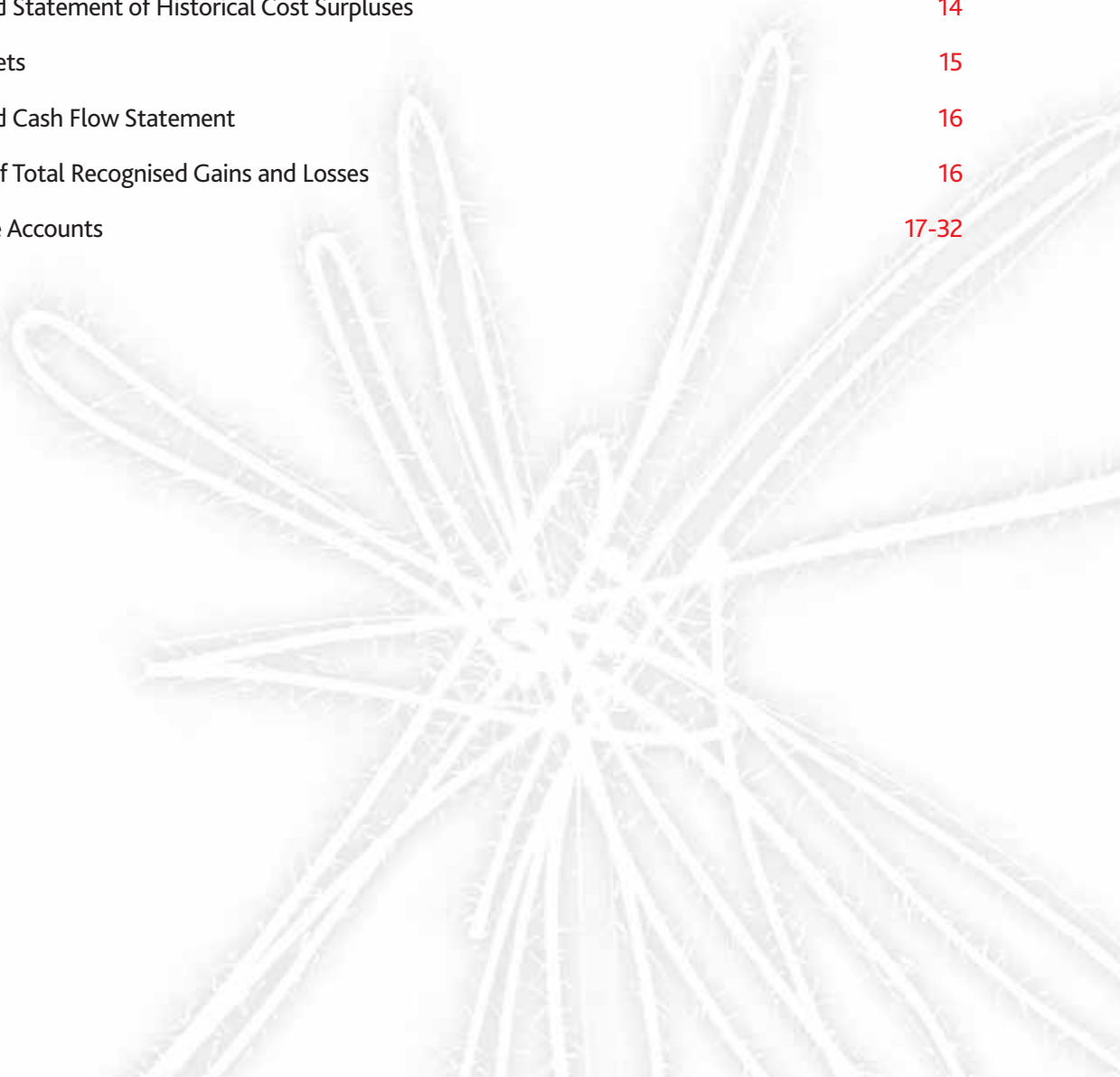


FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2005

CONTENTS

	Page
Governors, Auditors and Bankers	1
Governors' Report	2
Corporate Governance Statement	2-4
Statement of the Responsibilities of the Board of Governors	4-5
Annual Review	6-8
Independent Auditors' Report to the Board of Governors	9-10
Statement of Principal Accounting Policies	11-13
Consolidated Income and Expenditure Account	14
Consolidated Statement of Historical Cost Surpluses	14
Balance Sheets	15
Consolidated Cash Flow Statement	16
Statement of Total Recognised Gains and Losses	16
Notes to the Accounts	17-32



