

Financial Statements and Statistics  
2017–2018



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**Consolidated Financial Statements for the year ended 31 July 2018**

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## Summary

The University of Southampton and Subsidiary Undertakings achieved a surplus of £30.8 million (5.3% of income) in the year to 31 July 2018 before actuarial gains from pension schemes generating a total comprehensive income of £53.3 million. The income generated for the year to 31 July 2018 decreased by £6.4 million to £582.7 million, a decrease of 1.1% compared with 2016/17. This year-on-year decrease was mainly due to the receipt of a large capital grant of £26 million from EPSRC for the National Infrastructure Laboratory in the previous year. The underlying increase in income, excluding the capital grant, was £19.6 million (3.5% of income) which is encouraging.

We have started the most ambitious investment programme in our 155-year history. Over the next decade, we plan to invest £600 million in our infrastructure and facilities – £300 million of which has already been raised through a highly successful 40-year public bond issued in April 2017. This year, we opened the first dedicated Centre for Cancer Immunology in the UK, which is located on the University Hospital Southampton NHS Foundation Trust site and was funded by philanthropy. In October 2018 the topping out ceremony was held on the top of the new Centenary building which will be numbered 100 to celebrate 100 years of the University on the Highfield site. The building will provide high quality, flexible teaching facilities including additional lecture theatres and it is due to open for the 2019/20 academic year. The final phase of the Boldrewood redevelopment, the construction of Block D/G, which will be home to the University's UKCRIC National Infrastructure Laboratory with state of the art teaching and research facilities is also progressing well.

In the spring/summer we received a flurry of good news, all pointing to the positive impact of our strategic and operational focus on quality: we rose 6 places in the Complete University Guide, 12 places in the Guardian University league table, 12 places in the Times Good University Guide, regained our place in the World's Top 100 in QS and were awarded a Silver in the Teaching Excellence Framework (TEF). Additionally, we had five subjects placed in the top 50 and Nursing is our first subject in the top 10 in the world in the QS World Rankings by Subject. All major achievements.

In July, we received the results of the 2018 National Student Survey (NSS), a key indicator of the experience that our final year students have had with us during their undergraduate studies. The focus and effort that we have put into improving the student

experience has been positively reflected in a gain of 1% in the Overall Satisfaction score to 84% (which is now higher than the national average for HEIs). This improvement compared with last year, and especially our improved position against many of our competitors, is further indication that our strategy is working. The hard work of colleagues, across the University, has led to improvements against last year in 20 of the 27 NSS questions.

## Financial Review 2017/18

### Income

The University of Southampton and Subsidiary Undertakings produced a surplus of £30.8 million (£40.3 million in 2016/17), which represents 5.3% of income (6.8% in 2016/17). Income decreased by £6.4 million (1.1%) to £582.7 million, mainly due to a decrease in research grants and contracts income with the 2016/17 results including the receipt of a capital grant of £26 million from EPSRC for the National Infrastructure Laboratory. The underlying increase excluding the capital grant was £19.6 million (3.5% of income).

Total income from tuition fees and education contracts has increased by £11.7 million (4.7%) from £247.5 million in 2016/17 to £259.2 million in 2017/18. Student numbers saw a small decrease from 23,669 to 23,453 full time equivalent as at the 1st December census. The entry tariff of our students increased in line with our strategy to raise the quality of our student intake.

Research grants and contracts income decreased by 14.8% to £116.6 million. However, if we exclude the 2016/17 capital grant from EPSRC for the National Infrastructure Laboratory, underlying income rose by £5.8 million (5.2%), reflecting a welcome growth in Research Councils, UK Industry, EU Grants and other overseas sources.

Other operating income declined to £117.7 million (£120.9 million in 2016/17). Income from residences, catering and conferences remained stable at £42.4 million. Income from consultancy, trading and other enterprise activities has decreased slightly by £0.6 million; and other income has declined by £2.2 million.

Investment income increased from £1.4 million to £3.0 million, with income from short-term deposits and investments increasing from £1.2 million to £2.7 million. This increase was primarily due to the increased cash levels held throughout the year, reflecting the cash proceeds from the public bond but also reflecting the 0.25% increase to UK base rate in November 2017.

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## Strategic Report (continued)

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Donations and endowment income increased from £6.4 million to £7.1 million. The Campaign for Cancer Immunology raised £4.0 million in 2017/18. This brought the total donations as at July 2018 to £23.4 million with outstanding pledges exceeding our £25 million target to fund the first dedicated Centre for Cancer Immunology in the UK. Further donations are being used to fund a young researcher talent scheme for cancer immunology.

### Expenditure

Expenditure increased by £8.5 million (1.6%) from £545.6 million in 2016/17 to £554.1 million. During the year, the University has focused on effective management of costs as part of the strategy to deliver long-term sustainability.

Staff expenditure increased by 1.2% from £300.9 million in 2016/17 to £304.5 million. Excluding the reduction associated with the USS provision release (see note 22) of £8.4 million (£9.6 million in 2016/17) and severance and early retirement payments, there was an underlying decrease in costs of £0.1 million. The decrease is due to the reduction in the average headcount from 5,875 in 2016/17 to 5,695 in 2017/18. The 2017 national pay award was 1.7% and around 40% of staff are entitled to annual pay scale increments of 3% in addition to this.

The University has been reviewing its headcount in targeted areas and has increased spend on severance and early retirement payments from £0.9 million in 2016/17 to £3.5 million in line with the quality and sustainability strategy.

Other operating expenditure increased by £10.8 million (5.8%) to £196.9 million (2016/17 £186.0 million). In April 2018, the University joined the Alan Turing Institute, a network of university partners who work alongside industry, government and third sector partners to spearhead cutting-edge research. The University has committed £1.0 million per year for five years and has accounted for the full £5.0 million commitment in 2017/18 under other expenses. Excluding the contribution to the Alan Turing Institute, other operating expenditure increased by £5.8 million (3.1%).

Office expenses and professional fees increased by £4.3 million (15.8%) mainly due to an increase in overseas agents commissions of £3.8 million reflecting our strategy to grow and diversify our international student recruitment.

The University has impaired two buildings as a result of the agreed Capital Programme at a cost of £2.6 million in 2017/18. These buildings are planned to be demolished as part of the redevelopment and investment in our estate.

The decrease in bursaries, scholarships and prizes is primarily due to the phased removal of the University's entitlement card scheme, a reduction in externally funded studentships and a change in focus of Office for Fair Access Agreement related spend from studentship support payments to outreach and success activity in accordance with OFFA strategy/requirements.

