



**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2008**

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FINANCIAL HIGHLIGHTS

	2007-2008 £000	2006-2007 £000
RESULTS, CASH FLOWS, ASSETS AND RESERVES		
Funding Council Grants	36,069	35,218
Academic Fees and Support Grants	30,377	24,737
Research Grants and Contracts	21	102
Other Operating Income	13,667	12,591
Endowment Income and Investment Income	<u>1,142</u>	<u>938</u>
TOTAL INCOME	<u>81,276</u>	<u>73,586</u>
HISTORICAL COST SURPLUS FOR THE YEAR AFTER TAX	<u>4,029</u>	<u>2,340</u>
Net cash flow from operating activities	6,935	10,087
Net return on investments and servicing of finance	<u>(1,651)</u>	<u>(1,949)</u>
NET CASH FLOW BEFORE INVESTING	<u>5,284</u>	<u>8,138</u>
Fixed Assets	68,671	67,893
Endowment Asset Investments	595	626
Net current assets	<u>11,890</u>	<u>8,309</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>81,156</u>	<u>76,828</u>
TOTAL RESERVES	<u>20,950</u>	<u>18,636</u>
<u>OTHER KEY STATISTICS</u>	Number	Number
Number of full-time equivalents	9,728	9,778
Total number of Higher Education students	10,544	10,639

GOVERNORS' REPORT

Scope of the Financial Statements

The financial statements comprise the consolidated results of the University and its trading subsidiary undertakings.

The University fully owns only one subsidiary undertaking: Southampton Solent University Limited. The University holds a 33% interest in Southampton Institute Educational Company (SIEC), a charitable company limited by guarantee. SIEC is consolidated by virtue of dominant influence. SIEC ceased trading on 31 July 2008 and will be wound up in due course.

The main activities of these undertakings are to provide 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.

Operating Review

Southampton Solent University, awarded university status in July 2005, is one of the UK's newest universities, with a fast-growing reputation for providing contemporary and relevant vocational education in UK higher education. It is well known for the distinctive way that it links together student learning, applied research and service to business and the community.

The University is committed to teaching excellence, with lecturers who have real-world experience and strong ties to business and industry.

Southampton Solent University is both approachable and friendly and strives to retain and develop this characteristic. It is an inclusive university that welcomes students of all backgrounds from all over the world and seeks to provide everybody with the ability to benefit from higher education.

Students at the University enjoy not only the benefit of specialist vocational courses but excellent facilities, strong student support and welfare, and the chance to live and study in one of the most exciting, student-oriented cities on the south coast of England.

Whilst three of its four Faculties are based at the University's city centre location, the fourth, the **Warsash Maritime Academy (WMA)**, is based at Warsash on the Southampton Water.

The Academy provides first-class training, consultancy and research to the international shipping and offshore oil industries and is a leader in the development of maritime education and training techniques for seafarers.

WMA offers a range of higher and further education courses. The higher education provision includes honours undergraduate degree courses, HNDs and taught postgraduate programmes. Further education courses are predominantly professional short courses. The majority of further education students at Southampton Solent are enrolled at WMA on these short courses. The short course portfolio is an important part of the academic programme for seagoing officers undertaking their professional development at WMA, as well as meeting the needs of mature students employed in the shipping and offshore industries. There has been a yearly increase in the proportion of part-time students at WMA. This upward trend was evident in 2007-2008 and is expected to continue in 2008-2009.

With a waterside campus dedicated to the needs of mariners, the Academy provides a supportive learning environment that gives students the best possible chance to succeed.

Whether welcoming home or overseas students, delivering courses abroad or developing international partnerships, the Academy is both proactive and responsive to market forces and has a determination to carry its expertise to the widest possible market.

GOVERNORS' REPORT

Across its four Faculties, the University offers its 17,500 students a choice of courses ranging from foundation 'level zero' years that lead onto degree courses, to master's degrees and PhDs, plus a variety of professional and short courses, all designed to meet the needs of today's career-minded individuals, as well as the requirements of employers and the economy.

Southampton Solent University's courses are more popular than ever and the number of applications for its 2008-2009 full-time undergraduate courses have increased significantly on those for 2007-2008, placing Southampton Solent University for the second consecutive year in the top ten universities for year-on-year growth. The rise in applications has been largely the result of a major refreshment of the University's academic portfolio, with programmes within the new portfolio accounting for over 50% of the increases.

The University's ambitious and accelerated programme of product extension is set to continue. Senior executives from the Higher Education Funding Council visited the University on two separate occasions during 2007-2008 to see at first hand the University's innovative, employer-linked curriculum, and to discuss financial support for a major institutional change programme between 2009 and 2012.

The University is proud of its record in widening participation and remains committed to promoting equality of opportunity. Southampton Solent is now inside the top forty English institutions for entrants from state schools; inside the top forty English institutions for entrants from low participation neighbourhoods; and inside the top fifty for entrants from the lower social classes. In 2007 the University adopted four key performance indicators to act as milestones for measuring progress in widening access. These were based on the annual performance indicators produced by the Higher Education Funding Council to monitor effectiveness in widening participation. In 2006-2007 good progress was made against three out of the four measures, where the University outperformed the sector benchmark. The increase in the proportion of first degree entrants not in higher education one year after starting was disappointing and broke a period of continued improvement. The University will continue to monitor, evaluate and modify its approach to ensure the retention of students.

The University has secured an excellent record for graduate employability above the national average which currently places it in the top 16 of UK universities. Latest figures show that more students than ever are successfully finding employment after graduating from Southampton Solent University, with over 90% of the University's graduates in employment or further study within six months of completing their course. The high levels of graduate employment achieved in the last year show that the University is meeting the needs of employers.

GOVERNORS' REPORT

The following Key Performance Indicators which derive from the University's Strategic Plan for 2004-2008 provide an illustration of the University's efforts to develop its performance:

Objective	Performance Indicator	Criteria	2006-2007	2007-2008
To enhance the learning opportunities and achievements of the University's students	Professional body accreditation/recognition (external view)	30% of all courses to have such recognition by the end of the Plan	30%	31%
	Student achievement (attainment rates at University level)	To be at least 91% for each year of Plan	96.4%	96%
	Student Satisfaction (as measured by the National Student Survey)	80% of students expressing satisfaction in each year of the Plan	76% of students were either satisfied or very satisfied with the quality of their course	68% of students were either satisfied or very satisfied with the quality of their course
	Destination of students (employed + further study) ÷ (employed + further study + unemployed) (figures produced one year in arrears therefore 07/08 relates to 06/07 leavers)	To be at or above benchmark figure in each year of the Plan	93.5% (benchmark 91.9%)	93.8% (benchmark 92.2%)
To achieve a level of financial performance that allows sufficient investment in the core business of teaching, learning and advanced scholarship	Annual historic cost surplus (after tax)	At least 2% of total income for the period of the Plan	3.18%	4.96%
To use the University resources effectively and efficiently in order to enable the objectives of the Strategic Plan 2004-2008 to be achieved	Net cash inflow from operating activities	At least 6% of total income	13.71%	8.53%

The University achieved some creditable results in the latest National Student Survey, with learning resources, teaching and personal development the highest rated areas. However, at a time when Southampton Solent's courses are more popular than ever and graduate employment is at an all time high, the University was surprised and disappointed that the overall satisfaction rate of its students has fallen from 76% in 2007 to 68% in 2008. Preliminary analysis suggests that shifts in a relatively small number of areas may have adversely affected the overall scores. The results also mask strong performance in some areas. The University takes student feedback and the quality of their experience very seriously and the full results are being analysed.

GOVERNORS' REPORT

Results for the Year

The University's results are summarised in the Financial Highlights on page 3.

Total income increased by £7.7 million (10.5%) to £81.3 million.

Funding body grants increased by £0.9 million (2.4%) to £36.1 million, with £35.3 million (98.0%) being received from the Higher Education Council for England (HEFCE) and the remaining (£0.8m or 2.0%) from the Learning Skills Council (LSC).

HEFCE recurrent grant for 2007-2008 totalled £31.9 million, representing an increase of £0.7 million (2.4%) from 2006-2007, which was related to the teaching element of the grant. Widening participation funding, received for the additional costs associated with recruiting and teaching students from under-represented social groups and communities, remained constant at £3.9 million.

Tuition fee income increased by £5.6 million (22.8%) to £30.4 million. The majority of this increase was in respect of full-time home and EU students and was due to the second year of variable tuition fees. Tuition fee income will be affected by the third year of variable fees in 2008-2009.

Other operating income increased by £1.1 million (8.5%) to £13.7 million; £0.8 million of this increase was due to residences, conferences and catering. The majority of this was a result of rent increases, with halls of residences at maximum occupancy in both years.

Endowment and investment income increased by £0.2 million (21.7%) to £1.1 million due to higher cash balances and increases in interest rates.

Total expenditure has increased by £6.0 million (8.4%) to £77.3 million.