GOVERNORS AUDITORS AND BANKERS

GOVERNORS

			Attendance%
Professor R Brown	Vice-Chancellor, ex-officio Governor		100
Ms T Bullen	Support Staff Governor (elected)		75
Mr J Bullock	Independent Governor		100
Dr A Burman	Independent Governor		75
Mr C Clark	Independent Governor		25
Mr A Ellery	Student Governor (President of SSU)	Appointed July 2005	100
Mr M Farwell	Teaching Staff Governor (elected)		100
Mrs J Fitton	Co-opted External Governor	Retired July 2005	100
Professor K Gregory	Independent Governor - Vice Chair		100
Councillor R Harris	Co-opted External Governor		100
Mr A Heathcock	Independent Governor		100
Mr N Hoskins	Independent Governor		50
Mr T Jewitt	Student Governor (President SISU)	Retired June 2005	100
Mr C Kean	Co-opted External Governor		100
Mr A Kent	Independent Governor	Appointed July 2005	N/A
Mrs L Kimber	Academic Board Nominee (elected)	Retired July 2005	75
Rear Admiral J Lang	Independent Governor		50
Mrs B Large MBE	Independent Governor		100
Mr P Payze	Independent Governor		75
Ms P Powell	Independent Governor		50
Dr H Rose	Academic Board Nominee (ex-officio)	Retired August 2004	N/A
Ms A Santry	Independent Governor	Resigned November 2004	0
Mr T Thomas	Academic Board Nominee (ex-officio)	Appointed October 2004	100
Professor G Tonge	Independent Governor - Chair		75
Dr S Wellington	Academic Board Nominee (elected)	Appointed July 2005	N/A
Capt A Winbow	Independent Governor		50

CLERK TO THE GOVERNORS

Mr D Parry

AUDITORS

BDO Stoy Hayward LLP
Park House
102-108 Above Bar
Southampton
SO14 7NH

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. A timetable was drawn up which ensured full implementation by 31 July 2003. 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 Chairman and Vice Chairman 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; its members and their attendance record during the year is given on page 1. 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.

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, and until November 2004 when the Information Resources Sub-Committee stood down also received advice on Information Resources issues. Since November 2004 Information Resources issues have been considered directly by the Resources Committee.

The Resources Committee met three times during 2004–05. 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		100%
Mr N Hoskins	Independent Governor	Chair, Estates Sub-Committee	100%
Mrs B Large	Independent Governor	Chair, Liaison Committee Representative	67%
Ms P Powell	Independent Governor		67%
Captain A Winbow	Independent Governor	Chair, Human Resources Sub-Committee	33%

Officers normally in attendance:

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

GOVERNOR'S 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 for independent discussions when necessary. The Chair of the Audit Committee is a member of the Risk Management Group, which reports to the Audit Committee.

The Audit Committee met four times during 2004-05. 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, Audit Committee	100%
Mr A Heathcock	Independent Governor		100%
Mr C Kean	Co-opted External Governor		50%
Rear Admiral J Lang	Independent Governor		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

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 the 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 four times during 2004-05. 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 %
Mrs J Fitton	Co-opted External Governor	Chair, Governance Committee	100%
Professor R Brown	Vice-Chancellor, ex-officio Governor		67%
Ms T Bullen	Support Staff Governor		100%
Mr M Farwell	Teaching Staff Governor		100%
Professor K Gregory	Independent Governor	Chair, Resources Committee	100%
Mrs L Kimber	Academic Board Nominee		100%
Dr H Rose	Academic Board Nominee	Retired August 2004	N/A
Mr T Thomas	Academic Board Nominee	Appointed October 2004	100%

Officer normally in attendance:

Mr D Parry	Clerk to the Board of Governors
------------	---------------------------------

GOVERNOR'S 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 three times during 2004-05. 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		50%
Mr P Payze	Independent Governor		75%

Officers normally in attendance:

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

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.

GOVERNOR'S 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 since 31 July 2003 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 the Head of Internal Audit (HIA) which includes the HIA'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 HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in January 2002. The internal auditors submit regular reports which include the HIA's independent opinion on the adequacy and effectiveness of the University's system of internal control together with recommendations for improvement.

GOVERNOR'S 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.

GOVERNOR'S 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 Educational 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:

	2004 – 2005		2003 – 2004	
	Paid under Variable deed of Covenant	Profit/(Loss) after Covenant where applicable	Paid under Variable deed of Covenant	Profit/(Loss) after Covenant where applicable
	£000	£000	£000	£000
Southampton Solent University Limited	403	26	163	10
Southampton Institute Educational Company	-	-	-	-
	<u>403</u>	<u>26</u>	<u>163</u>	<u>10</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 two years, the University projected a surplus again for the current year and this has been satisfactorily achieved with an increase in the surplus from £742k in 2003-04 to £1,745k in 2004-05. Student recruitment for 2004-05 was better than in the four previous years, with a significant 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 2005-06 and subsequent years, as approved by the Board of Governors, envisages that surpluses will be achieved throughout the forecast period, but that the magnitude of the surplus will decrease for the forthcoming year, prior to the introduction of variable fees in 2006. It is anticipated that 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.