The depreciation charge has increased by £3.0 million (9.5%) to £34.9 million. This reflects the University's continued investment in its halls of residence, research facilities and teaching and learning space.

Interest payable and other finance costs have decreased by £9.0 million (33.7%) to £17.8 million. This includes a full year of interest payable on the bond of £6.8 million.

### Balance Sheet

Despite the continuing challenges of our pension deficits, our total net assets remain strong at £557.4 million (£504.1 million in 2016/17). In April 2017, the University significantly improved its resources available for investment through the issue of a 40-year public bond which raised £300 million. The bond will mature in 2057 and is subject to a fixed interest rate of 2.25%.

The University has significant funds to invest in substantially improving the estate over the next 10 years and plans to invest £600 million in our infrastructure and facilities. In the year to July 2018, we acquired or constructed capital assets with a value of £61.4 million. This year we opened the first dedicated Centre for Cancer Immunology in the UK based on the site of University Hospital Southampton NHS Foundation Trust. In October 2018, the topping out ceremony was held on the top of the new Centenary building which will be numbered 100 to celebrate 100 years of the University on the Highfield site. The building will provide high quality, flexible teaching facilities including additional lecture theatres and it is due to open for the 2019/20 academic year. The final phase of the Boldrewood redevelopment, the construction of Block D/G, which will be home to the University's UKCRIC National Infrastructure Laboratory with state of the art teaching and research facilities is also progressing well.

Our cash and cash equivalents rose by £145.8 million whilst our investments decreased by £108.5 million as we prepare to move funds into longer term investments. The total of cash in hand and short-term deposits (less than three months) is £261.7 million which is more than sufficient to meet our treasury policy requirements of holding more than two months payroll costs

(approximately £52 million) in funds that are available within three months. Our cash inflow from operating activities decreased to £81.9 million (£89.9 million in 2016/17) but was higher than our target due to an increase in creditors where funds received for projects partners increased and the commitment to the Alan Turing Institute is included for the first time.

There are no capital repayments to be made over the term of the bond, with full repayment due in 2057. An investment plan has been put in place to repay the bond in full at its term. The long-term finance lease commitment relating to Mayflower halls has decreased from £47.8 million to £47.5 million and the long-term element of our bank loans have decreased from £70.4 million to £67.6 million reflecting planned repayments. The financing arrangements are held with three commercial banks with final repayments due from 2019 to 2037. Further information on this and the rates payable are outlined in note 21 to the financial statements.

The pension liability of the University of Southampton Pension and Assurance Scheme (PASNAS) fund has decreased by £12.7 million to a deficit of £91.8 million. The main reason for the decrease in the deficit is the increase in discount rate from 2.7% per annum to 2.8% reflecting the changes in bond yields over the year and the reduction in inflation and salary increase assumptions reflecting changes in expectations for future inflation. These changes in assumptions have contributed to the £12.7 million positive impact on the scheme deficit. All other assumptions remain unchanged from 31 July 2017. The triennial valuation of the scheme is underway as at 31 July 2018.

During 2018, the University undertook a statutory consultation with members with a view to make changes to the scheme. Following this consultation, PASNAS will close to new members on 1 January 2019 and a new defined contribution scheme will open on 1 January 2019 for new entrants. The new scheme will offer flexible contribution rates for members, ill health provision and enhanced death in service cover.

The 2017 triennial valuation of the Universities Superannuation Scheme (USS) continues with the USS Trustee's actuarial report identifying an increase in the scheme deficit to £7.5 billion from £5.3 billion in 2014. A consultation is underway proposing a phased increase to contributions under the cost sharing rule with member and employer contributions rising to 11.7% and 24.9% respectively by April 2020. Over the summer an independent Joint Expert Panel (JEP) was convened to examine the valuation

assumptions and process and their report was published in September 2018. The JEP made a number of recommendations in respect of the assumptions used in the 2017 actuarial valuation which, if adopted, would require member and employer contributions to rise instead to 9.1% and 20.1% respectively. The increasing USS deficit remains a significant risk for the University and we continue to engage with Universities UK who represent universities in the discussions. With no formal agreement to the 2017 valuation, we continue to show our current commitment to the deficit recovery plan agreed as part of the 2014 valuation process.

The University of Southampton Science Park supports the long-term strategy of the University by providing opportunities for our research to spin out into enterprise activities, for student work experience during studies and for student employment when they graduate. The Science Park also makes a significant contribution to the economic growth and social development in both our city and region. During the year, total occupancy levels increased to approximately 86%, up from 84% in July 2017. Turnover was £4.7 million (2016/17 £4.4 million) and there was a profit before covenant payments and taxation of £1.6 million (2016/17 £0.7 million loss). The annual revaluation of the park showed a small increase of £0.3 million as occupancy of the new Benham 5 building has increased to 62% at July 2018.

In June 2018 Professor Rebecca Taylor was appointed as the new Chief Executive Officer of the University of Southampton Malaysia (USMC). Professor Taylor will also serve as Pro Vice-Chancellor (ASEAN) for the University, taking a leading role in engaging partner organisations and representing the University in the ASEAN region. Now in its sixth year of operation, USMC offers split campus (UK and Malaysia) degree programmes as well as postgraduate research opportunities in engineering within the EduCity development in Iskandar, Malaysia, the nation's economic zone located in Johor just minutes from Singapore.

