



SOUTHAMPTON  
INSTITUTE

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2004**

**INDEX**

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

**GOVERNORS**

Dr G Brandt	Independent Governor	Resigned September 2003
Professor R Brown	Principal, ex-officio Governor	
Ms T Bullen	Support Staff Governor (elected)	Appointed March 2004
Mr J Bullock	Independent Governor	
Dr A Burman	Independent Governor	
Mr C Clark	Independent Governor	
Mr B Craig	Student Governor (President SISU)	Retired June 2004
Mr M Farwell	Teaching Staff Governor (elected)	
Mrs J Fitton	Co-opted External Governor	
Rt Revd J Gledhill	Independent Governor	Retired October 2003
Professor K Gregory	Independent Governor - Vice Chairman	
Councillor R Harris	Co-opted External Governor	
Mr A Heathcock	Independent Governor	
Mr D Hendy	Support Staff Governor (elected)	Retired March 2004
Mr N Hoskins	Independent Governor	
Mr T Jewitt	Student Governor (President SISU)	Appointed July 2004
Mr C Kean	Co-opted External Governor	Appointed July 2004
Mrs L Kimber	Academic Board Nominee (elected)	
Rear Admiral J Lang	Independent Governor	Appointed March 2004
Mrs B Large MBE	Independent Governor	
Professor R Middlehurst	Co-opted External Governor	Retired October 2003
Mr P Payze	Independent Governor	
Ms P Powell	Independent Governor	Appointed March 2004
Dr H Rose	Academic Board Nominee (ex-officio)	
Ms A Santry	Independent Governor	
Professor G Tonge	Independent Governor - Chairman	
Capt A Winbow	Independent Governor	

**CLERK TO THE GOVERNORS**

Dr H Slater	Retired July 2004
Mr D Parry	Appointed July 2004

**AUDITORS**

Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

**BANKERS**

Barclays Bank PLC  
Southampton City Business  
Centre  
Barclays House  
Ocean Way  
Southampton  
SO14 2SB

**CORPORATE OFFICE**

East Park Terrace  
Southampton  
SO14 0YN

**GOVERNORS' REPORT****CORPORATE GOVERNANCE**

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

The Institute is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the Institute 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 Institute has put systems in place for identifying, evaluating and managing its significant risks. A timetable was drawn up which ensured full implementation by 31 July 2003. The processes are reviewed regularly by the Institute under the guidance of a Risk Management Group, which includes Governor representation.

**Board of Governors**

The Institute's Governors comprise lay and academic persons appointed under the Instrument and Articles of Government of the Institute, 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 Institute's Principal. The matters specifically reserved to the Governors for decision are set out in the Articles of the Institute, 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 Institute, 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 meets four times a year, and its membership during the year is given on page 1. It has four key committees which report to it: Resources Committee; Audit Committee; Governance Committee; and Remuneration Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors, one of whom is the Chair. Their membership and remit is given below. The Board approves the Institute's Strategic Plan, and has during the development of the current plan been guided by a Strategic Plan Committee consisting of Governors and members of Academic Board. The Strategic Plan Committee stood down after its special meeting in September 2003.

**Resources Committee**

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

The Resources Committee met three times during 2003 – 2004. All meetings were quorate. Membership of the Resources Committee during the year has been as follows, with all members eligible to attend all meetings.

**Membership:**

Professor K Gregory	Independent Governor	Chair, Resources Committee
Professor R Brown	Principal, ex-officio Governor	
Dr A Burman	Independent Governor	
Mr C Clark	Independent Governor	Chair, Information Resources Sub-Committee
Mr N Hoskins	Independent Governor	Chair, Estates Sub-Committee
Mr P Payze	Independent Governor	
Ms A Santry	Independent Governor	
Captain A Winbow	Independent Governor	Chair, Human Resources Sub-Committee

**Officers normally in attendance:**

Professor J Latham	Vice Principal, Resources
Mrs K Everett	Director of Finance
Dr H Slater	Clerk to the Board of Governors

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

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

The Audit Committee met four times during 2003-04. All meetings were quorate. Membership of the Audit Committee during the year has been as follows, with all members eligible to attend all meetings except where indicated.

## Membership:

Mr J Bullock	Independent Governor	Chair
Mr A Heathcock	Independent Governor	
Mr C Kean	Co-opted External Member throughout; Co-opted Governor from July 2004	
Rear Admiral J Lang	Independent Governor. Appointed to Audit Committee from June 2004	
Mrs B Large MBE	Independent Governor	

## Officers normally in attendance:

Professor J Latham	Vice Principal, Resources
Mrs K Everett	Director of Finance
Dr H Slater	Clerk to the Board of Governors

**Governance Committee**

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

The Governance Committee met four times during 2003-04. All meetings were quorate. Membership of the Governance Committee during the year has been as follows, with all members eligible to attend all meetings except where indicated.

## Membership:

Mrs J Fitton	Co-opted External Governor	Chair
Professor R Brown	Principal, ex-officio Governor	
Ms T Bullen	Support Staff Governor, appointed April 2004	
Mr M Farwell	Teaching Staff Governor	
Professor K Gregory	Independent Governor	
Mrs L Kimber	Academic Board Nominee	
Professor R Middlehurst	Co-opted External Governor, retired October 2003	
Dr H Rose	Academic Board Nominee	

## Officer normally in attendance:

Dr H Slater	Clerk to the Board of Governors
-------------	---------------------------------

**GOVERNORS' REPORT****Remuneration Committee**

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

The Remuneration Committee met three times during 2003-04. All meetings were quorate. Membership of the Remuneration Committee during the year has been as follows with all members eligible to attend all meetings.