Staff costs rose from £40.2 million to £41.5 million, an increase of £1.3 million (3.2%). Redundancy costs decreased by £0.9 million, whilst salary costs increased by 5.4%. The national pay award increases for all staff were 3.0% in August 2007 and a further 3.0% in May 2008.

Other operating expenses increased by £4.7 million (19.0%) to £29.2 million. Student bursary payments under the Office of Fair Access (OFFA) agreement increased by £1.1 million. Expenditure on minor equipment rose by £1.0 million mainly due to a change in the accounting treatment of smaller value items. Building and long term maintenance expenditure increased by £0.6 million from £2.5 million to £3.1 million.

The historical cost surplus for 2007-2008 was £4.0 million, £1.7 million (72.2%) higher than 2006-2007 and £1.6 million higher than the budgeted surplus of £2.4 million. This increase was achieved through tight control and monitoring of other operating expenditure and staff recruitment, and lower than expected bursary payments to students.

Cash flow

The Financial Highlights on page 3 show that the University generated a net cash inflow from operating activities of £6.9 million, a reduction of £3.2 million compared to the previous year. This reduction was due mainly to three factors:

- A decrease in creditors this year of £1.2 million, compared to an increase last year of £3.1 million, is largely due to the unwinding of a creditor for the National Framework Agreement.
- A decrease in debtors this year of £0.7 million, compared to an increase last year of £1.0 million, is a result of improved debt management.
- A decrease in provisions of £0.9 million, compared to an increase of £0.8 million last year, is accounted for by the reduction of the managed severance provision.

GOVERNORS' REPORT

Capital Projects

Amounts capitalised as buildings during the year totalled £2.7 million, of which £0.7 million was related to improving disabled access and building work financed from the HEFCE Capital Projects Round 4.

Additions to equipment for the year totalled £2.2 million, of which £1.4 million was related to HEFCE funded projects.

Over the last two years, from 2006 to 2008, the University has significantly invested in the development of the academic portfolio. In 2007-2008 building work totalling £1.8 million and new equipment of £1.0 million related to this investment.

Long-Term Borrowing Facility

The University has a standard commercial loan with the Allied Irish Bank, secured on individual halls of residences. The amount outstanding as at 31 July 2008 is £21.8 million and will be repaid by July 2026.

The outstanding loan of £0.5 million with Barclays Bank is due to be repaid in December 2009. All security on this loan has been released in 2007-2008 and it will continue on an unsecured basis until maturity.

The University also has two finance leases with the Co-operative Bank and the Bank of Scotland. The amounts outstanding as at 31 July 2008 are £4.3 million and £7.9 million and will be repaid in 2018 and 2019 respectively.

Post Balance Sheet Events

Subsequent to the year end, on 7 October 2008, Heritable Bank was placed into administration. At this date the University had a £2.0 million deposit with Heritable Bank and therefore the recoverability of this balance is now in doubt.

As the investment was made after the balance sheet date this constitutes a non-adjusting post balance sheet event and therefore no adjustment has been made to the carrying value of the deposits in the balance sheet.

Financial Strategy

The financial strategy is one of the supporting strategies to the University's Strategic Plan 2008-2013. It sits alongside other service strategies and is inextricably woven through all strategies of the University. It has an enabling role to ensure that the right resources are provided to support the University's strategic objectives and academic development.

The University will aim to:

- Achieve and maintain a historic cost surplus of at least 3% of income.
- Generate a net cash flow from operating activities of at least 6% of income.
- Maintain a minimum cash balance of £6 million.
- Minimise the use of working capital (ie debtors).
- Optimise investment returns of liquid assets, whilst safeguarding the assets.
- Optimise the cost of financing the student residences.
- Make available borrowing capability to develop the enabling infrastructure.
- Develop existing and new funding relationships.

The Director of Finance, together with the finance senior management team is responsible for the delivery of the strategy. A set of key performance indicators has been developed as part of the strategic plan process.

Treasury Management

Treasury management encompasses the management of the University's cash flows, banking, money and capital market transactions and the effective control of the risk associated with those activities.

The policy of the University is to safeguard its assets whilst at the same time aiming to achieve the best possible return on its investment. The over-riding principle however must be to minimise risk rather than maximise return.

GOVERNORS' REPORT

The financing and liquidity of the University and its exposure to financial risk are managed by the central Finance Service. The University's financial strategy sets out the minimum liquidity levels needed to ensure that financial and operational control is maintained. A rolling five year forecast is prepared each year, which incorporates a review of capital expenditure, cash generated and any future borrowing requirements.

During the year, Audit and Governance Committee approved an updated Treasury Management Policy, which incorporates the recommendations of the CIPFA Treasury Management in the Public Services: Code of Practice. The new policy is based on credit ratings and seeks to extend the investment options as well as revising investment limits, which will enable the Director of Finance and his staff to better manage the University's funds and help reduce the risk to University capital.

Accounting Policies

The University's Financial Statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 25 to 27.

In accordance with Financial Reporting Standard 18, *Accounting Policies*, the University has reviewed its accounting policies to ensure that they remain appropriate.

Pensions

The University has two defined benefit pension schemes for staff, which are the Teachers' Pension Scheme (TPS) and the Hampshire County Council Local Government Superannuation Scheme (HCCLGSS).

The Teachers' Pension Scheme is defined as a multi-employer pension scheme under Financial Reporting Standard 17 Retirement Benefits. The University is unable to identify its share of the underlying liabilities of the scheme. The University has taken advantage of the exemption of FRS 17 and has accounted for it as if it were a defined contribution scheme.

The disclosure notes on pages 37 to 41 relate only to the HCCLGSS and unfunded obligations. The latest actuarial valuation of the fund took place as at 31 March 2007 and was updated by Hewitt Associates Limited in order to assess the University's share of assets and liabilities of the scheme as at 31 July 2008.

The University's share of deficit in the scheme has increased by 17.6% to £16,850,000 as at 31 July 2008 (2006-2007: £14,330,000). This was due mainly to the investment return on the University's share of assets in the scheme being lower than assumed at the start of the year. In addition, a new benefit structure was introduced in the HCCLGSS from April 2008, which has affected both the value of benefits earned up to March 2008 and the cost going forward from that date. There has also been a large increase in pensionable pay.

Risk and Risk Management

The University has an established risk management policy which identifies management of risk as a responsibility of all management post holders, as appropriate to their level of accountability, led by the Vice-Chancellor. The policy has led to an annual analysis of risk as perceived by the management team of each faculty and service using a common scoring system against which appropriate management processes are set to offset risk. These are then plotted to aggregate commonly perceived risks across the organisation and to identify the top ten residual risks. The University has put management measures in place over some years to reflect these key risks. As a largely teaching orientated institution these processes revolve mainly around the planning, marketing, budgeting and student support measures necessary to recruit and retain students and protect funding, student and hall of residence fee income. Conventional business recovery, financial management and health and safety assessments and action plans are also in place.

The Audit and Governance Committee of the Board of Governors ensures that the policy is being acted upon by managers as appropriate and is updated as necessary. It uses the reports from the University Risk Management Group of senior managers to judge whether the analysis of risk and the action plan flowing from this meets the University's needs and recommends any corrective action. The action plan is agreed with the University Senior Management Team as part of this process to ensure their ownership.

GOVERNORS' REPORT

Over the last year the risk management process has been upgraded to reflect the pace of change in the higher education sector environment, the newly updated and more ambitious University Strategic Plan and emerging good management practice. The 2008-2009 Risk Register and action plan includes a top management assessment of the top ten critical risks cross referenced to the bottom-up assessment from departmental management teams to ensure perceptions of risk are shared and concerted action can be taken. The University level action plan now includes clear identification of additional management action required to mitigate new or rising risks. The Vice Chancellor and Senior Management Team have agreed to build monitoring of key risks against the plan into operational management meetings on a regular basis throughout the year.

In addition to student recruitment and retention risks, staff skills attraction and retention, especially in relation to sustaining effective IT systems, features high on the risk ranking. These along with total salary costs are the focus of a range of management actions planned, including the major bid to HEFCE for additional funding. The most recent risk re-assessment by top managers has placed institutional medium to long term financial sustainability at the top of the critical risk list in response to global financial and consequent political factors.

Creditor Payment Policy

It is the University's policy to pay suppliers 30 days from the end of the month in which invoices are received, unless special terms have been negotiated.

Diversity and the Employment of Disabled Persons

Southampton Solent University is committed to a policy of equal opportunities for disabled students and staff and aims to create an environment which enables them to participate fully in the mainstream of University life.

The University's Disability Equality Scheme reinforces the University's inclusive and integrative approach and commitment to ensuring "issues affecting disabled people are fully embedded into all working processes...(and) to develop a continuing culture where consideration of equality and diversity becomes the norm".

The quality of our disability support was recognised by a Disability Equality Achievement Award for Public Services in 2006 by Southampton Centre for Independent Living (SCIL).