## Strategic Report (continued)

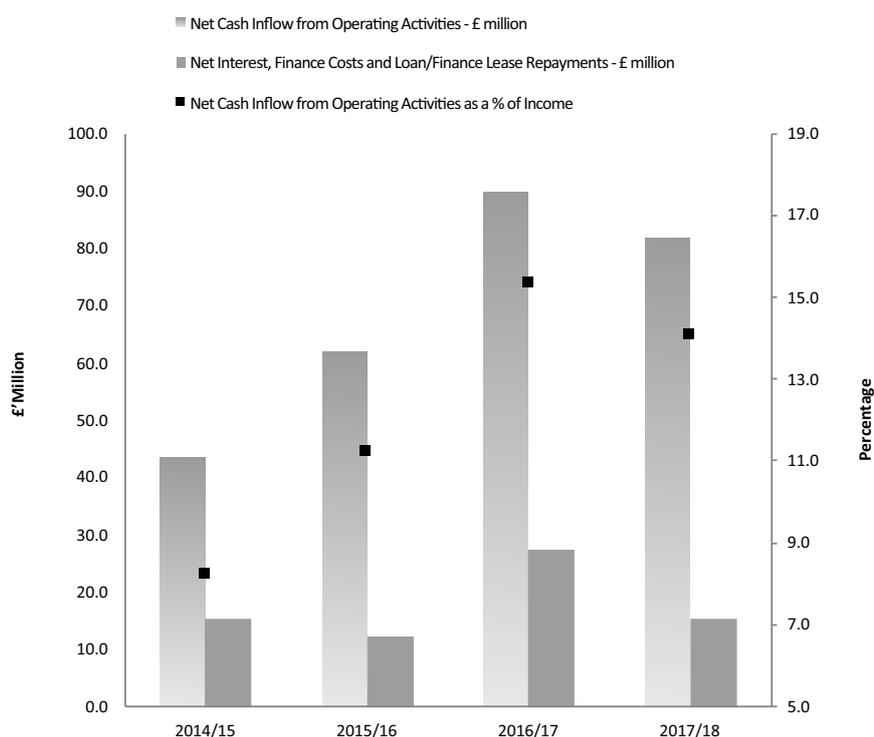
### Financial Data

Financial performance is monitored throughout the year to ensure that it is in line with agreed budgets and the overall strategy.

Financial Measure on a consolidated basis	2017/18 Target	2017/18 Achievement		2016/17 Target	2016/17 Achievement	
Operating cash flow	£48.4m	£81.9m	Outperformed	£48.4m	£90.0m	Outperformed
Staff Costs as a % of Income	Less than 56.2%	52.2%	Outperformed	Less than 56.3%	51.1%	Outperformed

### Net Cash Inflow from Operating Activities 2014/15 – 2017/18

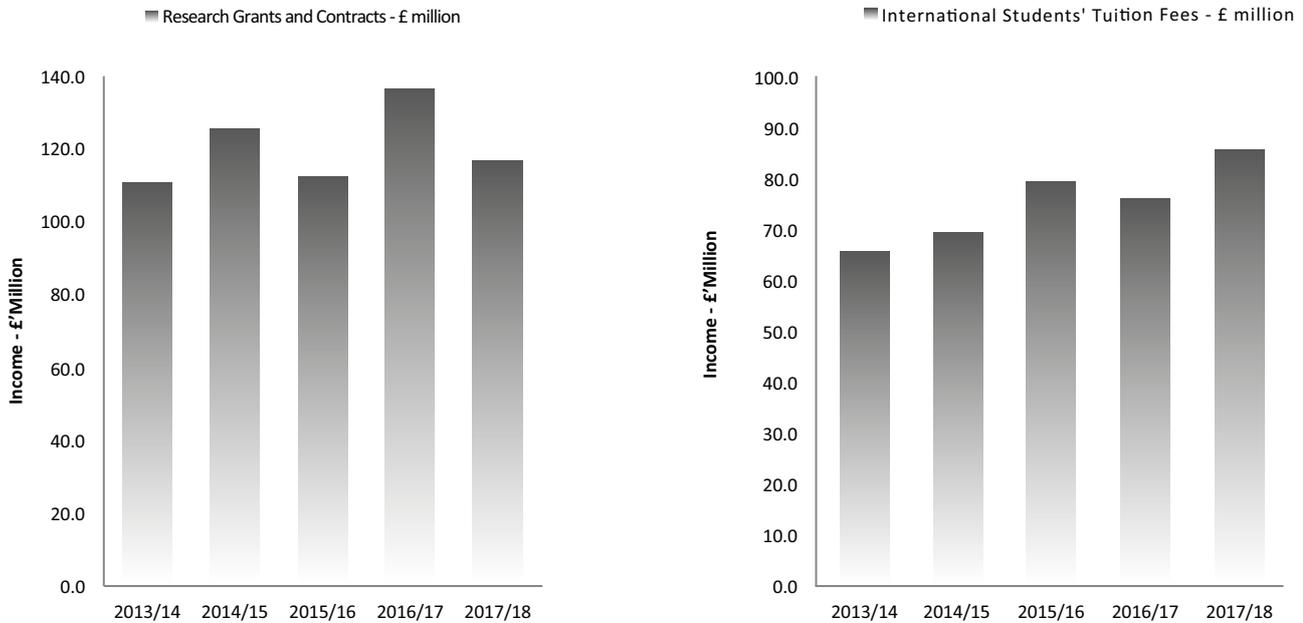
The net cash inflow from operating activities is the amount of cash generated by the University and Subsidiary Undertakings before external financing costs and investment. The net cash inflow from operating activities in 2017/18 of £81.9 million includes a decrease in debtors and an increase in creditors. The increase in creditors reflects increased funds received for project partners and the new commitment to the Alan Turing Institute. The increase in operating cash flow of £81.9 million against the target of £48.4 million reflects the decrease in debtors and increase in creditors and also includes an increase in the predicted surplus of £14.2 million where strong financial management has driven increased financial performance in line with our quality and sustainability strategy in preparation for the future financial challenges of the sector.



**Research Grants and Contracts and International Students’ Tuition Fees 2013/14 – 2017/18**

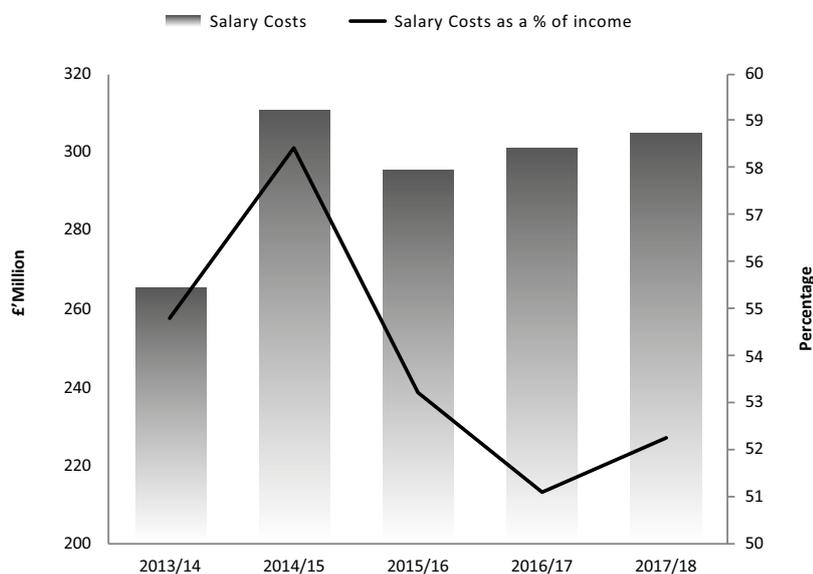
Research grants and contracts earnings and international students’ tuition fees are two key sources of income. Research grants and contracts income was £116.6 million in 2017/18 compared with £136.9 million in 2016/17 although the 2016/17 result included a £26.0 million capital grant from EPSRC. In 2014/15 the University benefitted from income of £11.3 million from RDEC.