GOVERNOR'S REPORT

ANALYSIS OF INCOME BY SOURCE

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

		2004 – 2005 £000	2003 – 2004 £000
Public funds for funded activities	HEFCE and LSC Funding	31,140	30,493
	Full Time Home and EU Tuition Fees	9,281	9,204
	EU and other Government Sources	56	35
Private sources within funded activities	Tuition and Research	4,125	3,928
	Interest Receivable	493	413
	Other Private Income	198	488
Private sources for non-funded activities	Residences and Catering	8,621	8,124
	Overseas Students	4,063	3,612
	Simulator activities through Southampton Solent University Limited	1,268	1,238
	Other Private Income	1,843	1,627
		<u>61,088</u>	<u>59,162</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.

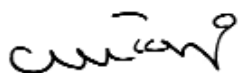
GOVERNORS

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.

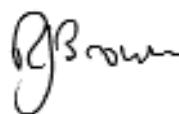
AUDITORS

A resolution to appoint BDO Stoy Hayward LLP as auditors was approved by the Board of Governors at their meeting of 13 October 2004, with effect from June 2005.

By order of the Board of Governors

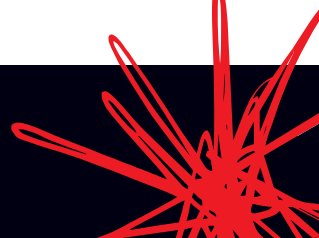


Professor G Tonge
Chairman of the Board of Governors
21 December 2005



Professor R Brown
Vice-Chancellor

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



We have audited the consolidated Financial Statements of Southampton Solent University as set out on pages 11 to 32 for the year ended 31 July 2005 prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of the Board of Governors and the Auditors

The Board of Governors' responsibilities are for preparing the annual report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions.

We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been 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 also report to you if, in our opinion, the Governors' Report is not consistent with the Financial Statements, if the University has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Governors' 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 within the Financial Statements.

Our report has been prepared pursuant to the requirements of the University's statutes and the HEFCE Audit Code of Practice 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 the Auditing Standards issued by the Auditing Practices Board and the Code of Audit 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 Board of Governors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate for the Group's circumstances, consistently applied and adequately disclosed.

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

INDEPENDENT AUDTORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON SOLENT UNIVERSITY

In our opinion:

- * the Financial Statements give a true and fair view of the state of affairs of Southampton Solent University and its subsidiaries at 31 July 2005 and of the surplus of income over expenditure and cash flows for the year and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions.
- * funds from the Higher Education Funding Council for England and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by Southampton Solent University have been applied only for the purposes for which they were received.
- * income has been applied in accordance with the Education Reform Act 1988 and with the Financial Memorandum with the Higher Education Funding Council for England dated 1 October 2003.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditor
Southampton

21 December, 2005



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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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.

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

Payments are made to the Department for Education in accordance with the Teachers' Superannuation Scheme for academic staff. 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.

Payments are made to Hampshire County Council in accordance with the Local Government Superannuation Scheme for non-academic staff. The HCC scheme's actuaries are able to identify the University's share of the underlying assets and liabilities and this is accounted for as a defined benefit scheme.

Both funds are defined benefit schemes, which are not administered by the University and their financial position is reported through their own annual audited accounts.

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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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.

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 & EXPENDITURE ACCOUNT FOR THE YEAR ENDING 31 JULY 2005

INCOME	Notes	2004 – 2005 £000	2003 – 2004 £000
Funding Council Grants	1	31,140	30,493
Tuition fees and education contracts	2	18,602	17,752
Research grants and contracts	3	179	265
Other income	4	10,674	10,239
Endowment and investment income	5	493	413
Total income		61,088	59,162
EXPENDITURE			
Staff costs	6	34,050	33,186
Depreciation	11	3,042	2,728
Other operating expenses	7	19,261	19,450
Interest payable	8	3,044	3,136
Total expenditure	9	59,397	58,500
Surplus after depreciation of assets and tax		1,691	662
Taxation	10	36	10
		1,655	652

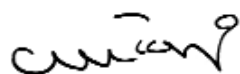
All amounts relate to continuing activities

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES FOR THE YEAR ENDED 31 JULY 2005

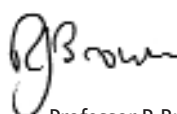
	Notes	2004 – 2005 £000	2003 – 2004 £000
Surplus after depreciation of assets and tax		1,655	652
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount	20	90	90
		1,745	742