Employee Involvement and Training

The University's investment in the training and development of each member of staff has three clear purposes. These are to enable them:

- To achieve the objectives, requirements and expectations of their Faculty/Service Annual Plan and the University Strategic Plan;
- To make a full contribution to the work of their Faculty/Service through their role within the University;
- To develop effectiveness in their job role, maintain job satisfaction and support the achievement of professional and personal potential.

The University aims to ensure that opportunities are available for every member of staff to learn and develop within their role. In addition, the University recognises that the development of individuals, with a broad range of skills and interests, brings both individual and organisational benefits.

The purpose of staff training and development is to enable them, individually and collectively, to enhance their knowledge and expertise to enable them to fulfil their job role effectively.

In the context of the University's approach learning and development includes on-the-job learning, knowledge transfer, e-Learning, job shadowing, secondment, mentoring, coaching, research and formal study, as well as participation in seminars, conferences, courses and other training events.

Constitution, Governance and Regulation

The institution was incorporated under the Education Reform Act 1988 as a Higher Education Corporation with effect from 1 February 1989. Despite its educational status as a University, granted by the Privy Council in July 2005, its legal status as a Higher Education Corporation determines aspects of the University's governance arrangements, in particular the requirement to have a Board of Governors for which provision is made in the Education Reform Act 1988 (Section 2iii).

GOVERNORS' REPORT

Under the Education Reform Act of 1988, the Board of Governors is generally responsible for looking after the public investment and the public interest at the University. The Governors are charged with determining the educational character and mission of the University; overseeing its activities; monitoring effective and efficient use of resources; safeguarding the solvency and assets of the University; approving annual estimates of income and expenditure; and overseeing matters concerning the employment of staff.

The Governors have 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.

The majority of Governors are voluntary independent members, drawn from business or from the wider educational world. They bring to the Board a blend of commercial, professional and life experience. There are also internal members, including the Vice-Chancellor, staff and the President of the Students' Union.

The University's corporate governance arrangements are described on pages 15 to 20 and the members of the University Board of Governors during the year ended 31 July 2008 are listed on page 16.

Under the Education Reform Act 1988 the University obtained charitable status.

The University is an exempt charity within the meaning of the Charities Act 1960.

The University is regulated principally by HEFCE under a Financial Memorandum. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

The University's principal advisors are listed on page 47.

Future Developments

The University has a dynamic and innovative portfolio of industry-relevant courses, a good record on widening participation, high employability rates and a reputation for excellent support for students. However, it is essentially a recruiting university primarily dependent on student fee income and HEFCE teaching funding. The primary risk factors associated with the future financial performance of the University will relate to securing student numbers, future funding levels and controlling pay costs and overheads.

Changes in Government policy that will impact on HEFCE's funding allocation to the University include the phasing out of funding from 2008-2009 for the majority of students in England who are studying for a qualification that is equivalent to, or lower than, a qualification they have already been awarded (ELQ). HEFCE has been charged with implementing this new policy and, over a period of time, will withdraw its funding for ELQ students. The University will lose £487,000 through this policy in 2008-2009, although some of this will be offset by 'transitional funding' of £360,000 as a means of compensation. Transition funding will reduce to zero by 2013-2014.

The Teaching Core Funding awarded to the University by HEFCE for 2008/09 shows a decrease of 1% on the monies allocated in 2007-2008. This reflects a trend over a number of years of money being used for targeted allocations (such as widening access, improving retention and students with disabilities) in line with Government policy, at the expense of some teaching core funding. The University's grant for widening participation for 2008-2009 at £4,106,612 is 4.26% higher than in 2007-2008.

The University's total recurrent grant for 2008-2009 reflects an increase of 2.8% over 2007-2008: the increase is in line with the inflation rate assumed by HEFCE but it is below the cost inflation that the University expects to experience, particularly in respect of pay costs. The cumulative effects of the nationally negotiated Pay Award 2006 have led to increases of 3.6% in 2006-2007, 8.0% in 2007-2008 and 15.9% in 2008-2009. The planning and control of pay is therefore key to the development of the University in the medium term.

Subsequent to the year end a term deposit of £2 million made with the Heritable Bank is now at risk. The investment was made in line with the University's treasury policy. Heritable, a UK bank, was placed in administration on 7 October 2008 following the banking crisis in Iceland which affected its parent company Landsbanki. Heritable Bank is still trading and we are, together with twelve other Universities, in dialogue with HEFCE, the Treasury and the administrators, Ernst & Young to recover our deposit.

GOVERNORS' REPORT

In February 2008, the University received a summary of progress to date from the Delivery Partnership, a UK-wide, higher education sector-led, partnership of different education stakeholders (including key admission groups within the HE sector) set up to implement reforms that will improve the higher education applications system. The reforms will be put into operation via a two-stage process, with changes to the current HE applications process for 2008-09, and a review in 2010-11 to consider implementing a Post Qualification Applications system from 2012. The former includes the introduction of an adjustment period, which will provide an opportunity for applicants who have exceeded their conditional offer from a higher education institution to make a fresh application. The adjustment period represents a potential threat to the level of student applications to the University and this, and other reforms to the applications process, will be monitored closely.

It is also reasonable to expect more volatility in student numbers brought about by further differentiation in a market-driven higher education system. In addition, the University sees a need to plan for projected demographic changes that may see a fall in the number of students aged 18-21. Current predictions forecast a decline in the population of 18-year olds by approximately 5% in the south of England during the period 2010-2020. The market will likely be further complicated by demand pattern effects of changes by the raising or abolition of the variable fees cap which may occur in the next few years. A realistic assessment of likely impact suggests that taking no action will result in a decrease of between 5% and 10% in the core 18-year old cohort.

The University therefore concludes that a planned change of its offer, its systems and some aspects of organisational culture is essential to ensure a sustainable future for the University in a period of external change, and to confirm Southampton Solent as a distinctive, leading provider of higher level skills in the Southampton region.

In order to accelerate a programme of transformational changes, the University is now seeking additional HEFCE investment and will be submitting a major bid for support from its Strategic Development Fund in December 2008 for the period 2009-2012. The construction of this bid coincides with the launch of a new Strategic Plan for 2008-2013.

At the heart of this new plan is a vision of:

- a vibrant, inclusive and successful University that is well-known for the excellence of its work with students and employers and the effective integration of theory and practice;
- a stimulating student experience characterised by intellectual rigour, personal fulfilment and excellent career prospects;
- imaginative external partnerships which develop the University and make a significant contribution to social justice and economic competitiveness.

This vision is underpinned by a new University mission:

The pursuit of inclusive and flexible forms of Higher Education that meet the needs of employers and prepare students to succeed in a fast-changing competitive world.

Whatever the outcome of its bid for Strategic Development funding, the University's ambition is to be at the forefront of the sector in providing fit for purpose, industry-relevant programmes that meet the needs of employers. It aims to provide learners with a distinctive offer in terms of both content and mode of delivery, enabling them to function more effectively in a fast changing competitive world. It will explore the possibilities offered by new technologies in realising this agenda. Working with major local public and private sector employers through the planned Southampton Skills Development Zone, it will bring together employers and employees in new learning environments.

Its future prosperity must lie in this type of close alignment with the social and economic needs of the city and region. In particular, the Leitch skills agenda and the developments in 14-19 provision require an imaginative and practical response which the University is well placed to make. To meet these imperatives, the University has to develop and pursue strategic transformation to build capacity and create a new type of institution that provides and delivers both further and higher education qualifications, in partnerships with employers.

GOVERNORS' REPORT

Its starting point for change is a vision for a university that will become a regional hub for skills development delivering provision ranging from short entry-level courses at level 3 to full-time level-M programmes. The University plans to reach out to people in employment and those from non-traditional backgrounds, offering flexible, supported provision tailored to their needs and those of their employers. In addition to providing a relevant and accessible portfolio of learning opportunities, the University will operate through existing collaborative frameworks, such as the Hampshire and Isle of Wight Lifelong Learning Network, to facilitate learner progression to Southampton Solent University and to other FE and HE institutions in the region as required. Critical to the achievement of this objective will be the development of an innovative model for the delivery of further and higher education courses in a flexible and accessible way, informed by the existing mixed provision at its Warsash Maritime Academy.

In April 2008, the University submitted a Knowledge Transfer Institutional Strategy document to HEFCE to bid for Higher Education Innovation Funding (HEIF) to facilitate its employer engagement and 'business facing' income diversification activities across the University for the period 2008-2009 to 2010-2011. Subsequently HEFCE has confirmed that the University will receive £569,932 in 2008-2009, £737,140 in 2009-2010 and £858,745 in 2010-2011. In the context of a planned review of the University's Business School, these resources will be focused on the development of a Professional Studies Centre that will form part of a wider Continuing Professional Development Centre concept, which will extend to knowledge transfer activity in all four faculties and also in non-academic groups and University students.