## Membership:

Professor G Tonge	Independent Governor
Mrs B Large MBE	Independent Governor
Mr P Payze	Independent Governor

## Officers normally in attendance:

Professor R Brown	Principal
Professor J Latham	Vice Principal, Resources
Mrs J West	Head of Industrial Relations

**Responsibilities of the Board of Governors**

In accordance with the Education Reform Act 1988 and the Instrument and Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the Institute, 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 Institute 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 Memorandum agreed between HEFCE and the Board of Governors of the Institute, 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 Institute 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 Institute will continue in operation. The Board of Governors is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the Financial Statements.

**GOVERNORS' REPORT****Internal Controls**

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place since 31 July 2003 and up to the date of approval of the financial statements and accords with HEFCE guidance.

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

- the Strategic Plan Committee has met annually to monitor the delivery of the Institute's Strategic Plan, to consider the corporate planning proposals for the following year and to advise the Board of Governors. It meets more frequently at times of strategic review. As part of its remit the Committee annually advises the Board of Governors as to the major risks facing the Institution. Acting on this advice, the Board determines the annual risk matrix for the Institution as well as approving the Corporate Planning Statements, Annual Monitoring Statements and Financial Forecasts which are sent to HEFCE;
- the Board of Governors has requested the Audit Committee to provide oversight of risk management and a Risk Management Group has been established with Governor representation. With effect from the commencement of the 2003/04 academic year, the Audit Committee has received a report at each of its meetings on any movement in the ten major risks for the Institution 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 chairman of the Audit Committee concerning internal control;
- the Audit Committee receives regular reports from the head of internal audit which includes the Head of Internal Audit's (HIA) independent opinion on the adequacy and effectiveness of the institution's system of internal control together with recommendations for improvement;
- a regular process of meetings, workshops and discussions is used at both Institute level and cascaded through individual faculties and services to identify and keep up to date the record of risks facing the organisation;
- a programme of risk awareness training is under way;
- 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;
- an organisation-wide risk register is now 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 internal auditors. The Institute uses an external audit firm to provide internal audit services. The firm operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in January 2002. The internal auditors submit regular reports which include the HIA's independent opinion on the adequacy and effectiveness of the institution's system of internal control together with recommendations for improvement.

Our view of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

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

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

The Institute's objectives are:

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

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

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

A key objective stated above is to achieve university title and the first step towards this was realised in October 2004 when the Institute was granted its own taught degree awarding powers and university college status, effective from 1 November 2004.

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

**GOVERNORS' REPORT****SUBSIDIARY AND ASSOCIATED UNDERTAKINGS**

The Institute fully owns two subsidiary undertakings, which have traded during the last two years; Southampton Institute Limited and Southampton Institute Library Services Limited. The Institute holds a 33⅓% interest in Southampton Institute Education Company (SIEC).

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

The financial results recorded in the accounts of the subsidiary and associated companies included within the consolidated accounts of Southampton Institute are as follows:

	<b>2003 – 2004</b>		<b>2002 - 2003</b>	
	Paid under variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000	Paid under variable deed of Covenant £000	Profit/(Loss) after Covenant where applicable £000
Southampton Institute Limited	163	10	42	5
Southampton Institute Library Services Limited	-	-	319	23
Southampton Institute Educational Company	-	-	-	-
	<u>163</u>	<u>10</u>	<u>361</u>	<u>28</u>

SIEC, a charitable company limited by guarantee, commenced trading in November 1996. The Institute is a participating member controlling 33⅓% of the voting rights of the company through a former senior post holder.

The Institute owned 100% of the issued ordinary share capital of £1,000,000 of Southampton Institute Library Services Limited (SILS), a company registered in England, which commenced trading during 1994-95. SILS ceased trading on 31 October 2003 and was put into Members Voluntary Liquidation in May 2004.

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

**FINANCIAL POSITION**

Following a surplus of just over £1million in 2002-03, the Institute projected a surplus again for the current year and this has been satisfactorily achieved. Student recruitment for 2003-04 was better than in the three previous years, with a significant increase in income from overseas students. However the achievement of surpluses continues to prove challenging as the funding increases received from HEFCE each year do not cover the cost of the nationally agreed pay settlements.

The financial forecast for 2004-05 and subsequent years, as approved by the Board of Governors, envisages that surpluses will be achieved throughout the forecast period, but that the magnitude of these surpluses will decrease year on year until the introduction of variable fees in 2006. It is anticipated that the introduction of variable fees will enable the Institute to provide a range of bursaries and scholarships for students and enhance the student experience in a variety of ways, as well as retain a sufficient level of surplus to ensure that the high quality of the Institute's estate can be maintained through adequate capital investment.

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

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

		<b>2003-2004</b>	<b>2002-2003</b>
		<b>£000</b>	<b>£000</b>
Public Funds for funded activities	HEFCE and FEFC/LSC Funding	30,493	28,683
	Full Time Home and EU Tuition Fees	9,204	9,387
	EU and other Government Sources	35	144
Private sources within funded activities	Tuition and Research	3,928	4,067
	Interest Receivable	413	315
	Other Private Income	488	318
Private sources for non-funded activities	Residences and Catering	8,124	7,637
	Overseas Students	3,612	2,956
	Simulator activities through SI Ltd	1,238	1,210
	Other private Income	1,627	1,506
		<u>59,162</u>	<u>56,223</u>

**GOVERNORS**

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

**AUDITORS**

A resolution to extend the appointment of Ernst & Young LLP as auditors until July 2004 was approved by the Board of Governors at their meeting of 18 July 2001.