BALANCE SHEET AS AT 31 JULY

	Notes	Consolidated		University	
		2005	2004	2005	2004
		£000	£000	£000	£000
			Re-stated		Re-stated
FIXED ASSETS					
Tangible Assets	11	66,440	66,338	66,440	66,349
Investments	12	50	50	50	50
		<u>66,490</u>	<u>66,388</u>	<u>66,490</u>	<u>66,399</u>
Endowment Asset Investments	13	673	637	673	637
CURRENT ASSETS					
Debtors	14	3,210	3,710	4,910	6,512
Investments	30	10,107	6,259	10,107	6,259
Cash at bank and in hand	30	804	872	750	584
		<u>14,121</u>	<u>10,841</u>	<u>15,767</u>	<u>13,355</u>
Creditors: amounts falling due within one year	15	<u>11,154</u>	<u>8,796</u>	<u>12,711</u>	<u>11,308</u>
Net Current Assets		<u>2,967</u>	<u>2,045</u>	<u>3,056</u>	<u>2,047</u>
Total assets less current liabilities		70,130	69,070	70,219	69,083
Creditors: amounts falling due after more than one year	16	37,097	38,295	37,097	38,295
Provisions for liabilities and charges	17	1,542	1,737	1,542	1,737
TOTAL ASSETS LESS LIABILITIES		<u>31,491</u>	<u>29,038</u>	<u>31,580</u>	<u>29,051</u>
Deferred capital grants	18	<u>4,684</u>	<u>4,119</u>	<u>4,684</u>	<u>4,119</u>
Endowments	19	<u>673</u>	<u>637</u>	<u>673</u>	<u>637</u>
RESERVES					
Revaluation Reserve	20	7,444	7,337	7,444	7,337
Restricted Reserve		17	17	17	17
Income and Expenditure Account	21	<u>18,673</u>	<u>16,928</u>	<u>18,762</u>	<u>16,941</u>
Total Reserves		<u>26,134</u>	<u>24,282</u>	<u>26,223</u>	<u>24,295</u>
TOTAL FUNDS		<u>31,491</u>	<u>29,038</u>	<u>31,580</u>	<u>29,051</u>



Professor G Tonge
Chairman of the Board of Governors
21 December 2005



Professor R Brown
Vice-Chancellor

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDING 31 JULY 2005

	Notes	2004-2005 £000	2003-2004 £000
Net Cash Inflow From Operating Activities			
Returns on investments and servicing of finance	26	8,839	5,340
Taxation	27	(2,615)	(2,836)
Capital expenditure and financial investment		(36)	(10)
Management of liquid resources	28	(1,473)	(1,086)
Net Cash Inflow Before Financing	30	<u>(3,848)</u>	<u>(649)</u>
Financing		867	759
Decrease in cash	29	<u>(935)</u>	<u>(873)</u>
		<u>(68)</u>	<u>(114)</u>

RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT			
Decrease in Cash		(68)	(114)
Repayment of Long Term Loan		918	873
Repayment of Capital Elements of Finance Leases		214	197
Change in Short Term Deposits		<u>3,848</u>	<u>649</u>
Movement in Net Debt	30	4,912	1,605
Net Debt at 1 August	30	(32,296)	(33,901)
Net Debt at 31 July	30	<u>(27,384)</u>	<u>(32,296)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2005

		2004-2005 £000	2004-2005 £000
Surplus after Depreciation of Assets and Tax		1,655	652
Reimbursement of Debt Charge Principal to Revaluation Reserve	20	197	197
Unrealised gain/(loss) on Endowment Asset Investments	13	36	(31)
Total recognised gains relating to the year		<u>1,888</u>	<u>818</u>

Reconciliation			
Opening reserves and endowments		24,919	24,101
Total recognised gains for the year		<u>1,888</u>	<u>818</u>
Closing reserves and endowments		<u>26,807</u>	<u>24,919</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

1. FUNDING COUNCIL GRANTS

	2005	2004
	£000	£000
Recurrent Grant		
HEFCE	27,939	23,387
LSC	1,189	1,266
Specific HEFCE grants		
Debt Charge Interest Reimbursement	37	44
Special Initiatives	869	5,142
Deferred Capital Grants released in Year		
Buildings (Note 18)	205	100
Equipment (Note 18)	901	554
	<u>31,140</u>	<u>30,493</u>

2. TUITION FEES AND EDUCATION CONTRACTS

	2005	2004
	£000	£000
Full time undergraduate and postgraduate fees home and EC	8,994	8,974
Part time undergraduate and postgraduate fees home and EC	1,429	1,333
Overseas (Non-EC) domicile students	4,063	3,612
Non credit bearing course fees	3,829	3,603
Other	287	230
	<u>18,602</u>	<u>17,752</u>

3. RESEARCH GRANTS AND CONTRACTS

	2005	2004
	£000	£000
		Re-stated
EC Grants	44	35
OST Research Council	47	18
Other sources	88	212
	<u>179</u>	<u>265</u>

4. OTHER INCOME

	2005	2004
	£000	£000
Residences, Catering and Conferences	8,621	8,124
Other Services Rendered	169	463
Other Income	1,884	1,652
	<u>10,674</u>	<u>10,239</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

5. ENDOWMENT AND INVESTMENT INCOME

	2005	2004
	£000	£000
Income from Endowments (Trust Funds) (Note 19)	35	35
Income from Short Term Investments	458	378
	<u>493</u>	<u>413</u>

6. STAFF COSTS

	2005	2004
	£000	£000
Wages and Salaries	28,422	27,407
Social Security Costs	2,280	2,247
Other Pension Costs	3,118	2,870
Redundancy Costs	230	662
	<u>34,050</u>	<u>33,186</u>