The WMA continues to be the University's main contributor of diversified income, with about half of the Academy's income deriving from sources other than credit-bearing courses. In order to minimise exposure to the fluctuations in demand caused by the inherent volatility of the shipping industry, the Academy maintains a balanced portfolio of professional certification and award-bearing courses. A balance is also maintained between provision which is directed towards corporate clients and that which is provided to students.

In the marine and maritime field, in particular through the WMA, the University is playing an important role in discussions concerning the creation of a National Centre of Maritime Excellence. It actively supports the development of maritime economic 'clusters' within the Solent area, the Solent being increasingly recognised as one of the UK's most significant 'maritime hubs' in terms of economic growth, productivity and employment.

The University is committed to developing the international dimensions of its activities, which will focus on four areas: exchange schemes, recruitment, student support and internationalisation of the curriculum. In 2007-2008 there were 392 new students from outside the EU and 305 from EU countries. Enrolments from the new EU countries, particularly in Eastern Europe, continue to grow, and recruitment from India, Africa and Pakistan has increased. The University has no plans, however, to deliver its courses overseas and no franchise arrangements have been established.

Capacity to reach less advantaged students is evident in the high levels of recruitment to the University's newly-developed Foundation Years in Popular Music and Sports Studies. Southampton Solent University draws 12.2% of its young, full-time first degree entrants from low participation neighbourhoods, which is above both the HEFCE benchmark and location-adjusted benchmark of 9.8%. The University's commitment to social justice continues to be firmly embedded in its new Strategic Plan. The University recognises that widening participation requires enhanced arrangements for student support and continues to make highly targeted use of its allocation of Teaching Quality Enhancement Funding from HEFCE to support developments in learning and teaching.

The University continues to utilise its physical resources and space efficiently when compared to sector benchmarks, with the utilisation level of teaching space in the upper quartile of all higher education institutions (HEIs). Recent progress has been made in providing space for specialist activities to meet curriculum development through rationalisation and remodelling of existing specialist space. However, the scope for further rationalisation is now quite limited and the introduction of future courses with a high specialist space requirement will require the University to secure additional space in and around Southampton.

A recently commissioned full building stock condition survey has indicated that 87% of the estate is in the Royal Institute of Chartered Surveyors (RICS) condition category B (good condition), putting the University in the upper quartile of estate condition for all HEIs. A ten-year estate investment programme has been developed from the survey and these works will be taken forward under the annual longer-term maintenance programme or as capital projects.

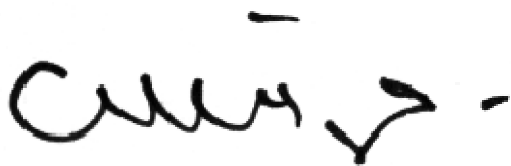
GOVERNORS' REPORT

To support ongoing development of its core business, the University actively invests in both the estate and equipment. Amounts available for capital expenditure from the University's own reserves are enhanced by capital allocations from HEFCE. In order to aid financial planning and to ensure that investment is in accord with the University's new Strategic Plan and is affordable, capital spending requirements are being assessed over a three to five year period from 2008-2009. HEFCE has indicated that it will fund capital projects in institutions covering the period 2008-2011.

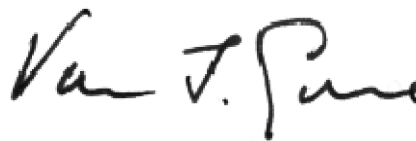
The aspirations of the University have been incorporated within the objectives of its new Strategic Plan for 2008-2013. The Plan's objectives, and the supporting strategies, were approved by the Board of Governors at its meeting in July 2008.

Conclusion

The University achieved a number of notable successes in 2007-2008 as evidenced by the increased attractiveness and popularity of its courses, the development of closer links with employers and the City, significant investment in its estate and a surplus of 5% of income. There is, nevertheless, recognition of a need for continuous change in order to secure the University's position in a volatile higher education environment. The new Strategic Plan 2008-2013 provides a sound and flexible platform for the University to move forward with confidence.



Professor G Tonge
Pro-Chancellor and Chairman of the Board of Governors
19 November 2008



Professor Van Gore
Vice-Chancellor

CORPORATE GOVERNANCE STATEMENT

Corporate Governance and Accountability Arrangements

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 and which reports to the Audit and Governance Committee.

In November 2004 the Committee of University Chairmen issued a *Guide for Members of Higher Education Governing Bodies in the UK* which incorporates a Governance Code of Practice. This code is voluntary and is intended to reflect good practice in the sector. The Board has regard to the Governance Code of Practice in its governance arrangements and has adopted the Statement of Primary Responsibilities contained in the *Guide*.

The Board of Governors

The University's Governors comprise external and internal 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 2007-2008. It has five key committees which report to it: Resources Committee; Audit and Governance Committee; Nominations Committee; Remuneration Committee and Student Liaison Committee. All of these committees are formally constituted with terms of reference and, with the exception of the Student Liaison Committee, comprise mainly external members of the Board of Governors, one of whom is the Chairman. Their membership and remit is given on page 16. 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.

CORPORATE GOVERNANCE STATEMENT

GOVERNORS

			Attendance at Board Meetings %
Miss N Benford	Student Governor (President of SSU)	To June 2008	100
Mr C Brady	Student Governor (President of SSU)	From July 2008	100
Ms T Bullen	Support Staff Governor (elected)	To March 2008	100
Mr M Byrne	Academic Board nominee (elected)		75
Ms R Cassy	Independent Governor		75
Mr J Cheshire	Independent Governor	From November 2007	100
Mr C Clark	Independent Governor		100
Dr R Drabu	Co-opted External Governor		100
Mr M Farwell	Teaching Staff Governor (elected)		100
Professor V Gore	Vice-Chancellor (ex-officio Governor)	From October 2007	100
Professor K Gregory	Independent Governor, Vice Chairman	To July 2007	N/A
Mr A Heathcock	Independent Governor		100
Mr A Kent	Independent Governor		100
Mr K King	Independent Governor	From November 2007	75
Rear Admiral J Lang	Independent Governor		75
Professor R Pilling	Academic Board nominee (ex-officio)		50
Mrs P Powell	Independent Governor		75
Mr J Prest	Independent Governor	From July 2008	100
Dr J Sexton	Independent Governor		100
Councillor M Stevens	Co-opted External Governor		75
Professor G Tonge	Independent Governor, Chairman		100
Capt A Winbow	Independent Governor		50

CLERK TO THE GOVERNORS

Mr D Parry	To January 2008
Dr A Earwaker	From January 2008

CORPORATE GOVERNANCE STATEMENT**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 met four times during 2007-2008. 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 at Meetings %
Mr J Cheshire	Independent Governor	From November 2007	67
Mr C Clark	Independent Governor		50
Dr R Drabu	Co-opted External Governor		100
Mr A Heathcock	Independent Governor	Chair of the Committee from August 2007	100
Mr K King	Independent Governor	From November 2007	100
Dr J Sexton	Independent Governor		100
Captain A Winbow	Independent Governor	To November 2007	100

Officers normally in attendance:

Professor V Gore	Vice-Chancellor, ex-officio Governor	
Professor J Latham	Deputy Vice-Chancellor	
Ms S Boden	Director of Finance	To March 2008
Mr S Carter	Director of Finance	From March 2008
Mr D Parry	Clerk to the Governors	To January 2008
Dr A Earwaker	Clerk to the Governors	From January 2008

CORPORATE GOVERNANCE STATEMENT**Audit and Governance Committee**

The Audit and Governance 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 and Governance 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. A member of the Committee is a member of the Risk Management Group, which reports to the Audit and Governance Committee.

The Audit and Governance Committee keeps under review recommended best practice with regard to institutional governance and practice in other institutions. The Audit and Governance Committee also keeps under review the make-up of the membership of the Board's committees.

The Audit and Governance Committee met four times during 2007-2008. All meetings were quorate. Membership of the Audit and Governance 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 at Meetings %
Mr A Kent	Independent Governor		100
Rear Admiral J Lang	Independent Governor	Chair of the Committee	100
Mr J McGibbon	Co-opted external member		100
Cllr M Stevens	Co-opted external Governor	From November 2007	67

Officers normally in attendance:

Professor J Latham	Deputy Vice-Chancellor	
Ms S Boden	Director of Finance	To March 2008
Mr S Carter	Director of Finance	From March 2008
Mr D Parry	Clerk to the Governors	To January 2008
Dr A Earwaker	Clerk to the Governors	From January 2008

CORPORATE GOVERNANCE STATEMENT**Nominations Committee**

The Nominations Committee keeps under review the membership of the Board of Governors and makes recommendations to the Board for new, independent, and co-opted external members.