International students’ tuition fee income increased by £8.8 million to £87.1 million in 2017/18.



**Salary Costs as Proportion of Income 2013/14 – 2017/18**

Salary costs as a proportion of income was 52.2% in 2017/18 against a target of 56.2%. Staff costs have increased slightly by £3.6 million to £304.5 million in 2017/18. Focus on controlling staff costs is a major part of the University strategy for the future and during the year the University has been reviewing its headcount in targeted areas and has increased spend on severance and early retirement payments from £0.9 million in 2016/17 to £3.5 million in line with the quality and sustainability strategy.



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## Strategic Report (continued)

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### **Our mission: to change the world for the better**

The University of Southampton is an exceptional place whose people achieve remarkable things. We are a world-leading, research-intensive university, with a strong educational offering, renowned for our innovation and enterprise. This is a great platform from which to sharpen our focus with our new strategy.

It's a very simple strategy. It's about our aspirations. It's about building our reputation. It's about being simply better than our competitors at what we do.

### **The University Strategy**

We will strengthen our reputation, increasing our national and international rankings to secure a position in the top 10 in the UK and top 100 internationally.

Our ranking increases our reputation and our reputation increases our ranking.

A reputation for delivering excellence and an exemplary student experience will lead to greater demand from the best student applicants, sustained support from research funders and strong support from our alumni.

### **Our core principles**

Central to the success of our strategy and underpinning all of our activities are four principles:

**Collegiality:** one team working, planning and delivering together, toward our shared vision.

**Quality:** always striving to achieve the highest quality in everything we do.

**Internationalisation:** delivering across global markets and building strong partnerships with other leading organisations.

**Sustainability:** ensuring our actions lead to financial, social and environmental sustainability.

We will develop graduates who are confident global citizens, equipped to make a positive contribution to the world. Our knowledge and technologies, developed through our research and applied through our enterprise, will have real economic and social benefit for the world. People will choose Southampton because of its reputation for quality and to play a part in changing the world. Our staff will say it is a great place to work, where they are encouraged to be creative and are part of a team that achieves more together.

Our student satisfaction will be among the highest in the country, reflected in the National Student Survey. Our graduate prospects will be among the best. Our entry tariff will reflect our reputation as a leading university, with completion rates and good degrees reflecting our commitment to fully developing the potential of our students. Our world-leading research will underpin an excellent Research Excellence Framework position. We will achieve all of this while improving our sustainability and generating a surplus that allows us to invest in our University.

To enhance our ability to change the world we will ensure our research is of the highest quality, that it underpins our education activities and that we generate the level of funding that maximises the volume of research that we can sustainably undertake.

To compete with the very best we will embed an international dimension in all aspects of our strategy. Internationalisation will permeate our academic endeavours, our community and our operations, enhancing the quality and impact of our education and research.

### **2018-2021 Building momentum with our strategy**

With a continuing, essential focus on quality and sustainability, we will transform our staff and student experience through:

**Delivery of a high-quality campus** for students, staff and visitors.

**Transformed IT infrastructure** with smarter, simpler systems and processes.

**A new globally accessible website** that showcases our strengths and enables us to engage and attract more high quality prospective students, research funders and partners.

**Continued effort to make our University more effective** following the restructure, as we deliver against our Research, Education and International strategies and shape the professional services in support of our strategy.

## Major Financial Risks

During the year, the University has been focused on effective management of costs as part of the strategy to deliver long-term sustainability.

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

A comprehensive financial risk assessment was considered by Council in setting the 2018/19 University budget. The major risk areas are summarised below:

Area:	Risk:	Mitigating action:
<b>Student income</b>	Actual student income for 2018/19 may fall below the business plan target, therefore reducing forecast income streams.	Recruiting student numbers to planned levels will be a core part of the University's Confirmation and Clearing strategy.
	Planned student numbers may not be achievable without reducing student quality.	The draft budget includes a provision for potential under recruitment against plan. Recent TEF and league table improvements will help recruitment.
	The business plans do not take account of any changes in regulations, demand or the availability of funding as a result of the UK leaving the EU.	Governmental negotiations are underway and there is still very little clear information regarding the UK's future relationship with the EU.
	The Government is currently undertaking a review into tuition fees for UK universities which will inform future policy. There is a risk that this could result in a continuing freeze or reduction in the maximum fee for arts and humanities subjects.	Delivery of the University's sustainability strategy will put the University in the strongest position possible to be able to cope with inflationary erosion.
<b>Research grants and contracts income</b>	The University may fail to achieve the planned levels of external research funding.	Maximising research income is a key performance indicator. The Research Strategy will support delivery.
	The business plans do not take account of any changes in regulations, demand or the availability of funding as a result of Brexit.	The University will continue to engage with the Government to press for commitment to UK science and research and for clarity regarding participation in H2020 post Brexit.
<b>Staff costs</b>	There is a risk that national pay awards or staff costs will increase above the assumptions included in the business plan.	The Universities & Colleges Employer Association (UCEA) have made a final offer in May 2018 of a 2% uplift from August 2018 with lower pay scales receiving higher increases of up to 2.8%.
	University pension schemes may become unaffordable or unsustainable. USS consultation on cost sharing increases employer contributions from 18% to 24.9% by April 2020.	We will closely monitor developments regarding the USS valuation review and potential future changes to contributions.  The PASNAS scheme will be closed to new members from 1 January 2019 and a new defined contribution scheme provided for new eligible staff. Decisions regarding future PASNAS contributions will be taken following the 31 July 2018 triennial valuation due Spring 2019.
<b>Sustainability</b>	There is a risk that operating cash flow will fall below the amount required to generate sufficient funding for future capital investment.	The £300 million bond proceeds, existing cash reserves and the level of ongoing operating cash generation should be sufficient to fund the capital investment programme for the next five years.

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## Strategic Report (continued)

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### Future Plans

In September 2018, the President and Vice-Chancellor, Professor Sir Christopher Snowden, announced his decision to retire in Spring 2019. The formal process to appoint a successor has been launched by the new Chair of Council, Philip Greenish, who stated 'Our strategy and ambitions are clear, and we will ensure a smooth transition to [Sir Christopher's] successor next year, who will continue our exciting transformation journey'.

Over the next decade, we plan to invest £600 million in our infrastructure and facilities, ensuring that Southampton is a university of choice, meeting the needs of our students and staff.