	Number	Number Re-stated
Average staff numbers by major category:		
	670	704
Academic Departments	120	116
Academic Services	5	6
Research Grants and Contracts	27	23
Residences, Catering and Conference	53	52
Premises	191	194
Administration	<u>1,066</u>	<u>1,095</u>

	2005	2004
	£000	£000
Emoluments of Vice-Chancellor and remuneration of senior staff:		
	135,602	126,143
Emoluments of Vice-Chancellor	15,690	12,969
Employers' pension contributions (Teachers Superannuation Scheme)	2,102	1,920
Other benefits	<u>153,394</u>	<u>141,032</u>

	2005 Number	2004 Number
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:		
£70,000 to £79,999	1	3
£80,000 to £89,999	2	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 2005

7. OTHER OPERATING EXPENSES

	2005	2004
	£000	£000
Consumables and other Academic Related Expenditure	2,276	2,238
General Educational Expenditure	1,396	1,967
Books and Periodicals	1,001	864
Heat, Light, Water and Power	1,175	949
Repairs and General Maintenance	2,439	2,482
Provision for Dilapidation	5	115
Other Premises Related Expenditure	1,797	1,541
Grants to Students Union	306	309
Rents and Rates	145	137
External Auditors' Remuneration – Audit Fees *	28	35
External Auditors' Remuneration – Other Fees	7	29
Internal Auditors' Remuneration – Audit Fees	28	29
Internal Auditors' Remuneration – Other Fees	-	13
Operating Lease Rentals Land/Buildings	3,562	3,442
Operating Lease Rentals Plant/Machinery	63	26
Travel and Subsistence	550	483
Other Expenses	4,483	4,791
	<u>19,261</u>	<u>19,450</u>

* £24,000 relates to fee payable by the University (2004: £30,192)

8. INTEREST PAYABLE

	2005	2004
	£000	£000
Loans not wholly repayable within five years	1,926	1,989
Finance Leases	1,118	1,147
	<u>3,044</u>	<u>3,136</u>

9. ANALYSIS OF 2004-2005 EXPENDITURE BY ACTIVITY

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic Departments	22,683	497	4,366	-	27,546
Academic Services	3,131	921	2,190	-	6,242
Research Grants and Contracts	98	-	49	-	147
Residences, Catering and Conferences	432	344	6,280	2,187	9,243
Premises	1,402	1,069	3,568	675	6,714
Administration	6,304	211	2,808	182	9,505
Total per Income and Expenditure Account	<u>34,050</u>	<u>3,042</u>	<u>19,261</u>	<u>3,044</u>	<u>59,397</u>

10. TAXATION

A corporation tax charge of £36,000 (2004: £10,000) 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 2005

11. TANGIBLE ASSETS

University

	Freehold and Long Leasehold		Work in Progress	Equipment	Total
	Land	Buildings			
	£000	£000	£000	£000	£000
At 1 August 2004					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	46,214	265	22,565	72,999
Additions	-	-	793	2,340	3,133
Capitalisation of work in progress	-	995	(995)	-	-
At 31 July 2005	<u>10,409</u>	<u>62,391</u>	<u>63</u>	<u>24,905</u>	<u>97,768</u>
Depreciation					
At 1 August 2004	-	8,060	-	20,226	28,286
Provided during period	-	1,385	-	1,657	3,042
At 31 July 2005	<u>-</u>	<u>9,445</u>	<u>-</u>	<u>21,883</u>	<u>31,328</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>
Net book value at 31 July 2004	<u>10,409</u>	<u>53,336</u>	<u>265</u>	<u>2,339</u>	<u>66,349</u>

Consolidated

	Freehold and Long Leasehold		Work in Progress	Equipment	Total
	Land	Buildings			
	£000	£000	£000	£000	£000
At 1 August 2004					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	46,214	265	23,532	73,966
Additions	-	-	793	2,351	3,144
Capitalisation of work in progress	-	995	(995)	-	-
At 31 July 2005	<u>10,409</u>	<u>62,391</u>	<u>63</u>	<u>25,883</u>	<u>98,746</u>
Depreciation					
At 1 August 2004	-	8,060	-	21,204	29,264
Provided during period	-	1,385	-	1,657	3,042
At 31 July 2005	<u>-</u>	<u>9,445</u>	<u>-</u>	<u>22,861</u>	<u>32,306</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>
Net book value at 31 July 2004	<u>10,409</u>	<u>53,336</u>	<u>265</u>	<u>2,328</u>	<u>66,338</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

11. TANGIBLE ASSETS (CONTINUED)

Included in Land and Buildings are two assets with a combined net book value of £11,290,966 (2004: £11,486,587) held under finance leases. Depreciation for the year on these leased assets was £195,621 (2004: £195,617).