By order of the Board of Governors

Dr D Parry  
Clerk to the Board of Governors  
15 December 2004

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF SOUTHAMPTON INSTITUTE**

We have audited the Financial Statements for the year ended 31 July 2004 which comprise the Consolidated Income and Expenditure Account, Statement of Historical Cost Surpluses and Deficits, Consolidated and Institute Balance Sheets, Consolidated Cash Flow Statement, Statement of Consolidated Recognised Gains and Losses and the related notes 1 to 32. These Financial Statements have been prepared on the basis of the accounting policies set out in the Statement of Principal Accounting Policies.

This report is made solely to the Board of Governors, as a body. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Institute and the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the Governors' report on pages 2 to 8, the Board of Governors is responsible for the preparation of the Financial Statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the Institute have been applied 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.

We also report to you if, in our opinion, the Governors' Report is not consistent with the Financial Statements, if the Institute has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Governors' Report and Corporate Statement and consider the implications for our report if we become aware of any apparent misstatements within them.

**Basis of Audit opinion**

We conducted our audit in accordance with the United Kingdom Auditing Standards issued by the Auditing Practices Board and the Code of Audit Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Board of Governors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate for the Group's circumstances, consistently applied and adequately disclosed.

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

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

In our opinion:

- \* The Financial Statements give a true and fair view of the state of affairs of Southampton Institute and its subsidiaries at 31 July 2004 and of the surplus for the year and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education Institutes.
- \* Funds from the Higher Education Funding Council for England and the Learning and Skills Council (and its predecessor the Further Education Funding Council), grants and income for specific purposes and from other restricted funds administered by Southampton Institute have been applied only for the purposes for which they were received.
- \* Income has been applied in accordance with the Education Reform Act 1988 and with the Financial Memorandum dated 1 August 2000 with the Higher Education Funding Council for England.

Ernst & Young LLP  
Registered Auditor

Wessex House  
19 Threefield Lane  
Southampton

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

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

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

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

**ii. Assets acquired after incorporation**

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

All such capital items are included in the balance sheet at historic cost less depreciation. Capital grants are treated as a deferred credit that is released to revenue over the useful life of the assets.

**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.

**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:

Owned buildings	- over 50 years
Leased residential 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 Institute. Expenditure on consumables is charged fully to revenue in the year of purchase.

**STATEMENT OF PRINCIPAL ACCOUNTING POLICIES****Building Maintenance**

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

**Taxation**

As a Higher Education Corporation, the Institute 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 Institute has two wholly owned subsidiary undertakings, Southampton Library Services (SILS) and Southampton Institute Limited (SIL). The Institute holds a 33⅓ % 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 SILS, SIL and SIEC are consolidated within the Institute's accounts in accordance with FRS2.

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

**Listed Investments and Fixed Interest Securities**

Listed investments are shown at market value.

**Research and Development**

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

**Pensions**

Payments are made to the Department for Education in accordance with the Teachers' Superannuation Scheme for academic staff. As the Teachers Superannuation Scheme is unable to identify the Institute's share of the underlying assets and liabilities, contributions to that scheme are accounted for as if it was a defined contribution scheme.

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

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

**Cash Flows and Liquid Resources**

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

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and bank certificates of deposit held as part of the Institute'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 Institute, 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 2004**

	Notes	2003-2004 £000	2002-2003 £000
<b>INCOME</b>			
Funding Council Grants	1	30,493	28,683
Tuition fees and education contracts	2	17,752	17,432
Research grants and contracts	3	265	348
Other income	4	10,239	9,445
Endowment and Investment income	5	413	315
<b>Total Income</b>		<u>59,162</u>	<u>56,223</u>
<b>EXPENDITURE</b>			
Staff costs	6	33,186	30,472
Depreciation	11	2,728	2,893
Other Operating Expenses	7	19,450	18,636
Interest payable	8	3,136	3,227
<b>Total expenditure</b>	9	<u>58,500</u>	<u>55,228</u>
<b>Surplus after Depreciation of Assets and Before Tax</b>		662	995
Taxation	10	<u>10</u>	<u>-</u>
		<u>652</u>	<u>995</u>

**STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2004**

	Notes	2003-2004 £000	2002-2003 £000
Surplus after Depreciation of assets and Tax		652	995
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the relevant amount	20	<u>90</u>	<u>90</u>
		<u>742</u>	<u>1,085</u>