We will maintain our strong focus on sustainability through the management of costs, enhanced productivity, capital and IT investment and the generation of operating cash flows that are sufficient to support future capital investment. Through a focus on our sustainability, we will ensure we can generate the funds we need to continue to invest in our ambition to change the world for the better through our teaching, research and enterprise.

### Conclusion

The University and Subsidiary Undertakings had another successful year with total income at £582.7 million. Although this was lower than the previous year, the underlying income, excluding the 2017/18 large capital grant from ESPRC for the National Infrastructure Laboratory, showed an increase of £19.6 million, a 3.5% growth. Income from tuition fees and education grants increased by £11.7 million (4.7%) whilst research contracts from UK Research Councils and UK Industry increased by £3.1 million (5.8%), which was encouraging. The University and Subsidiary Undertakings again outperformed both of its key financial measures and achieved a surplus of £30.8 million, representing 5.3% of income.

The net cash inflow from operating activities continued to be strong at £81.9 million, which allowed us to invest over £61 million in new buildings and equipment. This included the significant construction work on the new Centenary building, which will provide high quality, flexible teaching facilities including additional lecture theatres. The building is expected to be available for the start of the 2019/20 academic term.

The continued strategic and operational focus on quality also achieved significant dividends during the year. We regained our place in the QS World's Top 100 University ranking and were awarded a Silver in the UK Teaching Excellence Framework (TEF).

We had five subjects placed in the top 50 in the world in the QS World Rankings by Subject. In the UK, we rose 6 places in the Complete University Guide, 12 places in the Guardian University League Table and 12 places in the Times Good University Guide. Finally, the National Student Survey showed a 1% increase in the overall satisfaction of our students to 84%. These achievements are a true testament to both the skill and hard work of all our staff in delivery of the strategy in the current changing education environment.

David Price  
University Treasurer

## Introduction

The University is a corporation formed by Royal Charter and holds charitable status. Our aims, powers and the governance framework within which we operate are set out in our Charter, Statutes and Ordinances.

Governance of the University is overseen by the Council and the Senate. These bodies are responsible for approving our mission and strategy, monitoring our performance, scrutinising our finances and directing our academic functions. In fulfilling this role, Council has had due regard to the Charity Commission's guidance on public benefit. This section outlines the ways in which the University has delivered its charitable purposes for the benefit of the public.

A founding member of the Russell Group of research intensive universities, the University has a reputation for excellence in research and education, which is reflected in our consistently high international league table rankings.

The University improved its rankings in every national and international league table this year. We were placed 96<sup>th</sup> in the world in the QS World University Rankings 2019, and 17<sup>th</sup> amongst UK universities listed. Additionally, we had five subjects placed in the top 50 and one in the top 10 in the world in the QS World Rankings by Subject.

In the UK, we were ranked 20<sup>th</sup> in The Complete University Guide 2019, with 11 of our subject areas in the top 10. The University was ranked 23<sup>rd</sup> in the Guardian League Table, with 10 subjects in the top 10. We were ranked 18<sup>th</sup> in the Times Good University Guide, with 13 of our subject areas in the top 10. With a 12 place rise we were identified as "amongst the biggest at the business end of the list. Its rankings have improved on almost every measure, including entry standards."

In June, the University was again ranked 11<sup>th</sup> in the world in a list of the world's best universities founded between 1945 and 1966. In the Times Higher Education's ranking of 'Golden Age' universities, Southampton was placed second in the UK.

We invest significantly to provide a relevant, flexible education for our students. This year the University improved its overall satisfaction score in the National Student Survey (NSS) 2018 to 84%, ahead of the sector average. The improvement is a reflection of the University's strategy and concerted effort to enhance

academic support, learning resources, teaching management, assessment, personal development and satisfaction.

Our leading-edge research continues to change the world for the better, making a positive impact on individuals, communities and the economy.

Our work with businesses and industry has led us to be ranked as the top placed university in the UK for the value of our business partnerships through consulting services, and second for facilities income. The value of our partnerships with small and medium-sized companies is ranked 4<sup>th</sup> in the UK.

We work with businesses to foster innovations that address some of society's greatest challenges and we actively encourage enterprise activities. Southampton has again been named one of Europe's Most Innovative Universities by Thomson Reuters, the world's largest international multimedia news agency. We were ranked 70<sup>th</sup>, an improvement of 8 places on last year and one of only 21 UK universities to feature in their ranking of Europe's top 100 innovative universities. The list identifies the higher educational institutions that are doing the most to advance science, invent new technologies, and help drive the global economy.

## Student education, admissions and widening participation

The University offers a distinctive education in a modern learning environment underpinned by world-class research. Compared to most universities of our type, we offer more choice and flexibility in study options and support our students as they prepare for employment and life after university. Our programmes are designed to challenge our students to develop the critical thinking and independent learning they require in their future careers.

Student feedback is of paramount importance to the University. We gather student feedback through a number of different channels and in 2017/18 we expanded how we gather feedback by running two open student forum events. The student forums are an opportunity for any student to provide feedback directly to a panel, which includes the Vice-Chancellor, President of the Student Union and the Executive Director of Student Experience. All feedback received at the forum is collated and a commitment is made to the student community that all feedback will be responded to within six weeks of the forum taking place. The responses are published to the whole student community after

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## Public Benefit (continued)

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this six week period. In 2017/18 153 students registered to attend the forums, however students can also drop-in to the event without registering so in many cases attendance was higher. A total of 58 pieces of unique feedback were collated during the forum, all of which were responded to within six weeks in order to enhance the student experience. Examples of changes made as a result of this feedback include the introduction of free hot water across campus and the reduction in University printing costs to students.

The University delivers a proactive and preventative model to support student mental health and wellbeing. This is achieved through the delivery of 24/7 student support services where colleagues from across the University work together to provide proactive and reactive support to our student community. Students are able to speak to a member of staff at any time of day, as well as access triage and support services such as our daily drop in. In 2017/18 1,895 students were seen through drop-in with 72% of all enquiries relating to mental health. Following a successful pilot, the University has been able to actively monitor student engagement in their studies and identify where students may be disengaging. Through this pilot with two Faculties we have identified 1,290 incidences of student disengagement, with 69% of all students re-engaging in their studies after intervention. This monitoring will be implemented University wide in 2019. For students who do need more specialist support we provide a range of opportunities including Counselling (1214 appointments delivered in 2017/18), Hypnotherapy (536 appointments delivered) and First Support, who liaise and support students directly in crisis (1,670 referrals in 2017/18).