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	
	2005	2004	2005	2004
	£000	£000	£000	£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 2005

13. ENDOWMENT ASSET INVESTMENTS

Consolidated and University

	2005	2004
	£000	£000
MIM Britannia Maximum Income Fund	637	609
Shares and securities not incorporated in above funds	29	22
Cash balances and accruals	7	6
	<u>673</u>	<u>637</u>

14. DEBTORS

	Consolidated		University	
	2005	Re-stated 2004	2005	Re-stated 2004
	£000	£000	£000	£000
Trade debtors	1,160	1,897	909	1,428
Other debtors	2,050	1,744	2,023	1,696
Amount owed by subsidiary undertaking	-	69	1,978	3,388
	<u>3,210</u>	<u>3,710</u>	<u>4,910</u>	<u>6,512</u>

15. CREDITORS: amounts falling due within one year

	Consolidated		University	
	2005	Re-stated 2004	2005	Re-stated 2004
	£000	£000	£000	£000
Trade Creditors	4,773	3,781	4,551	3,581
Taxation and social security	715	709	715	709
Salary and wages creditor	812	734	812	734
Other creditors	3,395	2,178	3,310	2,086
SSAP 24 Pension Liability	262	262	262	262
Amounts due to subsidiary companies	-	-	1,864	2,804
Hampshire County Council debt charge	188	197	188	197
Bank Loan (Note 22b)	775	721	775	721
Obligations under finance leases (Note 22a)	234	214	234	214
	<u>11,154</u>	<u>8,796</u>	<u>12,711</u>	<u>11,308</u>

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

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Debts on transferred assets				
- due in two to five years	308	474	308	474
- due after more than five years	42	64	42	64
Long term Bank loan (Note 22b)	23,998	24,774	23,998	24,774
Obligations under finance leases (Note 22a)	12,749	12,983	12,749	12,983
	<u>37,097</u>	<u>38,295</u>	<u>37,097</u>	<u>38,295</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

17. PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated and University

	Pension Enhancement	Dilapidation	Reorganisation	Total
	£000	£000	£000	£000
At 1 August 2004	363	796	578	1,737
Charge to Income & Expenditure account	30	5	230	265
Payments made in year	(30)	-	(430)	(460)
At 31 July 2005	363	801	378	1,542

The amounts provided for under Dilapidation and Reorganisation comply with the requirements of FRS 12. 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

SSAP 24 Disclosures

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 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. For details of the assessment as it relates to Southampton Solent University see the disclosures below. 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
Non teaching staff LGSS	13.5%	15.0%	16.5%	17.7%	17.7%

The University also has obligations in respect of enhanced pension entitlements to staff who took early retirement under a reorganisation programme in 1993. Provision is made to meet the liabilities for these ex-gratia pensions based upon the following assumptions; discount rate 7.0% pa, future pension increases 3.0% pa and mortality in accordance with the PA92 standard table with a year of use of 2004. No specific assets are held. The charge in the year in respect of these enhancements was £30,181.

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 Disclosures

In line with the transitional arrangements of FRS 17, details in respect of the pension liabilities are provided in accordance with FRS 17, however the figures in the accounts reflect the SSAP 24 accounting treatment. 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 only.

Hampshire County Council Superannuation Scheme

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2001 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 2005, 31 July 2004 and 31 July 2003. The major assumptions used by the actuary for the purposes of FRS 17 were:

	31 July 2005	31 July 2004	31 July 2003
Discount Rate	5.0% pa	5.7% pa	5.5% pa
Rate of increase in salaries	4.2% pa	4.4% pa	4.2% pa
Rate of increase in pensions in payment	2.7% pa	2.9% pa	2.7% pa
Rate of inflation	2.7% pa	2.9% pa	2.7% pa

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

	At 31 July 2005		At 31 July 2004		At 31 July 2003	
	Rate of Return	Value	Rate of Return	Value	Rate of Return	Value
Equities	7.4%	18,559	8.0%	12,630	7.8%	10,900
Bonds	4.4%	5,489	5.0%	4,030	4.8%	3,270
Property	6.4%	1,046	7.0%	730	6.8%	800
Other assets	4.7%	1,046	4.8%	910	3.3%	750
		<u>26,140</u>		<u>18,300</u>		<u>15,720</u>
Average rate of return	6.6%		7.1%		6.9%	

The following amounts were measured in accordance with the requirements of FRS 17:

	31 July 2005	31 July 2004
Share of assets in Hampshire County Council Pension Fund	26,140	18,300
Estimated share of liabilities in Hampshire County Council Pension Fund	(41,460)	(34,290)
Share of deficit in the scheme – net pension liability	<u>(15,320)</u>	<u>(15,990)</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

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:

	2005	2004
	£000	£000
Deficit on scheme at 1 August	(15,990)	(15,250)
Movement in year		
- Service cost	(1,660)	(1,690)
- Contributions	1,400	1,280
- Other financial charges	(670)	(620)
- Actuarial gain	1,600	290
Deficit on scheme at 31 July	(15,320)	(15,990)

Pension Enhancement

The latest FRS 17 valuation of the liabilities in respect of these pension enhancements was carried out as at 31 July 2005, by an independent qualified actuary using the key FRS 17 assumptions set out in the following table. The table also sets out as at 31 July 2005 and 31 July 2004 the present value of the FRS 17 liabilities, which is equal to the gross pension liability.