## BALANCE SHEET AS AT 31 JULY

	Notes	Consolidated		Institute	
		2004 £000	2003 £000	2004 £000	2003 £000
<b>Fixed Assets</b>					
Tangible Assets	11	66,338	66,535	66,349	66,536
Investments	12	50	50	50	50
		<u>66,388</u>	<u>66,585</u>	<u>66,399</u>	<u>66,586</u>
<b>Endowment Asset Investments</b>	13	<u>637</u>	<u>668</u>	<u>637</u>	<u>668</u>
<b>Current Assets</b>					
Debtors	14	6,279	3,566	9,082	6,176
Investments	30	6,259	5,610	6,259	5,610
Cash at bank in hand	30	872	986	584	653
		<u>13,410</u>	<u>10,162</u>	<u>15,925</u>	<u>12,439</u>
<b>Creditor: amounts falling due within one year</b>	15	<u>11,365</u>	<u>9,005</u>	<u>13,878</u>	<u>10,900</u>
<b>Net Current Assets</b>		<u>2,045</u>	<u>1,157</u>	<u>2,047</u>	<u>1,539</u>
<b>Total assets less current liabilities</b>		69,070	68,410	69,083	68,793
<b>Creditors: amounts falling due after more than one year</b>	16	38,295	39,427	38,295	39,427
<b>Provisions for liabilities and charges</b>	17	1,737	1,554	1,737	1,554
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u><b>29,038</b></u>	<u><b>27,429</b></u>	<u><b>29,051</b></u>	<u><b>27,812</b></u>
<b>Deferred capital grants</b>	18	4,119	3,328	4,119	3,328
<b>Endowments</b>	19	637	668	637	668
<b>Reserves</b>					
Revaluation reserve	20	7,337	7,230	7,337	7,230
Restricted reserve		17	17	17	17
Income and Expenditure Account	21	16,928	16,186	16,941	16,569
Total Reserves		<u>24,282</u>	<u>23,433</u>	<u>24,295</u>	<u>23,816</u>
<b>TOTAL FUNDS</b>		<u><b>29,038</b></u>	<u><b>27,429</b></u>	<u><b>29,051</b></u>	<u><b>27,812</b></u>

**Professor G Tonge**  
Chairman of the Board of Governors  
15 December 2004

**Professor R Brown**  
Principal

**CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 JULY 2004**

	Notes	2003-2004 £000	2002-2003 £000
<b>Net Cash Inflow From Operating Activities</b>	26	5,340	5,101
Returns on investments and servicing of finance	27	(2,836)	(2,919)
Taxation		(10)	-
Capital expenditure and financial investment	28	(1,086)	(1,310)
Management of liquid resources	30	(649)	(400)
<b>Net Cash Inflow Before Financing</b>		<u>759</u>	<u>472</u>
Financing	29	<u>(873)</u>	<u>(686)</u>
<b>Decrease in cash</b>		<u>(114)</u>	<u>(214)</u>

**RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT**

Decrease in Cash		(114)	(214)
Repayment of Long Term Loan		873	811
Repayment of Capital Elements of Finance Leases		197	180
Change in Short Term Deposits		<u>649</u>	<u>400</u>
Movement in Net Debt		1,605	1,177
Net Debt at 1 August		(33,901)	(35,078)
Net Debt at 31 July		<u>(32,296)</u>	<u>(33,901)</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2004**

	Notes	2003-2004 £000	2002-2003 £000
Surplus after Depreciation of Assets and Tax		652	995
Reimbursement of Debt Charge Principal to Revaluation Reserve	20	197	197
Unrealised (loss)/gain on Endowment Asset Investments	13	<u>(31)</u>	<u>18</u>
<b>Total recognised gains relating to the year</b>		<u>818</u>	<u>1,210</u>

**Reconciliation**

Opening reserves and endowments		24,101
Total recognised gains and losses for the year		<u>818</u>
Closing reserves and endowments		<u>24,919</u>

## NOTES TO THE ACCOUNTS

at 31 July 2004

<b>1. FUNDING COUNCIL GRANTS</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Recurrent Grant		
HEFCE	23,387	24,734
FEFC/LSC	1,266	1,161
Specific HEFCE grants		
Debt Charge Interest Reimbursement	44	57
Special Initiatives	5,142	2,152
Deferred Capital Grants released in Year		
Buildings (Note 18)	100	90
Equipment (Note 18)	554	489
	<u>30,493</u>	<u>28,683</u>
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Full time undergraduate and postgraduate fees home and EC	8,974	9,155
Part time undergraduate and postgraduate fees home and EC	1,333	1,306
Overseas (Non-EC) domicile students	3,612	2,956
Non credit bearing course fees	3,603	3,783
Other	230	232
	<u>17,752</u>	<u>17,432</u>
<b>3. RESEARCH GRANTS AND CONTRACTS</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
EC Grants	35	144
OST Research Councils	-	24
Other sources	230	180
	<u>265</u>	<u>348</u>
<b>4. OTHER INCOME</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Residences, catering and conferences	8,124	7,637
Other Services Rendered	463	492
Other Income	1,652	1,316
	<u>10,239</u>	<u>9,445</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

<b>5. ENDOWMENT AND INVESTMENT INCOME</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Income from Endowments (Trust Funds) (Note 19)	35	35
Income from Short Term Investments	378	280
	<u>413</u>	<u>315</u>
<b>6. STAFF COSTS</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	27,407	25,868
Social Security costs	2,247	1,912
Other pension costs	2,870	2,302
Redundancy costs	662	390
	<u>33,186</u>	<u>30,472</u>
Average staff numbers by major category:	<b>Number</b>	<b>Number</b>
Academic departments	737	654
Academic Services	116	133
Research Grants and Contracts	6	7
Residences, Catering and Conference	23	19
Premises	52	59
Administration	194	186
	<u>1,128</u>	<u>1,058</u>
Emoluments of Principal and remuneration of senior staff:	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Emoluments of Principal	126,143	116,799
Employers' pension contributions (Teachers Superannuation Scheme)	12,969	11,956
Other benefits	1,920	1,790
	<u>141,032</u>	<u>130,545</u>
Remuneration of other higher paid staff earning over £70,000 excluding employers' pension contributions, but including the payments for compensation for loss of office and actuarial payments to pension schemes for early retirement:	<b>2004</b>	<b>2003</b>
	<b>Number</b>	<b>Number</b>
£70,000 to £79,999	3	2
£80,000 to £89,999	1	-