The Nominations Committee met four times during 2007-2008. All meetings were quorate. Membership of the Nominations 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 at Meetings %
Ms R Cassy	Independent Governor	Chair of the Student Liaison Committee	75
Professor V Gore	Governor ex-officio		100
Mr A Heathcock	Independent Governor	Chair of the Resources Committee	75
Rear Admiral J Lang	Independent Governor	Chair of the Audit & Governance Committee	75
Professor G Tonge	Independent Governor	Chair of the Board and Chair of the Committee	100
Professor D Watkins	Vice-Chancellor's nominee from Professoriate		100

Officers normally in attendance:

Mr D Parry	Clerk to the Governors	To January 2008
Dr A Earwaker	Clerk to the Governors	From January 2008

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 2007-2008. All meetings were quorate with the exception of the meeting held in July 2008. The decisions of the July meeting will subsequently be ratified at the November 2008 meeting. 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 meetings during the year is given as a percentage figure.

Membership:			Attendance at Meetings %
Ms R Cassy	Independent Governor	To November 2007 Chair of the Student Liaison Committee	100
Mrs P Powell	Independent Governor		67
Professor G Tonge	Independent Governor	Chair of the Board and Chair of the Committee	100
Captain A Winbow	Independent Governor	From November 2007	50

Officers normally in attendance:

Mr S Bloor	Director of Human Resources
Professor V Gore	Vice-Chancellor, Ex-officio Governor
Professor J Latham	Deputy Vice-Chancellor

CORPORATE GOVERNANCE STATEMENT

Student Liaison Committee

The Student Liaison Committee operates as a channel of communication between the Board of Governors and the Students' Union. It also approved the appointment of the Union's General Manager and his or her terms of employment and approves the appointment of auditors to the Union.

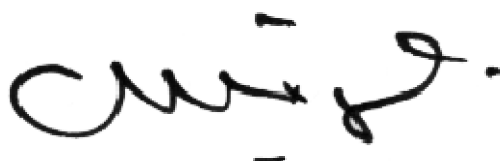
The Student Liaison Committee met four times during 2007-2008. All meetings were quorate. Membership of the Student Liaison Committee during the year is given below, with all members eligible to attend all meetings. Each member's attendance at the Committee meetings during the year is given as a percentage figure.

Membership:			Attendance at Meetings %
Ms N Benford	SSU President and Student Governor until June 2008	To June 2008	75
Mr C Brady	SSU President and Student Governor from July 2008	From July 2008	N/A
Ms T Bullen	Support Staff Governor (elected)	To March 2008	50
Mr M Byrne	Academic Board nominee (elected)		75
Ms R Cassy	Independent Governor	Chair of the Committee	100
Mr M Farwell	Teaching Staff Governor (elected)		75
Professor J Latham	Vice-Chancellor's nominee		50
Professor R Pilling	Academic Board Nominee (ex-officio)		100

Officers normally in attendance:

Mr D Minton	SSU General Manager
Mr M Hakamali	SSU Vice-President, Student Support

Approved by the Board of Governors on 19 November 08
and signed on its behalf by:



Professor G Tonge
Chairman of the Board of Governors



Professor V Gore
Vice-Chancellor

RESPONSIBILITIES OF THE UNIVERSITY'S 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.

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 and Governance Committee to provide oversight of risk management and a Risk Management Group has been established with Governor representation and the Audit and Governance Committee receives 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 and Governance Committee concerning internal control;
- the Audit and Governance 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;

RESPONSIBILITIES OF THE UNIVERSITY'S BOARD OF GOVERNORS

- 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.

Through its Assurance Services, HEFCE visits higher education institutions every three to five years with the objective of evaluating each University's risk management, control and governance, and its arrangements to achieve value for money. An auditor from HEFCE visited the University in October 2006. The following core aspects of operation were reviewed: governance, audit arrangements and financial, strategic and risk management. Subsequent to the visit HEFCE issued their Audit Report in January 2007, which confirmed a satisfactory level of assurance in each of the areas that were assessed and advised that the University was not at higher risk, the most positive judgement that HEFCE could bestow.

Guidance issued by the Committee of University Chairmen (CUC) recommends that a governing body should keep its effectiveness under regular review. According to the CUC this should include a '.... formal and rigorous evaluation of its own effectiveness, and that of its committees not less than every five years' The last major review of the University's governance arrangements was undertaken during 2003. The report of that review was considered by the Board of Governors in December 2003, at which time it was agreed that the next review would be carried out in 2007. In December 2006 the Board commissioned a small group to undertake that review.

The context within which the review was carried out was quite different from 2003 and reflected a number of internal and external developments since that time. These included the achievement of taught degree awarding powers in November 2004 followed by the award of university title in July 2005, passage of the Higher Education Act of 2004 paving the way, inter alia, for the introduction of variable fees, and government support for the re-regulation of the governance arrangements of universities.

The review group noted the extent and generally positive outcomes of the various external reviews of the University's governance arrangements since the Board's review in 2003, in particular those associated with its application for degree awarding powers and university title. In view of this, the review group agreed that the main focus of the current review should be the structure of the Board itself and the role to be played by the Board in overseeing the strategic development of the University.

The conclusions of the review recommended a reduction in the size, and changes in the composition of the Board of Governors, and a different form of engagement in strategic planning on the part of Governors compared with previous strategic planning reviews as the University developed its new strategic plan for the period 2008-2013.

Approved by the Board of Governors on 19 November 2008 and signed on its behalf by:



Professor G Tonge
Chairman of the Board of Governors

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Southampton Solent University for the year ended 31st July 2008 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 Governors' 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 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 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.

O P I N I O N

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 2008 and of its surplus of income over expenditure for the year then ended; a programme of risk awareness training is ongoing;
- 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 2008;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: 'Accounting for Further and Higher Education Institutions';
- the information given in the Governors Report is consistent with the financial statements;
- 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 Memorandum with the Higher Education Funding Council for England.



BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
Southampton
19 November 2008

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 £10,000 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 FRS 2.

The consolidated Financial Statements do not include those of the Solent 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 2 principal pension schemes for staff, the Teachers' Pension Scheme (TPS) and the Hampshire County Council Local Government Superannuation Scheme (HCCLGSS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension.

The HCCLGSS has been accounted for in accordance with FRS 17 Retirement Benefits, which requires the difference between the assets held in the scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method to be 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.

Pension costs in respect of the TPS charged to the income and expenditure are equal to the contributions paid to this arrangement. The contribution rate is calculated in such a way that it is a substantially level percentage of current and future pensionable payroll. Not less than every four years, with a supporting interim valuation in between, the Government Actuary conducts a formal actuarial review of the TPS in order to specify the level of future contributions.

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 AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2008

	Notes	2007-2008 £000	2006-2007 £000 restated
INCOME			
Funding Body Grants	1	36,069	35,218
Tuition Fees and Education Contracts	2	30,377	24,737
Research Grants and Contracts	3	21	102
Other Operating Income	4	13,667	12,591
Endowment and Investment Income	5	1,142	938
Total Income		<u>81,276</u>	<u>73,586</u>
EXPENDITURE			
Staff Costs	6	41,462	40,214
Other Operating Expenses		29,184	24,526
Depreciation	10	3,547	3,341
Interest Payable	8	3,144	3,264
Total Expenditure	7	<u>77,337</u>	<u>71,345</u>
Surplus after depreciation of assets and before tax		3,939	2,241
Taxation	9	-	(9)
Surplus after depreciation of assets and tax		<u>3,939</u>	<u>2,250</u>
Surplus/(deficit) for the year transferred to accumulated income in endowment funds	12	5	(2)
Surplus for the year retained within general reserves		<u>3,934</u>	<u>2,252</u>

All amounts relate to continuing activities

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2008

	Notes	2007-2008 £000	2006-2007 £000
Surplus after Depreciation of Assets and before Tax		3,939	2,241
Difference between the Historical Cost Depreciation Charge and the Actual Depreciation Charge for the Year calculated on the relevant amount	20	90	90
Historical Cost Surplus before Tax		<u>4,029</u>	<u>2,331</u>
Historical Cost Surplus after Tax		<u>4,029</u>	<u>2,340</u>