Assumptions	31 July 2005	31 July 2004	31 July 2003
Price Inflation	2.7% pa	2.9% pa	2.6% pa
Discount rate	5.0% pa	5.9% pa	5.3% pa
Pension Increases	2.7% pa	2.9% pa	2.6% pa

	31 July 2005	31 July 2004	31 July 2003
	£000	£000	£000
Gross Pension Liability	421	396	406

The gross pension liability under FRS 17 moved as follows during the year:

	2005	2004
	£000	£000
Gross pension liability at 1 August 2004	396	406
Pensions paid	(30)	(29)
Charge to finance income	23	20
Actuarial loss	32	(1)
Gross pension liability at 31 July 2005	421	396

NOTES TO THE ACCOUNTS AT 31 JULY 2005

17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Potential effects on the primary statements of full implementation of FRS 17

If FRS 17 were adopted in full the above amounts for both the Pension Enhancements and Hampshire County Council Superannuation Scheme would be recognised in the Financial Statements. In these circumstances the group's net assets and general reserve as at 31 July 2005 and 31 July 2004 would be as follows:

	31 July 2005	31 July 2004
	£000	£000
Net Assets as stated in balance sheet	31,286	29,038
SSAP 24 enhanced pension provision	363	363
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
Net assets excluding pension liability	31,911	29,663
FRS 17 pension liability	<u>(15,741)</u>	<u>(16,386)</u>
Net assets including pension liability	<u>16,170</u>	<u>13,277</u>
General reserve per accounts excluding pension liability	25,957	24,282
SSAP 24 enhanced pension provision	363	363
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
	26,582	24,907
Pension reserve	<u>(15,741)</u>	<u>(16,386)</u>
General reserve including pension liability	<u>10,841</u>	<u>8,521</u>

Additionally, if the pension costs had been recognised in accordance with FRS17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2005:

Analysis of amounts charged to Income and Expenditure Account:

	31 July 2005	31 July 2004
	£000	£000
Current service cost	(1,660)	(1,650)
Past service cost	(20)	(40)
Financing:		
- expected return on pension scheme assets	1,350	1,130
- interest on expected scheme liabilities	(2,000)	(1,772)
Net return	(650)	(642)
	<u>(2,330)</u>	<u>(2,332)</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Analysis of amounts recognised in statement of total recognised gains and losses:	31 July 2005		31 July 2004	
	£000	%	£000	%
Actual return less expected return on pension scheme assets	3,010	11.5% of assets	240	1.3% of assets
Experience gains and losses arising on scheme liabilities	3,190	7.7% liabilities	10	0.0% liabilities
Changes in assumptions underlying the present value of scheme liabilities	(4,600)	11.1% liabilities	40	0.1% liabilities
Total actuarial gain recognised	<u>1,600</u>	3.9% liabilities	<u>290</u>	0.8% liabilities

18. DEFERRED CAPITAL GRANTS

Consolidated and University

	Buildings £000	Equipment £000	Total £000
At 1 August 2004	3,110	1,009	4,119
Cash Received	375	1,296	1,671
Released to Income and Expenditure	(205)	(901)	(1,106)
At 31 July 2005	<u>3,280</u>	<u>1,404</u>	<u>4,684</u>

19. ENDOWMENTS

	Consolidated and University	
	2005 £000	2004 £000
At 1 August	637	668
Increase/(decrease) in cash balances, investments	36	(37)
Income for year	36	42
Examination Fees for year	(1)	(1)
Transferred to Income and Expenditure Account (Note 5)	(35)	(35)
At 31 July	<u>673</u>	<u>637</u>

Representing:	2005	2004
	£000	£000
Amenities Fund	20	19
Murals Fund	16	16
Southampton Research Fund	139	130
Merged Research Fund *	498	472
At 31 July	<u>673</u>	<u>637</u>

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

NOTES TO THE ACCOUNTS AT 31 JULY 2005

20. REVALUATION RESERVE

	Consolidated and University	
	2005	2004
	£000	£000
At 1 August	7,337	7,230
Transfer to the Income and Expenditure Account (Note 21)		
Depreciation for period on revalued inherited assets	(90)	(90)
HCC debt charge principal repaid	197	197
At 31 July	<u>7,444</u>	<u>7,337</u>

21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
At 1 August	16,928	16,186	16,941	16,569
Retained surplus for the period	1,655	652	1,731	282
Transfers from revaluation reserve (Note 20)	90	90	90	90
At 31 July	<u>18,673</u>	<u>16,928</u>	<u>18,762</u>	<u>16,941</u>