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

## NOTES TO THE ACCOUNTS

At 31 July 2004

<b>7. OTHER OPERATING EXPENSES</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Consumables and other Academic Related Expenditure	2,238	2,149
General Educational Expenditure	1,967	2,067
Books and Periodicals	864	833
Heat, Light, Water and Power	949	899
Repairs and General Maintenance	2,482	2,194
Provision for Dilapidation	115	18
Other Premises Related Expenditure	1,541	1,795
Grants to Students Union	309	309
Rents and Rates	137	95
External Auditors' Remuneration – Audit Fees	35	38
External Auditors' Remuneration – Other Fees	29	35
Internal Auditors' Remuneration – Audit Fees	29	41
Internal Auditors' Remuneration – Other Fees	13	-
Operating Lease Rentals Land/Buildings	3,442	3,297
Operating Lease Rentals Plant/Machinery	26	33
Travel and Subsistence	483	544
Other Expenses	4,791	4,289
	<u>19,450</u>	<u>18,636</u>

<b>8. INTEREST PAYABLE</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Loans not wholly repayable within five years	1,989	2,062
Finance Leases	1,147	1,165
	<u>3,136</u>	<u>3,227</u>

**9. ANALYSIS OF 2003-2004 EXPENDITURE BY ACTIVITY**

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic Departments	22,157	497	4,359	-	27,013
Academic Services	2,968	778	3,413	-	7,159
Research Grants and Contracts	123	-	65	-	188
Residences, Catering and Conferences	411	338	5,944	2,231	8,924
Premises	1,346	1,037	3,492	690	6,565
Administration	6,181	78	2,177	215	8,651
Total per Income and Expenditure Account	<u>33,186</u>	<u>2,728</u>	<u>19,450</u>	<u>3,136</u>	<u>58,500</u>

**10. TAXATION**

A corporation tax charge of £10,000 (2003: nil) arises on consolidation as a result of taxable profits in a subsidiary undertaking.

Under the Education Reform Act 1988 the Institute 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 profit of all subsidiary companies will be paid to the Institute by way of Deed of Covenant.

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 11. TANGIBLE ASSETS

## Institute

	<b>Freehold and Long Leasehold Land £000</b>	<b>Buildings £000</b>	<b>Work in Progress £000</b>	<b>Equipment £000</b>	<b>Total £000</b>
At 1 August 2003					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	45,695	170	20,648	70,468
Additions	-	-	614	1,917	2,531
Capitalisation of work in Progress	-	519	(519)	-	-
As at 31 July 2004	<u>10,409</u>	<u>61,396</u>	<u>265</u>	<u>22,565</u>	<u>94,635</u>
Depreciation					
At 1 August 2003	-	6,741	-	18,827	25,568
Provided during period	-	1,319	-	1,399	2,718
At 31 July 2004	<u>-</u>	<u>8,060</u>	<u>-</u>	<u>20,226</u>	<u>28,286</u>
Net book value at 31 July 2004	<u>10,409</u>	<u>53,336</u>	<u>265</u>	<u>2,339</u>	<u>66,349</u>
Net book value at 31 July 2003	<u>10,409</u>	<u>54,136</u>	<u>170</u>	<u>1,821</u>	<u>66,536</u>

## Consolidated

	<b>Freehold and Long Leasehold Land £000</b>	<b>Buildings £000</b>	<b>Work in Progress £000</b>	<b>Equipment £000</b>	<b>Total £000</b>
At 1 August 2003					
At valuation 31 July 1998	6,454	15,182	-	-	21,636
At cost	3,955	45,695	170	21,615	71,435
Additions	-	-	614	1,917	2,531
Capitalisation of work in progress	-	519	(519)	-	-
At 31 July 2004	<u>10,409</u>	<u>61,396</u>	<u>265</u>	<u>23,532</u>	<u>95,602</u>
Depreciation					
At 1 August 2003	-	6,741	-	19,795	26,536
Provided during period	-	1,319	-	1,409	2,728
At 31 July 2004	<u>-</u>	<u>8,060</u>	<u>-</u>	<u>21,204</u>	<u>29,264</u>
Net book value at 31 July 2004	<u>10,409</u>	<u>53,336</u>	<u>265</u>	<u>2,328</u>	<u>66,338</u>
Net book value at 31 July 2003	<u>10,409</u>	<u>54,136</u>	<u>170</u>	<u>1,820</u>	<u>66,535</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

**11. TANGIBLE ASSETS (CONTINUED)**

Included in Land and Buildings are two assets with a combined net book value of £11,486,587 (2003: £11,682,204) held under finance leases. Depreciation for the year on these leased assets was £195,617 (2003: £195,621).

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

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

**12. INVESTMENTS**

	Consolidated		Institute	
	2004 £000	2003 £000	2004 £000	2003 £000
Subsidiaries	-	-	-	-
Other investments	50	50	50	50
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

**Subsidiary Undertakings**

The Institute owns 100% of the issued ordinary share capital of £2 of Southampton Institute Limited, a company registered in England. The Institute owned 100% of the issued ordinary share capital of £1,000,000 of Southampton Institute Library Services Limited (SILS), a company registered in England, which commenced trading during 1994-95. However, this investment was fully provided during 2002-03 and SILS was put into members voluntary liquidation in May 2004.