BALANCE SHEET AS AT 31 JULY

	Notes	Consolidated		University	
		2008 £000	2007 £000	2008 £000	2007 £000
Fixed Assets					
Tangible Assets	10	68,621	67,843	68,474	67,647
Investments	11	50	50	50	50
		<u>68,671</u>	<u>67,893</u>	<u>68,524</u>	<u>67,697</u>
Endowment Asset Investments	12	<u>595</u>	<u>626</u>	<u>595</u>	<u>626</u>
Current Assets					
Debtors	13	3,609	4,266	3,953	4,841
Investments	14	18,419	16,594	18,419	16,594
Cash at Bank and in Hand	30	2,952	1,680	2,541	1,598
		<u>24,980</u>	<u>22,540</u>	<u>24,913</u>	<u>23,033</u>
Creditors: amounts falling due within one year	15	<u>13,090</u>	<u>14,231</u>	<u>12,785</u>	<u>14,497</u>
Net Current Assets		<u>11,890</u>	<u>8,309</u>	<u>12,128</u>	<u>8,536</u>
Total Assets less Current Liabilities		81,156	76,828	81,247	76,859
Creditors: amounts falling due after more than one year	16	33,233	34,501	33,233	34,501
Provisions for liabilities and charges	17	<u>1,147</u>	<u>2,038</u>	<u>1,147</u>	<u>2,038</u>
Net Assets Excluding Pension Liabilities		46,776	40,289	46,867	40,320
Net Pension Liability		16,850	14,330	16,850	14,330
TOTAL ASSETS LESS LIABILITIES		<u>29,926</u>	<u>25,959</u>	<u>30,017</u>	<u>25,990</u>
Deferred capital grants	18	<u>8,381</u>	<u>6,697</u>	<u>8,381</u>	<u>6,697</u>
Expendable Endowments	19	<u>595</u>	<u>626</u>	<u>595</u>	<u>626</u>
Reserves					
Income and Expenditure Account excluding Pension Reserve		30,088	25,164	30,179	25,195
Pension Reserve	17	(16,850)	(14,330)	(16,850)	(14,330)
Income and Expenditure Account including Pension Reserve	21	13,238	10,834	13,329	10,865
Revaluation Reserve	20	7,712	7,802	7,712	7,802
Total Reserves		<u>20,950</u>	<u>18,636</u>	<u>21,041</u>	<u>18,667</u>
TOTAL FUNDS		<u>29,926</u>	<u>25,959</u>	<u>30,017</u>	<u>25,990</u>

Financial Statements were approved and authorised for issue by the Board of Governors on 19 November 2008.



Professor G Tonge
Chairman of the Board of Governors



Professor V Gore
Vice-Chancellor

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2008

	Notes	2007-2008 £000	2006-2007 £000 Restated
Net Cash Inflow From Operating Activities	26	6,935	10,087
Returns on investments and servicing of finance	27	(1,651)	(1,949)
Taxation		-	9
Capital expenditure and financial investment	28	(1,025)	(2,652)
Management of liquid resources	30	(1,825)	(4,120)
Financing	29	(1,159)	(1,087)
Increase in cash		<u>1,275</u>	<u>288</u>

RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

Increase in Cash		1,275	288
Repayment of Long Term Loans		882	833
Repayment of Capital Elements of Finance Leases		277	254
Change in Short Term Deposits		<u>1,825</u>	<u>4,120</u>
Movement in Net Debt		4,259	5,495
Net Debt at 1 August	30	(17,382)	(22,877)
Net Debt at 31 July	30	<u>(13,123)</u>	<u>(17,382)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2008

	Notes	2007-2008 £000	2006-2007 £000
Surplus after Depreciation of Assets at Valuation and Tax		3,934	2,252
Unrealised (Loss) on Endowment Asset Investments	13	(36)	(37)
Endowment income retained in the year		5	(2)
Actuarial (Loss)/Gain on pension scheme	17	(1,620)	2,910
Total recognised gains and losses relating to the year		<u>2,283</u>	<u>5,123</u>
Reconciliation			
Opening reserves and endowments as previously stated		19,262	
Total recognised gains for the year		2,283	
Closing reserves and endowments		<u>21,545</u>	

NOTES TO THE ACCOUNTS

At 31 July 2008

1. FUNDING BODY GRANTS	2008 £000	2007 £000
Recurrent Grant		
HEFCE	31,910	32,201
LSC	721	1,171
Specific HEFCE grants		
Special Initiatives	1,822	836
Deferred Capital Grants released in Year		
Buildings (Note 18)	202	203
Equipment (Note 18)	1,414	807
	<u>36,069</u>	<u>35,218</u>

2. TUITION FEES AND EDUCATION CONTRACTS	2008 £000	2007 £000 restated
Full time undergraduate and postgraduate fees home and EC	17,699	12,927
Part time undergraduate and postgraduate fees home and EC	1,276	1,390
Overseas (Non-EC) domicile students	5,811	5,430
Non credit bearing course fees	5,379	4,711
Other	212	279
	<u>30,377</u>	<u>24,737</u>

Prior year balances have been restated to show tuition net of discounts allowed, tuition fees had previously been shown gross. This change is consistent with the treatment in the most recent SORP issued in July 2007 and has led to a reduction of income for 2007 of £171,000 and an increase in other operating expenses of £171,000.

3. RESEARCH GRANTS AND CONTRACTS	2008 £000	2007 £000
EC Grants	1	35
OST Research Council	10	42
Other sources	10	25
	<u>21</u>	<u>102</u>

4. OTHER INCOME	2008 £000	2007 £000 restated
Residences, Catering and Conferences	11,231	10,399
Other Services Rendered	261	255
Other Income	2,175	1,937
	<u>13,667</u>	<u>12,591</u>

Prior year balances have been restated to show income net of discounts allowed, income had previously been shown gross. This change is consistent with the treatment in the most recent SORP issued in July 2007 and has led to a reduction of income for 2007 of £5,000.

NOTES TO THE ACCOUNTS

At 31 July 2008

5. ENDOWMENT AND INVESTMENT INCOME	2008	2007
	£000	£000
Income from expendable Endowments (Trust Funds) (Note 19)	41	35
Income from Short Term Investments	1,101	903
	<u>1,142</u>	<u>938</u>
6. STAFF COSTS	2008	2007
	£000	£000
Wages and Salaries	33,304	32,542
Social Security Costs	2,824	2,414
Other Pension Costs	5,182	4,224
Redundancy Costs	152	1,034
	<u>41,462</u>	<u>40,214</u>
Average staff numbers by major category:	Number	Number
Academic Departments	708	666
Academic Services	109	107
Research Grants and Contracts	3	3
Residences, Catering and Conference	30	20
Premises	46	46
Administration	205	196
	<u>1,101</u>	<u>1,038</u>
Emoluments of Vice-Chancellor and remuneration of senior staff:	2008	2007
Emoluments of Vice-Chancellor	160,021	170,317
Employers' pension contributions (Local Government Scheme)	15,712	26,689
Other benefits	-	1,691
	<u>175,733</u>	<u>198,697</u>

Other than the Vice-Chancellor no staff earned over £100,000 in the year (excluding employers pension contributions).

NOTES TO THE ACCOUNTS

At 31 July 2008

7. ANALYSIS OF TOTAL EXPENDITURE	2008	2007
	£000	£000
		restated
Analysed by Activity:		
Academic Departments	34,325	32,060
Academic Services	8,189	6,720
Administration and Central Services	13,975	13,641
Premises	8,205	7,477
Research Grants and Contracts	6	75
Residences, Catering and Conferences	11,737	10,632
Other Expenditure	900	740
	<u>77,337</u>	<u>71,345</u>

Prior year balances have been restated by £176,000 for discounts allowed which had previously been shown as expenditure, these are now offset against tuition fee and other operating income.

Other Operating Expenses include:

External Auditors' Remuneration - Audit Fees *	39	36
External Auditors' Remuneration - Other Fees	7	9
Operating Lease Rentals Land/Buildings	4,025	3,833
Operating Lease Rentals Plant/Machinery	50	56
	<u>50</u>	<u>56</u>

* £28,650 (est) relates to fee payable by the University (2007: £30,550)

8. INTEREST PAYABLE	2008	2007
	£000	£000
Loans wholly repayable within five years	64	-
Loans not wholly repayable within five years	1,642	1,763
Finance Leases	1,068	1,091
Pension finance costs	370	410
	<u>3,144</u>	<u>3,264</u>

9. TAXATION

No corporation tax charge (2007: credit of £9,000) 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 2008

10. TANGIBLE ASSETS

Consolidated

	Freehold and Long Leasehold Land £000	Buildings £000	Assets under Construction £000	Equipment £000	Total £000
At 1 August 2007					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	49,002	927	10,930	64,814
Additions	-	-	2,101	2,224	4,325
Disposals	-	-	-	(6)	(6)
Transfers	-	2,724	(2,724)	-	-
At 31 July 2008	<u>10,409</u>	<u>66,908</u>	<u>304</u>	<u>13,148</u>	<u>90,769</u>
Depreciation					
At 1 August 2007	-	12,351	-	6,256	18,607
Disposals	-	-	-	(6)	(6)
Provided during period	-	1,476	-	2,071	3,547
At 31 July 2008	<u>-</u>	<u>13,827</u>	<u>-</u>	<u>8,321</u>	<u>22,148</u>
Net book value at 31 July 2008	<u>10,409</u>	<u>53,081</u>	<u>304</u>	<u>4,827</u>	<u>68,621</u>
Net book value at 31 July 2007	<u>10,409</u>	<u>51,833</u>	<u>927</u>	<u>4,674</u>	<u>67,843</u>

University

	Freehold and Long Leasehold Land £000	Buildings £000	Assets under Construction £000	Equipment £000	Total £000
At 1 August 2007					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	49,002	927	10,685	64,569
Additions	-	-	2,101	2,224	4,325
Disposals	-	-	-	(6)	(6)
Transfers	-	2,724	(2,724)	-	-
At 31 July 2008	<u>10,409</u>	<u>66,908</u>	<u>304</u>	<u>12,903</u>	<u>90,524</u>
Depreciation					
At 1 August 2007	-	12,351	-	6,207	18,558
Disposals	-	-	-	(6)	(6)
Provided during period	-	1,476	-	2,022	3,498
At 31 July 2008	<u>-</u>	<u>13,827</u>	<u>-</u>	<u>8,223</u>	<u>22,050</u>
Net book value at 31 July 2008	<u>10,409</u>	<u>53,081</u>	<u>304</u>	<u>4,680</u>	<u>68,474</u>
Net book value at 31 July 2007	<u>10,409</u>	<u>51,833</u>	<u>927</u>	<u>4,478</u>	<u>67,647</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

10. TANGIBLE ASSETS (CONTINUED)

Included in Land and Buildings are two assets with a combined net book value of £10,704,106 (2007: £10,899,726) held under finance leases. Depreciation for the year on these leased assets was £195,620 (2007: £195,620).