22. OBLIGATIONS UNDER LEASES AND LOANS

a) Finance leases

	Consolidated and University	
	2005	2004
	£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	19,066	20,413
	<u>25,801</u>	<u>27,148</u>
Less: finance charges allocated to future periods	12,818	13,951
	<u>12,983</u>	<u>13,197</u>
Analysed as:		
Amounts due in less than one year	234	214
Amounts due after more than one year	12,749	12,983
	<u>12,983</u>	<u>13,197</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

22. OBLIGATIONS UNDER LEASES AND LOANS (CONTINUED)

b) Loans

	Consolidated and University	
	2005	2004
	£000	£000
Instalments due within one year	775	721
Instalments due in more than one and less than two years	833	775
Instalments due in more than two and less than five years	2,641	2,680
Instalments not due within five years	20,524	21,319
	<u>24,773</u>	<u>25,495</u>
Analysed as:		
Amounts due within one year	775	721
Amounts due after more than one year	23,998	24,774
	<u>24,773</u>	<u>25,495</u>

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

	Consolidated and University	
	2005	2004
	£000	£000
Amounts payable under leases expiring after more than five years	<u>3,535</u>	<u>3,414</u>

23. CAPITAL COMMITMENTS

	Consolidated and University	
	2005	2004
	£000	£000
Authorised and contracted	-	-
Authorised but not contracted	<u>3,523</u>	<u>3,950</u>

24. CONTINGENT LIABILITIES

At 31 July 2005 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 2005 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 £2.4m (2004-05), £2.5m (2003-04), £2.2m (2002-03).

25. POST BALANCE SHEET EVENTS

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

NOTES TO THE ACCOUNTS AT 31 JULY 2005

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

	2005 £000	2004 £000 Re-stated
Surplus before taxation	1,691	662
Less interest receivable	(458)	(378)
	<u>1,233</u>	<u>284</u>
Add back interest payable	3,044	3,136
Surplus from Operating Activities	<u>4,277</u>	<u>3,420</u>
Release of Capital Grant	(1,106)	(654)
Depreciation	3,042	2,728
Decrease in debtors	528	(65)
Increase/(Decrease) in creditors	2,293	(272)
(Decrease)/increase in restricted reserves and provisions	(195)	183
Net Cash Inflow from Operating Activities	<u>8,839</u>	<u>5,340</u>

27. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2005 £000	2004 £000
Interest Received	429	300
Interest Paid under Finance Leases	(1,118)	(1,147)
Other Interest Paid	(1,926)	(1,989)
Returns on Investments and Servicing of Finance	<u>(2,615)</u>	<u>(2,836)</u>

28. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2005 £000	2004 £000
Purchase of Fixed Assets	(3,144)	(2,531)
Deferred Capital Grants received	1,671	1,445
	<u>(1,473)</u>	<u>(1,086)</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

29. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	At 1 August 2004	Capital Repayments In the year	At 31 July 2005
	£000	£000	£000
HCC Loan Account	736	(197)	539
Barclays Bank Loan	1,592	(254)	1,338
Kimber College Finance Lease	5,198	(200)	4,998
Sir James Matthews Building finance lease	8,000	(14)	7,986
Deanery College Loan	12,933	(252)	12,681
Chantry College Loan	7,390	(144)	7,246
David Moxon Annex Loan	3,578	(71)	3,507
	<u>39,427</u>	<u>(1,132)</u>	<u>38,295</u>

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

	2005	2004
	£000	£000
Repayment of Loans	(918)	(873)
Repayment of Capital Element of Finance Leases	(214)	(197)
Funding Council Grant Reimbursement	197	197
	<u>(935)</u>	<u>(873)</u>

30. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2004	Cash Flow	Non Cash Movement	At 31 July 2005
	£000	£000	£000	£000
Cash	872	(68)		804
Short Term Deposit	6,259	3,848		10,107
Debt Due within one year	(1,132)	1,132	(1,197)	(1,197)
Debt Due after one year	(38,295)	-	1,197	(37,098)
	<u>(32,296)</u>	<u>4,912</u>	<u>-</u>	<u>(27,384)</u>

NOTES TO THE ACCOUNTS AT 31 JULY 2005

31. ACCESS FUNDS

	2005	2004
	£000	£000
Balance brought forward	(7)	25
Adjustment advised to HEFCE	7	(8)
	<u>-</u>	<u>17</u>
Funding Council Grants	580	620
Interest Earned	4	1
Loans Repaid by Students	12	9
	<u>596</u>	<u>647</u>
Disbursed to Students	(574)	(654)
Audit Costs	-	-
Balance Unspent/(overspent) at 31 July	<u>22</u>	<u>(7)</u>

32. 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	Sales to related party	Purchases from related party	Amounts owed to related party	Grants and Loans made to related party
Solent Students Union				
Trade	15	41		
Grant			24	306
Paris Smith & Randall (PSR)	1			

CONTACTS

Mrs K Everett
Director of Finance
Southampton Solent University
East Park Terrace
Southampton
SO14 0RX

Mr A Haslehurst
Head of Accounts and Company Secretary
Southampton Solent University
East Park Terrace
Southampton
SO14 0RX