We have a strong track record in supporting access and achievement by students from under-represented groups. We were one of the first universities to introduce a Widening Access to Medicine programme (BM6) and based on our excellent collaborative relationships, we lead the National Collaborative Outreach Programme for Hampshire, Dorset and the Isle of Wight through the Southern Universities Network.

We are committed to widening participation and ensuring that all students with the potential to succeed, regardless of their background, are encouraged to apply to study with us. Through using additional information gained through contextual data, our admissions teams are able to recognise a student's achievements and identify their potential to succeed in the context of their background and experience.

We work closely with schools, colleges, community groups and other third sector organisations to encourage prospective students to consider higher education. Young people and mature learners are able to make more informed choices about higher education through programmes developed by our Student Recruitment and Outreach team. Working with over 17,000 young people and adults in primary schools, secondary schools, sixth form colleges and community settings across the region, we deliver a wide range of workshops and activities to support learners.

Through our Learn with US outreach programme we take a long-term and targeted approach to raising the aspirations of the young people we engage with. This programme is linked to our Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups. This includes students from areas where there is low participation in higher education, or who are the first generation of immediate family to apply to higher education, or who live, or have grown up in local authority care.

Our groundbreaking Learn with US transition programme provides unique support for sixth-form students to develop their research skills, including support for the Extended Project Qualification (EPQ). Its research-active members of staff also provide schools and colleges with taster lectures, seminars and project days to tap into students' curiosity and scholarship. We were the first Russell Group university to make an alternative offer based on students attaining an A or A\* in the EPQ and now make the offer for a majority of our courses.

The impact of our commitment to widening access and student success has been evidenced in our performance indicators for UK students. We have performed consistently well in recruiting state school students. In 2016/17 86.6% of our undergraduates were from a state school and 7.1% were from low participation neighbourhoods. In the last decade, we have also significantly increased our proportion of first-year undergraduate black and minority ethnic students from 10.2% in 2008/09 to 19.9% in 2016/17.

**Public Benefit (continued)****Public and community engagement and culture**

As the second biggest employer in the region, and home to more than 24,000 students from more than 120 countries, the University touches every area of Southampton city's life - including working with business partners and incubating city entrepreneurs, enriching the city's arts and culture offerings, providing employment opportunities to more than 6,000 people, funding a core element of the city's public transport infrastructure, and playing a key education and research role in the city's health and healthcare. As a global powerhouse of knowledge and discovery, the University provides a window to the world, and opportunities for investment, for one of the UK's most famous maritime cities. The far-reaching impact of the University of Southampton on the city's commercial, cultural and civic life is a key element of Southampton's continuing rise in the PwC Good Growth Index - placed 3rd in 2018.

The fast-growing and vibrant city of which we are such a driving force provides an attractive proposition for a large number of our students following graduation. Many of our alumni remain in the region providing a skilled workforce and contributing professionally to the city, region and country.

The University is proud to host three Arts Council England National Portfolio Organisations - John Hansard Gallery, Turner Sims Concert Hall, and Nuffield Southampton Theatre, providing a concentration of artistic and cultural activity at the University, which is unique in the UK.

In May 2018 the John Hansard Gallery officially opened in its new purpose-built home at Studio 144 in Southampton City Centre. The move is a sea change for John Hansard Gallery, tripling its size and enabling the University to realise its public-facing, community engagement and artist-focused ambitions. The University of Southampton has a long and distinctive history as a supporter and provider of world-class arts and culture for the benefit of all. We have this extraordinary opportunity to play an even greater role in Southampton's cultural life from this new home in the city's Cultural Quarter. Studio 144 is a high-profile addition to the city's burgeoning arts scene and a keystone in its cultural offer, positioning the Gallery, the University and Southampton, as a dynamic and inspiring arts destination in the UK.

The University of Southampton and Arts Council England (ACE) recently signed the first memorandum of understanding between a Russell Group university and ACE. Chief Executive of Arts Council England, Darren Henley said it was, "an endorsement of

the University's commitment to arts and culture - and is one step further in recognising Southampton as a future cultural hot spot."

We work closely with our Students' Union, local agencies and neighbours to promote the positive benefits of the University's presence in the community including the many volunteering activities of our staff and students.

Members of the public use the University Library for reference, without charge; and we offer borrowing rights to a number of community groups. Our Library houses a large and valuable collection of archives, including the Wellington Papers and the Broadlands Archives.

**Outreach and public engagement**

The University continued to expand its outreach and public engagement activities in 2017/18.

In partnership with the University, the Brilliant Club recruited and placed doctoral and postdoctoral researchers in non-selective state schools as tutors to share their expertise. Through its Scholars Programme, researchers have delivered university-style tutorials to small groups of pupils, from Year 6 through to Year 12. The university-style learning experience provides the participants with the knowledge and skills that will help them secure places at highly selective universities.

Our annual Bringing Research to Life roadshow continues to tour regionally and nationally between March and September, showcasing a diverse selection of Southampton research. It reaches over 20,000 visitors annually, with invaluable support from an enthusiastic team of volunteer research-communicators and undergraduate student ambassadors.

Southampton Science and Engineering Festival (SOTSEF) 2017 ran for an entire week from 10-19 March to coincide with British Science Week and attracted over 7,000 visitors - the largest event of its kind in the South of England. There were different science activities happening across the city of Southampton throughout the week. The largest and most anticipated event of SOTSEF was the fifteenth annual Science and Engineering Day.

To complement the SOTSEF, the University also runs the Human Worlds Festival (aligned with national 'Being Human' events) during November 2017 on the theme of 'Lost and Found', including a Hands-on-Humanities Day which attracted many family groups.

## Public Benefit (continued)

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Following the success of our first Public Lecture Series, in 2016, on the subject of health and healthcare, our 2017 series focused on the theme of environment. Three lectures on Sustainable Cities, Food Security and Oceans and Climate were headlined by world-leading experts from Southampton as well as their international partners. The audiences included the public, students, alumni, policy-makers and media and were live streamed from the venues.

Two new themed public engagement hubs ‘Nature & Biodiversity’ and ‘Community Health & Wellbeing’ are helping to connect students and staff with individuals and groups beyond the University, to generate new ideas, activities and projects together. We have seen particularly strong external interest in the Health & Wellbeing Hub, which has around 100 members, with just over 50% from outside the University.

Our innovative LifeLab project, overseen by academics in Medicine and Education, helped 2,167 school children from Southampton and the surrounding areas learn about science and health, through visits to our hospital-based classroom and laboratory facility in 2017/18.

Our Talk to US! project was one of 12 School-University Partnership Initiative (SUPI) projects funded by UKRI, through which 25 schools and colleges, one home education group, 40 individual teachers, educators and school staff, 560 school pupils and research staff across four faculties collaborated to develop and participate in eight interactive projects.