The Institute has control of 33⅓% of Southampton Institute Educational Company (SIEC), a company limited by guarantee. SIEC is consolidated by virtue of dominant influence over the operating and financial policies of that company.

**Other Investments**

The Institute has made 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 2004

## 13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and Institute	
	2004	2003
	£000	£000
MIM Britannia Maximum Income Fund	609	650
Shares and securities not incorporated in above funds	22	17
Cash balances and accruals	6	1
	<u>637</u>	<u>668</u>

## 14. DEBTORS

	Consolidated		Institute	
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade debtors	4,466	2,087	3,998	1,558
Other debtors	1,744	1,479	1,696	1,426
Amount owed by subsidiary undertaking	69	-	3,388	3,192
	<u>6,279</u>	<u>3,566</u>	<u>9,082</u>	<u>6,176</u>

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

	Consolidated		Institute	
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade Creditors	3,781	4,261	3,581	4,004
Taxation and social security	709	671	709	671
Salary and wages creditor	734	738	734	738
Other creditors	4,747	2,004	4,656	1,953
SSAP 24 Pension Liability	262	262	262	262
Amounts due to subsidiary companies	-	-	2,804	2,203
Hampshire County Council debt charge	197	197	197	197
Bank Loan (Note 22b)	721	675	721	675
Obligations under finance leases and hire purchase contracts (Note 22a)	214	197	214	197
	<u>11,365</u>	<u>9,005</u>	<u>13,878</u>	<u>10,900</u>

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

	Consolidated		Institute	
	2004	2003	2004	2003
	£000	£000	£000	£000
Debts on transferred assets				
- due in two to five years	474	646	474	646
- due after more than five years	64	90	64	90
Long term Bank loan (Note 22b)	24,774	25,494	24,774	25,494
Obligations under finance leases and hire purchase contracts (Note 22a)	12,983	13,197	12,983	13,197
	<u>38,295</u>	<u>39,427</u>	<u>38,295</u>	<u>39,427</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 17 PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated and Institute

	Pension Enhancement £000	Dilapidation £000	Reorganisation £000	Total £000
At 1 August 2003	363	680	511	1,554
Charge to Income & Expenditure account	28	116	662	806
Payments made in year	<u>(28)</u>	<u>-</u>	<u>(595)</u>	<u>(623)</u>
At 31 July 2004	<u>363</u>	<u>796</u>	<u>578</u>	<u>1,737</u>

The amounts provided for under Dilapidation and Reorganisation comply with the requirements of FRS12. The Dilapidation provision is based on a professional valuation carried out at 31 July 2004, and management are not aware of any events since that date which would indicate any material change to that provision.

## PENSIONS

## SSAP 24 Disclosures

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

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

The Hampshire County Council Superannuation Scheme is valued every three years by a professionally qualified independent actuary using the Projected Unit method, the rates of contribution being determined by the actuary. The latest actuarial assessment of the Hampshire County Council Superannuation Scheme was at 31 March 2001. The Assessment was based on the assumptions that investment returns would be 8.75% per annum, a rate of increase of salaries of 6% and that future pensions would increase at a rate of 4.5% per annum. The actuarial valuation showed the market valuation of the scheme's assets was £1,935 million and that the actuarial value of these assets represented 88% of the Department of the Environment target for Scheduled bodies of 100% funding. Increases in employers' contributions are set out below:

		At 31 March 2004	At 31 March 2005	At 31 March 2006	At 31 March 2007	At 31 March 2008
Non teaching staff	LGSS	12.90%	13.50%	13.50%	13.50%	13.50%

The Institute also has obligations in respect of enhanced pension entitlements to staff who took early retirement under a reorganisation programme in 1993. Provision is made to meet the liabilities for these ex-gratia pensions based upon the following assumptions; discount rate 7.0% pa, future pension increases 3.0% pa and mortality in accordance with the PA92 standard table with a year of use of 2004. No specific assets are held. The charge in the year in respect of these enhancements was £28,900.

Where the institution 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 2004

## 17. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

## FRS 17 Disclosures

In line with the transitional arrangements of FRS 17, details in respect of the pension liabilities are provided in accordance with FRS 17, however the figures in the accounts reflect the SSAP 24 accounting treatment. As noted earlier it is not possible to identify the Institute's share of the underlying assets and liabilities of the Teachers Superannuation Scheme and therefore the following disclosures relate to the Hampshire County Council Superannuation Scheme only.