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.

11. INVESTMENTS

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £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. SIEC ceased trading as of 31 July 2008, the assets of the company have been transferred to the Lisa Wilson Fund.

The main activities of these undertakings are to provide 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.

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 2008

12. ENDOWMENT ASSET INVESTMENTS

Consolidated and University

	2008 £000	2007 £000
Balance at 1 August	626	665
Additions	-	-
Disposals	-	-
(Depreciation) on Revaluation	(36)	(37)
Increase in Net Current Assets excluding cash	2	6
Increase/(Decrease) in cash balances	3	(8)
Balance at 31 July	<u>595</u>	<u>626</u>
MIM Britannia Maximum Income Fund	564	582
Shares and securities not incorporated in above funds	24	42
Net Current Assets/(Liabilities) excluding Cash	-	(2)
Cash balances and accruals	7	4
	<u>595</u>	<u>626</u>

13. DEBTORS

Consolidated

University

	2008 £000	2007 £000	2008 £000	2007 £000
Trade debtors	2,426	3,239	2,119	2,938
Other debtors	1,183	1,027	1,151	985
Amount owed by subsidiary undertaking	-	-	683	918
	<u>3,609</u>	<u>4,266</u>	<u>3,953</u>	<u>4,841</u>

14. CURRENT ASSET INVESTMENTS

Consolidated and University

	2008 £000	2007 £000
Deposits Maturing:		
In one year or less	15,265	13,717
In more than one year	3,154	2,877
	<u>18,419</u>	<u>16,594</u>

15. CREDITORS: amounts falling due within one year

Consolidated

University

	2008 £000	2007 £000	2008 £000	2007 £000
Trade Creditors	6,575	5,760	6,315	5,601
Taxation and social security	949	821	949	821
Salary and wages creditor	953	2,795	953	2,795
Other creditors	3,345	3,696	3,255	3,620
Amounts due to subsidiary companies	-	-	45	501
Bank Loan (Note 22b)	966	882	966	882
Obligations under finance leases (Note 22a)	302	277	302	277
	<u>13,090</u>	<u>14,231</u>	<u>12,785</u>	<u>14,497</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

16. CREDITORS: amounts falling due after more than one year	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
Long term Bank loan (Note 22b)	21,317	22,283	21,317	22,283
Obligations under finance leases (Note 22a)	11,916	12,218	11,916	12,218
	<u>33,233</u>	<u>34,501</u>	<u>33,233</u>	<u>34,501</u>

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and University		
	Dilapidation £000	Reorganisation £000	Total £000
At 1 August 2007	833	1,205	2,038
Charge to Income & Expenditure account	25	-	25
Released in the year	-	(14)	(14)
Payments made in year	-	(902)	(902)
At 31 July 2008	<u>858</u>	<u>289</u>	<u>1,147</u>

The amounts provided for under Dilapidation and Reorganisation complies 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 relates to a contractual obligation under certain of the operating leases and is based on a professional valuation carried out at 29 May 2007, 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' Pension Scheme for academic staff and to the Hampshire County Council Local Government Superannuation Scheme for non-academic staff. These are both independently administered schemes. Both of these are defined benefit schemes.

Teachers' Pension Scheme

Under the definitions set out in FRS 17 Retirement Benefits, the Teachers' Pension Scheme (TPS) is a multi-employer pension scheme. The University is unable to identify its share of the underlying liabilities of the scheme. The University has taken advantage of the exemption of FRS 17 and has accounted for the contributions to the scheme as if it were a defined contribution scheme.

The employers' contribution rates for the year were 14.10% of pensionable salaries.

The total pension contributions for the University in respect of current employees were:

	2008 £000	2007 £000
Contributions to Teachers' Pension Scheme	<u>2,359</u>	<u>2,014</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The Teachers' Pension Scheme is a statutory, contributory, unfunded, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions regulations 1997, as amended. Teachers' contributions and employers' contributions are credited to the Exchequer on a 'pay as you go' basis under arrangements governed by the Superannuation Act 1972.

A notional asset value is ascribed to the scheme for the purpose of determining contribution rates. The last valuation of the TPS related to the period 1 April 2001 - 31 March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 millions. 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 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, plus a supplementary contribution rate of 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a Standard Contribution Rate (SCR) of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced, effective for the first time from the 2008 valuation, a 14% cap on employer contributions payable.

The 2006 interim actuarial review, published in June 2007, did not recommend any changes to the SCR and concluded, as at 31 March 2006, and using the above assumptions, that the Scheme's total liabilities amounted to £176,600 millions.

A copy of the GA's 2004 valuation report and 2006 interim valuation report can be found on the TeacherNet website at: www.teachernet.gov.uk/pensions.

Hampshire County Council Local Government Superannuation Scheme

The Hampshire County Council Local Government Superannuation Scheme (HCCLGSS) 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 2007. Levels of employers' contributions are set out below:

		At 31 March 2007	At 31 March 2008	At 31 March 2009	At 31 March 2010	At 31 March 2011	At 31 March 2012
Non teaching staff	HCC	16.5%	17.7%	18.1%	18.6%	19.1%	19.1%

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 2008

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.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2007. The major assumptions used by the actuary for the purposes of FRS 17 were:

	31 July 2008	31 July 2007	31 July 2006
Discount Rate	6.5% pa	5.7% pa	5.1% pa
Rate of increase in salaries	5.3% pa	4.8% pa	4.6% pa
Rate of increase in pensions in payment	3.8% pa	3.3% pa	3.1% pa
Rate of inflation	3.8% pa	3.3% pa	3.1% pa

Mortality Assumptions

	At 31 July 2008	
	Retiring Today	Retiring in 20 years
Male	21.3	23.2
Female	23.4	24.6

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

	At 31 July 2008		At 31 July 2007		At 31 July 2006	
	Rate of Return	Value	Rate of Return	Value Restated	Rate of Return	Value Restated
Equities	7.8%	19,338	7.9%	23,470	7.4%	21,466
Government bonds	4.8%	8,702	4.9%	7,468	4.4%	6,533
Corporate bonds	6.5%	-	5.7%	711	5.0%	-
Property	6.8%	2,256	6.9%	1,778	6.4%	1,244
Other assets	5.9%	1,934	6.0%	2,133	4.7%	1,867
		<u>32,230</u>		<u>35,560</u>		<u>31,110</u>
Average rate of return	6.8%		7.1%		6.6%	

Southampton Solent University employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund as at 31 July 2008.

NOTES TO THE ACCOUNTS

At 31 July 2008

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

Reconciliation to Balance Sheet

	Value at 31 July 2008 £000	Value at 31 July 2007 £000
Funded Benefits		
Fair Value of Fund assets	32,230	35,600
Present value of liabilities	48,610	49,500
Funded Net pension liability	<u>(16,380)</u>	<u>(13,900)</u>
Unfunded Benefits		
Present value of liabilities	470	430
Unfunded Net pension liability	<u>(470)</u>	<u>(430)</u>
Total Net Pension liability	<u><u>(16,850)</u></u>	<u><u>(14,330)</u></u>

Analysis of Charge to Income & Expenditure Account

	2008 £000	2007 £000
Current Service Cost	2,210	2,150
Past Service Cost	610	60
Interest Cost	2,900	2,480
Expected Return on Assets	(2,530)	(2,070)
Expense Recognised	<u>3,190</u>	<u>2,620</u>

The expense recognised includes £20,000 (2007: £20,000) in respect of unfunded benefits.

Changes to the present value of liabilities during the year

	2008 £000	2007 £000
Opening value of liabilities	49,930	47,650
Current Service Cost	2,210	2,150
Interest Cost	2,900	2,480
Contributions by Participants	730	670
Actuarial (gains)/losses	(5,800)	(2,350)
Net Benefits paid out	(1,500)	(730)
Past Service cost	610	60
Closing Value of liabilities	<u>49,080</u>	<u>49,930</u>

The closing liability includes £470,000 (2007: £430,000) in respect of unfunded benefits.