Since January 2017 our School-University Partnership Officer has received and responded to over 100 requests for research interaction from over 70 individual schools, colleges and youth groups; received over 160 requests from University staff and students to work with local schools; supported over 40 activities and events (including some with long-term, sustained researcher-pupil interaction) as a direct result of these requests with another 30 in progress/due to take place in the future.

Talk to US! also led to the creation and distribution of the Building School-University Partnership Guide book, fast becoming the definitive text on partnership working, with 750 copies distributed to schools and universities world-wide and the online version has received 1,383 page views from 548 users in 21 countries.

In September 2017 the University of Southampton launched a new strategic partnership for public engagement with the Winchester Science Centre and Planetarium, inspired by a shared vision to change the world for the better by revolutionising

public engagement for the enhancement of knowledge and understanding of science.

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## Social impact

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The University contributes to health and wellbeing in the region and more widely through our research and education programmes. We train doctors, nurses, midwives, other allied health professionals, health visitors and school nurses – many of whom live and work in the region. In addition our excellent sports facilities are open to members of the local community and schools.

We have a close relationship with hospitals in the region and University medical staff work alongside colleagues at University Hospital Southampton NHS Foundation Trust in translational research, offering patients novel and effective treatment options in many specialist areas.

The University of Southampton has a strong commitment to arts, culture and creativity, which we reaffirmed through our new Arts Strategy (2018-22). At the heart of the strategy is the University’s pledge to continue to contribute to Southampton’s growing cultural reputation, and to “animate the city” through its inspiring arts and culture programme.

Turner Sims Southampton, part of the University, is to receive over £315,000 for an ambitious scheme to significantly raise the aspirations of emerging and professional jazz artists, standards of performance, composition and promotion across the UK’s Southern regions. Turner Sims will now launch the 3-year talent development programme *Jazz South*, the only music project in the country selected within the final round of the Arts Council England’s Ambition for Excellence programme fund. Through *Jazz South*, established and emerging artists, and gifted and talented children and young people, will work with promoters and leading UK and international figures. New work will be commissioned, and talent and excellence developed through masterclasses and residencies.

The University has signed a new collaborative agreement with Southampton Football Club to bring the two organisations closer together and explore possible activities of mutual benefit. The football club and the University will look to identify opportunities for co-operation and joint research and development across a range of disciplines.

**Public Benefit (continued)****Research impact**

This year, we successfully achieved and exceeded our aim to raise £25 million to build the country's first dedicated Centre for Cancer Immunology. Construction of the Centre is complete and our research teams have moved in. In such a short space of time, this is a hugely impressive result.

In February, the University was represented at Buckingham Palace at an official ceremony to award a prestigious Queen's Anniversary Prize for Higher and Further Education for world-leading work in photonics and optical fibre technology. The award recognises many decades of inspired innovation, contributions to wider society and highly regarded work by our renowned Optoelectronics Research Centre.

Southampton's Professor Dame Wendy Hall co-chaired the review 'Growing the Artificial Intelligence Industry in the UK'. It analysed the UK's current capability in AI and sets out bold proposals for how the UK can stay ahead of the competition and ensure the adoption of cutting-edge AI brings with it substantial benefits for people and businesses across the country.

The University is one of seven UK universities to lead pioneering research into the next generation of battery technology as part of the new £65 million national Faraday Institution. The Institution will drive and accelerate fundamental research in developing battery technologies and their real-world applications.

The University is part of a national consortium to provide the global aerospace community with a centralised point of engagement to the UK's top university aerospace research capabilities. The National Aerospace Research Consortium (NARC) embraces the full aviation spectrum (airlines, aircraft, airspace and airports).

The University was invited to join the Alan Turing Institute for data science and artificial intelligence. Membership will support research across the University and help contribute to advances benefitting the world.

As world leaders in research and education in Marine and Ocean Science, the University of Southampton is tackling the most pressing scientific questions about our aquatic world – from the coast to the deep ocean. Southampton graduates, turned academics, Dr Jon Copley and Dr Cathy Lucas were asked by the BBC to be scientific advisors on the BBC's latest Blue Planet series.

**Research highlights 2017/18**

A significant discovery in efforts to develop a vaccine against Zika, dengue and Hepatitis C viruses that affect millions of people around the world. Southampton researchers have shown that natural killer cells, which are a fundamental part of the body's immune system, can recognise many different viruses including global pathogens.

A study led by scientists in Biological Sciences has unearthed findings which could support the creation of the first vaccine for the deadly Lassa virus. This highly infectious agent is amongst a panel of viruses, which includes Ebola, which cause severe haemorrhagic fever in humans.

Research suggests that the average temperature of Earth's atmosphere and oceans will be abnormally warm over the next five years. Dr Florian Sévellec's study undertaken with the Laboratoire d'Océanographie Physique et Spatiale in Brittany reveals that until 2022 global temperatures are likely to be above the current trend, largely due to the decreased likelihood of extreme cold events.

Development of a nose drop containing a type of 'friendly' bacteria that could help prevent meningitis and other infections. Professor Robert Read, director of the NIHR Southampton Biomedical Research Centre, and his team have inserted a gene into a harmless bacterium that will be able to live inside the nose. It is hoped that the modified bacteria will protect against the bacterial species responsible for causing a severe type of meningitis.

Using state-of-the-art imaging to predict which patients with early age-related-macular-degeneration (AMD) are at more risk of blindness. Professor of Ophthalmology Andrew Lotery's international research team has received nearly £4 million funding from the Wellcome Trust to explore what makes early AMD progress towards visual loss.

Evidence that exposure to air pollution in early life has detrimental long-term health consequences. Researchers found direct geographical correlations between coal consumption in the 1950s and deaths caused by respiratory and cardiovascular disease, as well as certain cancers, in England and Wales over the subsequent six decades. The data presented also has implications for the long-term health of the populations of countries that still depend on large amounts of coal for their domestic markets.

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## Public Benefit (continued)

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A 'risk score' that has been devised to help frail older people have better support in hospital. Using the concept of frailty, which captures vulnerability, the risk score will help identify older people who are more vulnerable. This will help commissioners and hospitals identify this group of people, evaluate their outcomes and improve services to be more responsive to their needs.

The first visual representation of the complex and sophisticated nature of merchant trading routes and maritime ports operating during the late medieval and Tudor periods, created by historians at the University. The website and maps give a fascinating insight into the structure of shipping in England and Wales during what was a period of fundamental importance to our history, a time when the seeds of maritime empire were sown.