## Hampshire County Council Superannuation Scheme

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2001 and updated by Hewitt Bacon and Woodrow, independent actuaries, to take account of the requirements of FRS 17 in order to assess the Institute's share of the assets and liabilities of the scheme as at 31 July 2004 and 31 July 2003. The major assumptions used by the actuary for the purposes of FRS 17 were:

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

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

	Rate of Return At 31 July 2004	Value at At 31 July 2004	Rate of Return At 31 July 2003	Value at At 31 July 2003
Equities	8.0%	12,630	7.8%	10,900
Bonds	5.0%	4,030	4.8%	3,270
Property	7.0%	730	6.8%	800
Other assets	4.8%	910	3.3%	750
		<u>18,300</u>		<u>15,720</u>
Average rate of return	7.1%		6.9%	

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

	31 July 2004 £000	31 July 2003 £000
Share of assets in Hampshire County Council Pension Fund	18,300	15,720
Estimated share of liabilities in Hampshire County Council Pension Fund	<u>(34,290)</u>	<u>(30,970)</u>
Share of deficit in the scheme – net pension liability	<u>(15,990)</u>	<u>(15,250)</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

**17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)**

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

	<b>£000</b>
Deficit on scheme at 1 August 2003	(15,250)
Movement in year	
- Service cost	(1,690)
- Contributions	1,280
- Other financial charges	(620)
- Actuarial gain	290
Deficit on scheme at 31 July 2004	<u>(15,990)</u>

**Pension Enhancement**

The latest FRS 17 valuation of the liabilities in respect of these pension enhancements was carried out as at 31 July 2004, by an independent qualified actuary using the key FRS 17 assumptions set out in the following table. The table also sets out as at 31 July 2004 and 31 July 2003 the present value of the FRS 17 liabilities, which is equal to the gross pension liability.

<b>Assumptions</b>	<b>31 July 2004</b>	<b>31 July 2003</b>
Price Inflation	2.9% pa	2.6% pa
Discount rate	5.9% pa	5.3% pa
Pension Increases	2.9% pa	2.6% pa
	<b>31 July 2004</b>	<b>31 July 2003</b>
	<b>£000</b>	<b>£000</b>
Gross Pension Liability	396	406

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

	<b>£000</b>
Gross pension liability at 1 August 2003	406
Pensions paid	(29)
Charge to finance income	20
Actuarial loss	(1)
Gross pension liability at 31 July 2004	<u>396</u>

## NOTE TO THE ACCOUNTS

At 31 July 2004

## 17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

If FRS 17 were adopted in full the above amounts for both the Pension Enhancements and Hampshire County Council Superannuation Scheme would be recognised in the Financial Statements. In these circumstances the Institute's net assets and general reserve as at 31 July 2004 and 31 July 2003 would be as follows:

	<b>31 July 2004</b> <b>£000</b>	<b>31 July 2003</b> <b>£000</b>
Net Assets as stated in balance sheet	29,038	27,429
SSAP 24 enhanced pension provision	363	363
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
Net assets excluding pension liability	29,663	28,054
FRS 17 pension liability	<u>(16,386)</u>	<u>(15,656)</u>
Net assets including pension liability	<u>13,277</u>	<u>12,398</u>
General reserve per accounts excluding pension liability	24,282	23,433
SSAP 24 enhanced pension provision	363	363
SSAP 24 pension creditor	<u>262</u>	<u>262</u>
	<u>24,907</u>	<u>24,058</u>
Pension reserve	<u>(16,386)</u>	<u>(15,656)</u>
General reserve including pension liability	<u>8,521</u>	<u>8,402</u>

Additionally, if the pension costs had been recognised in accordance with FRS17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2004:

	<b>31 July 2004</b> <b>£000</b>	<b>31 July 2004</b> <b>£000</b>
Analysis of amounts charged to Income and Expenditure Account:		
Current service cost		(1,650)
Past service cost		(40)
Financing:		
- expected return on pension scheme assets	1,130	
- interest on expected scheme liabilities	<u>(1,772)</u>	
Net return		<u>(642)</u>
		<u>(2,332)</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 17 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

	31 July 2004 £000	31 July 2004 %
<b>Analysis of amounts recognised in statement of total recognised gains and losses:</b>		
Actual return less expected return on pension scheme assets	240	1.3% of assets
Experience gains and losses arising on scheme liabilities	10	0.0% liabilities
Changes in assumptions underlying the present value of scheme liabilities	40	0.1% liabilities
Total actuarial gain recognised	<u>290</u>	0.8% liabilities

18. DEFERRED CAPITAL GRANTS  
Consolidated and Institute

	Hunter Fund £000	Buildings £000	Equipment £000	Total £000
At 1 August 2003	260	2,695	373	3,328
Cash Received	-	255	1,190	1,445
Released to Income and Expenditure	-	(100)	(554)	(654)
At 31 July 2004	<u>260</u>	<u>2,850</u>	<u>1,009</u>	<u>4,119</u>

## 19. ENDOWMENTS

	Consolidated and Institute	
	2004 £000	2003 £000
At 1 August	668	650
(Decrease)/Increase in cash balances, investments	(37)	11
Income for year	42	43
Examination Fees for year	(1)	(1)
Transferred to Income and Expenditure Account (Note 5)	(35)	(35)
At 31 July	<u>637</u>	<u>668</u>
	<b>2004</b> <b>£000</b>	<b>2003</b> <b>£000</b>
Representing:		
Amenities Fund	19	19
Murals Fund	16	16
Southampton Research Fund	130	142
Merged Research Fund *	472	491
At 31 July	<u>637</u>	<u>668</u>

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

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 20. REVALUATION RESERVE

	Consolidated and Institute	
	2004	2003
	£000	£000
At 1 August	7,230	7,123
Transfer to the Income and Expenditure Account (Note 21)		
Depreciation for period on revalued inherited assets	(90)	(90)
HCC debt charge principal repaid	197	197
At 31 July	<u>7,337</u>	<u>7,230</u>