NOTES TO THE ACCOUNTS

At 31 July 2008

17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Changes to the fair value of assets during the year

	2008 £000	2007 £000
Opening value of assets	35,600	31,150
Expected return on assets	2,530	2,070
Actuarial gains/(losses) on assets	(7,380)	560
Change in asset valuation method	(40)	-
Contributions by the Employer	2,250	1,850
Contributions by participants	730	670
Net benefits paid out	(1,460)	(700)
Closing value of assets	<u>32,230</u>	<u>35,600</u>

Actual return on assets

	2008 £000	2007 £000
Expected return on assets	2,530	2,070
Actuarial gain/(loss) on assets	(7,380)	560
Actual return on assets	<u>(4,850)</u>	<u>2,630</u>

Analysis of amount recognised in STRGL

	2008 £000	2007 £000
Actuarial gain/(loss) on assets	(7,380)	560
Actuarial gain/(loss) on liabilities	5,800	2,350
Change in asset valuation method	(40)	-
Total Actuarial gain/(loss)	<u>(1,620)</u>	<u>2,910</u>

The Actuarial loss includes a loss of £60,000 (2007: loss of £10,000) in respect of unfunded benefits.

5 Year History

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of liabilities	49,080	49,930	47,650	41,880	34,686
Fair Value of assets	32,230	35,600	31,150	26,140	18,300
Deficit on the scheme	<u>16,850</u>	<u>14,330</u>	<u>16,500</u>	<u>15,740</u>	<u>16,386</u>
Experience gains/(losses) on assets	(7,380)	560	1,640	3,010	240
Experience gains/(losses) on liabilities	3,380	(70)	(80)	3,190	10

NOTES TO THE ACCOUNTS

At 31 July 2008

18. DEFERRED CAPITAL GRANTS

	Consolidated and University		
	Buildings £000	Equipment £000	Total £000
At 1 August 2007	4,498	2,199	6,697
Cash Received	373	2,927	3,300
Released to Income and Expenditure	(202)	(1,414)	(1,616)
At 31 July 2008	<u>4,669</u>	<u>3,712</u>	<u>8,381</u>

19. ENDOWMENTS

	Consolidated and University	
	2008 £000	2007 £000
Restated Balances:		
Capital Value	626	665
Accumulated Income	-	-
At 1 August as restated	<u>626</u>	<u>665</u>
Net (Disposals)/Additions	-	-
Depreciation of endowment asset investments	(36)	(37)
Income for the year	41	35
Expenditure for the year	(36)	(37)
At 31 July	<u>595</u>	<u>626</u>
Represented by:		
Capital Value	590	626
Accumulated Income	5	-
	<u>595</u>	<u>626</u>

All endowments are classified as restricted expendable endowments.

20. REVALUATION RESERVE

	Consolidated and University	
	2008 £000	2007 £000
At 1 August	7,802	7,892
Transfer to the Income and Expenditure Account (Note 21)		
Depreciation for period on revalued inherited assets	(90)	(90)
At 31 July	<u>7,712</u>	<u>7,802</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
At 1 August	10,834	5,582	10,865	5,658
Retained surplus for the period	3,934	2,252	3,994	2,207
(Loss)/Gain on pension liability	(1,620)	2,910	(1,620)	2,910
Transfers from revaluation reserve (Note 20)	90	90	90	90
At 31 July	<u>13,238</u>	<u>10,834</u>	<u>13,329</u>	<u>10,865</u>

22. OBLIGATIONS UNDER LEASES AND LOANS

a) Finance leases

Consolidated and University

	2008	2007
	£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>15,025</u>	<u>16,372</u>
	21,760	23,107
Less: finance charges allocated to future periods	<u>9,542</u>	<u>10,612</u>
	<u>12,218</u>	<u>12,495</u>
Analysed as:		
Amounts due in less than one year	302	277
Amounts due after more than one year	<u>11,916</u>	<u>12,218</u>
	<u>12,218</u>	<u>12,495</u>

b) Loans

Consolidated and University

	2008	2007
	£000	£000
Instalments due within one year	966	882
Instalments due in more than one and less than two years	793	966
Instalments due in more than two and less than five years	2,329	2,287
Instalments not due within five years	<u>18,195</u>	<u>19,030</u>
	22,283	23,165
Analysed as:		
Amounts due within one year	966	882
Amounts due after more than one year	<u>21,317</u>	<u>22,283</u>
	<u>22,283</u>	<u>23,165</u>

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

	Consolidated and University	
	2008 £000	2007 £000
Amounts payable under leases expiring after more than five years	<u>3,977</u>	<u>3,790</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

23. CAPITAL COMMITMENTS

	Consolidated and University	
	2008	2007
	£000	£000
Authorised and contracted	-	-
Authorised but not contracted	<u>3,466</u>	<u>3,876</u>

24. CONTINGENT LIABILITIES

At 31 July 2008 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 2008 and current estimates of the eventual costs of rectification at the end of the lease periods are between £5 million and £8 million. 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 £3.1 million (2007-2008), £2.5 million (2006-2007), £2.8 million (2005-2006).

25. POST BALANCE SHEET EVENTS

Subsequent to the year end, on 7 October 2008, Heritable Bank was placed into administration. At this date the University had a £2 million deposit with Heritable Bank and therefore the recoverability of this balance is now in doubt.

As the investment was made after the balance sheet date this constitutes a non-adjusting post balance sheet event and therefore no adjustment has been made to the carrying value of the deposits in the balance sheet.

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

	2008	2007
	£000	£000 restated
Surplus before taxation	3,939	2,241
Less investment income	<u>(1,142)</u>	<u>(938)</u>
	2,797	1,303
Add back interest payable	<u>3,144</u>	<u>3,264</u>
Surplus from Operating Activities	5,941	4,567
Release of Capital Grant	(1,616)	(1,009)
Depreciation	3,547	3,341
Pension contribution less amounts charged to operating surplus	530	330
Decrease/(Increase) in debtors	668	(1,029)
(Decrease)/Increase in creditors	(1,242)	3,107
(Decrease)/Increase in provisions	(891)	786
Increase in Endowment net current assets	<u>(2)</u>	<u>(6)</u>
Net Cash Inflow from Operating Activities	<u>6,935</u>	<u>10,087</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

27. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2008 £000	2007 £000
Income from Endowments	41	35
Interest Received	1,091	870
Interest Paid under Finance Leases	(1,070)	(1,091)
Other Interest Paid	(1,713)	(1,763)
Returns on Investments and Servicing of Finance	<u>(1,651)</u>	<u>(1,949)</u>

28. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2008 £000	2007 £000
Purchase of Fixed Assets	(4,325)	(3,738)
Deferred Capital Grants received	3,300	1,086
	<u>(1,025)</u>	<u>(2,652)</u>

29. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	At 1 August 2007 £000 restated	Capital Repayments In the year £000	At 31 July 2008 £000
Barclays Bank Loan	772	(315)	457
Kimber College Finance Lease	4,540	(259)	4,281
Sir James Matthews Building finance lease	7,955	(18)	7,937
Deanery College Loan	12,118	(307)	11,811
Chantry College Loan	6,924	(175)	6,749
David Moxon Annex Loan	3,351	(85)	3,266
	<u>35,660</u>	<u>(1,159)</u>	<u>34,501</u>

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

	2008 £000	2007 £000
Repayment of Loans	(882)	(833)
Repayment of Capital Element of Finance Leases	(277)	(254)
	<u>(1,159)</u>	<u>(1,087)</u>

NOTES TO THE ACCOUNTS

At 31 July 2008

30. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August	Cash Flow	Non Cash Movement	At 31 July
	2007			2008
	£000	£000	£000	£000
	restated			
Cash at Bank and in Hand:				
Endowment Assets	4	3	-	7
Cash	1,680	1,272	-	2,952
	<u>1,684</u>	<u>1,275</u>	<u>-</u>	<u>2,959</u>
Short Term Deposit	16,594	1,825	-	18,419
Debt Due within one year	(1,159)	1,159	(1,268)	(1,268)
Debt Due after one year	(34,501)	-	1,268	(33,233)
	<u>(17,382)</u>	<u>4,259</u>	<u>-</u>	<u>(13,123)</u>

31. ACCESS FUNDS

	2008	2007
	£000	£000
		restated
Balance brought forward	40	30
Funding Council Grants	371	467
Interest Earned	2	2
	<u>413</u>	<u>499</u>
Disbursed to Students	(400)	(443)
Administration Costs	(13)	(16)
Balance Unspent at 31 July	<u>-</u>	<u>40</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 by related party	Amounts owed to related party	Grants and Loans made to related party
	£000	£000	£000	£000	£000
Solent Students Union					
Trade	35	30	-	2	-
Grant	-	-	-	25	307
Paris Smith & Randall	2	1	-	-	-

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