## 21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated		Institute	
	2004	2003	2004	2003
	£000	£000	£000	£000
At 1 August	16,186	15,101	16,569	16,805
Retained surplus/(deficit) for the period	652	995	282	(326)
Transfers from revaluation reserve (Note 20)	90	90	90	90
At 31 July	<u>16,928</u>	<u>16,186</u>	<u>16,941</u>	<u>16,569</u>

## 22. OBLIGATIONS UNDER LEASES AND LOANS

a) Finance leases and hire purchase contracts	Consolidated and Institute	
	2004	2003
	£000	£000
Amounts payable:		
Within one year	1,347	1,347
Within two to five years	5,388	5,388
After more than five years	20,413	21,760
	<u>27,148</u>	<u>28,495</u>
Less: finance charges allocated to future periods	13,949	15,101
	<u>13,197</u>	<u>13,394</u>
Analysed as:		
Amounts due in less than one year	214	197
Amounts due after more than one year	12,983	13,197
	<u>13,197</u>	<u>13,394</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 22. OBLIGATIONS UNDER LEASES AND LOANS (CONTINUED)

b) Loans	Consolidated and Institute	
	2004 £000	2003 £000
Instalments due within five years	4,176	3,885
Instalments not due within five years	21,319	22,284
	<u>25,495</u>	<u>26,169</u>
Amounts due within one year	721	675
	<u>24,774</u>	<u>25,494</u>

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

	Consolidated and Institute	
	2004 £000	2003 £000
Amounts payable under leases expiring : after more than five years	<u>3,414</u>	<u>3,297</u>

## 23. CAPITAL COMMITMENTS

	Consolidated and Institute	
	2004 £000	2003 £000
Authorised and contracted	<u>-</u>	<u>-</u>
Authorised but not contracted	<u>3,950</u>	<u>2,308</u>

## 24. CONTINGENT LIABILITIES

At 31 July 2004 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 2004 and current estimates of the eventual costs of rectification at the end of the lease periods are between £5m and £8m. The leases in question expire in 2021 (Emily Davis Hall) and 2024 (Hamwic). The Institute's annual spend on maintenance over the past three financial years has been £2.5m (2003-04), £2.2m (2002-03) and £2.6m (2001-02).

## 25. POST BALANCE SHEET EVENTS

The Governors are not aware of any post balance sheet events for which full provision has not been made.

**NOTES TO THE ACCOUNTS**

At 31 July 2004

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

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Surplus before taxation	662	995
Less interest receivable	(378)	(280)
	<u>284</u>	<u>715</u>
Add back interest payable	3,136	3,227
Surplus from Operating Activities	<u>3,420</u>	<u>3,942</u>
Release of Capital Grant	(654)	(579)
Depreciation	2,728	2,893
Increase in debtors	(2,633)	(100)
Increase/(Decrease) in creditors	2,296	(1)
Increase/(Decrease) in restricted reserves and provisions	183	(1,054)
Net Cash Inflow from Operating Activities	<u>5,340</u>	<u>5,101</u>

**27. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Interest Received	300	308
Interest Paid under Finance Leases	(1,147)	(1,165)
Other Interest Paid	(1,989)	(2,062)
Returns on Investments and Servicing of Finance	<u>(2,836)</u>	<u>(2,919)</u>

**28. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Purchase of Fixed Assets	(2,531)	(1,758)
Deferred Capital Grants received	1,445	448
	<u>(1,086)</u>	<u>(1,310)</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

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

	At 1 August 2003 £000	Capital Repayments In the year £000	At 31 July 2004 £000
HCC loan account	933	(197)	736
Barclays Bank Loan	1,829	(237)	1,592
Kimber College finance lease	5,382	(184)	5,198
Sir James Matthews Building finance lease	8,013	(13)	8,000
Deanery College loan	13,170	(237)	12,933
Chantry College Loan	7,526	(136)	7,390
David Moxon Annex Loan	3,644	(66)	3,578
	<u>40,497</u>	<u>(1,070)</u>	<u>39,427</u>

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

	2004 £000	2003 £000
Repayment of Loans	(873)	(811)
Repayment of Capital Element of Finance Leases	(197)	(180)
Funding Council Grant Reimbursement	197	305
	<u>(873)</u>	<u>(686)</u>

## 30. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2003 £000	Cash Flow £000	At 31 July 2004 £000
Cash	986	(114)	872
Short Term Deposit	5,610	649	6,259
Loans	(27,103)	873	(26,230)
Obligations under Finance Leases and hire Purchase Contract	(13,394)	197	(13,197)
	<u>(33,901)</u>	<u>1,605</u>	<u>(32,296)</u>

## NOTES TO THE ACCOUNTS

At 31 July 2004

## 31. ACCESS FUNDS

	2004 £000	2003 £000
Balance brought forward	25	19
Adjustment advised to HEFCE	(8)	-
	<u>17</u>	<u>19</u>
Funding Council Grants	620	730
Interest Earned	1	1
Loans Repaid by Students	9	5
	<u>647</u>	<u>755</u>
Disbursed to Students	(654)	(729)
Audit Costs	-	(1)
Balance (Over)/Unspent at 31 July	<u>(7)</u>	<u>25</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 Institute 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 Southampton Institute Students Union (SISU) is part of the normal operations of the Institute, as is the loan for an approved capital purchase by the SISU.

## Southampton Institute

	Payments to third parties through PSR client account £000	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000	Grants and Loans made to related party £000
Southampton Institute Students Union						
Trade		9		4		
Grant					26	309
Loan						7
Paris Smith & Randall (PSR)		2	23			