Award-winning work by Dr Denise Baden in Southampton Business School is promoting sustainable practices in the UK's hairdressing industry to reduce its carbon footprint and cut costs. Adopting eco-friendly practices could save the average four-seat salon 286,000 litres of water, 24,150 kWh of energy and £5,300 a year.

World-leading immunologist, Professor Freda Stevenson was recognised by The American Society of Hematology with the 2018 Henry M. Stratton Medal for her seminal contribution to haematology research – becoming the first person from the UK to win this prestigious honour. Professor Stevenson has been at the forefront of cancer immunology research for over 40 years, where she has led, shaped and continues to pioneer ground-breaking research in understanding how to engage the immune system in the fight against lymphoma, for which Southampton is widely recognised.

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## Economic Impact

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An economic impact assessment of the University published in June shows that it benefits the regional Hampshire economy to the tune of £1.3 billion annually and the city of Southampton specifically by £0.9 billion. On a national scale it contributes £2.5 billion to the economy. The findings, by independent economic consultancy, BiGGAR Economics, are based on information from the 2015/16 financial year. Their report reflects the economic impact of the University on three specific areas: the city of Southampton; the region, as represented by the geographic areas of the Solent and Enterprise M3 Local Enterprise Partnerships; and the UK nationally.

The findings highlight the wider impact of the University through its supply chains and networks; for example, it reveals that whilst the University directly employs around 6,000 staff it supports the employment of over 14,000 in the city. The study indicates that the University had a total impact in 2015/16 of:

£0.9 billion Gross Value Added (GVA) and 14,000 jobs in Southampton;

£1.3 billion Gross Value Added (GVA) and 19,800 jobs in the region;

£2.5 billion Gross Value Added (GVA) and 32,900 jobs nationally.

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## Principles

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Southampton is a world-class university built on the quality and diversity of our community and our mission is to change the world for the better. We value excellence and creativity, supporting independence of thought and the freedom to challenge existing knowledge and beliefs through critical research and scholarship.

Our four core principles are collegiality, quality, national and international reputation, and sustainability.

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. In light of the obligation to report on measures to ensure that all parts of our business and supply chain are slavery free, we continue to review our workplace policies and procedures to assess their effectiveness in identifying and tackling modern slavery issues.

Our workplace policies and procedures will demonstrate our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains.

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## Creating a sustainable organisation

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Sustainability is a central principle in the University's strategy. We lead activities on our campuses to reduce our environmental impact, and our students and staff work together to deliver improvements that lower our energy usage, minimise waste and promote biodiversity.

The integration of sustainability into our taught curriculum ensures that we provide our students with an opportunity to engage in important issues, equipping them with the skills to

**Public Benefit (continued)**

contribute to a low carbon, sustainable society.

In July 2017, our Environmental Management System was re-certified to the ISO 14001:2015 standard. This is an internationally recognised standard for environmental management and through the certification process we were praised for the considerable effort that we continue to put into managing our environmental impacts.

We recognise that as a research-intensive university there is a tension between carrying out our work and minimising environmental impacts. Our carbon emissions over the last year remained stable compared to the previous year, and our emissions per staff and student full-time equivalent (FTE) on our campuses is 18% below our 2005/06 baseline. We continue to look for, and invest in, opportunities to lower our emissions.

The University delivered sustainability education to over 1,800 students through numerous sustainability modules and research projects and a further 1,000 students engaged in various Sustainability Action projects. Professor Simon Kemp won the 2017 Green Gown Sustainability Professional Award and postgraduate Emily Haggett won the Green Gown Research and Development Student category. The Green Gown Awards recognise the exceptional sustainability initiatives being undertaken by universities and colleges and have become established as the most prestigious recognition of best practice within the sector.

Over the last year, the Unilink bus service, which serves both the University students and staff and the local communities, carried over five million passengers. We also work closely with local authority partners to develop and improve the local cycle network.

In June, the annual Southampton BioBlitz took place on Highfield Campus, featuring an evening bat walk and a biodiversity survey to find and record species of animals and plants in the University's Valley Gardens. The University estate is home to a number of protected species including bats, great crested newts, birds and reptiles. The data collected will be added to a database at the Hampshire Biological Information Centre.

At the end of term students donated over 2.3 tonnes of unwanted clothes, food and household items as they moved out of rented accommodation, once sorted these items were donated to local charities. At our halls of residence we work with the British Heart Foundation to collect unwanted items, with over 2.2 tonnes of clothing being recycled in the past year.

**Trade Union Facilities Time (Unaudited)**

The Trade Union Act 2016 introduced new annual Trade Union Facilities Time reporting requirements for public sector organisations. Employers with at least one 'relevant union official' are required to publish information on facility time.

The following information has not been audited, and covers the period 1 April 2017 to 31 March 2018:

**Trade union representatives and full time equivalents**

Trade union representatives: 60

FTE trade union representatives: 57.03

**Percentage of working hours spent on facility time**

0% of working hours: 0 representatives

1% to 50% of working hours: 60 representatives

51% to 99% of working hours: 0 representatives

100% of working hours: 0 representatives

**Total pay bill and facility time costs**

Total pay bill: £300,875,000

Total cost of facility time: £233,127

Percentage of pay spent on facility time: 0.08%

**Paid trade union activities**

Hours spent on paid facility time: 6,888

Hours spent on paid trade union activities: 0

Percentage of total paid facility time hours spent on TU activities: 0.00%

## Corporate Governance

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The following corporate governance statement provides information about the University's governance, management and legal structure during the year ended 31 July 2018 and up to the date of signing of these Financial Statements.

### Legal status of the University

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The University of Southampton is a chartered corporation established by Royal Charter in 1952. Its aims, powers and framework of governance are set out in the Charter and supporting Statutes and Ordinances.

The University has charitable status as one of the exempt charities listed in Schedule 3 to the Charities Act 2011. It is therefore exempt from certain requirements of that Act, including the need to register with the Charity Commission. Since 1 April 2018, the Office for Students (the Higher Education Funding Council for England (HEFCE) prior to this) has been 'principal regulator' for charity law purposes of those English universities which are exempt charities.

### Governance

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The University's constitution is set out in the Charter, Statutes and Ordinances. These are the overarching governance documents that outline the University's aims, structure, responsibilities and powers. These require the University to have two separate governing bodies, Council and Senate, each with clearly defined functions and responsibilities to oversee and manage the University's activities, as follows:

**Council** - is the governing body of the University, and is charged by the Charter with responsibility for "...the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University..." (Article 10 of the Charter). In carrying out its functions, the Council is bound by the terms of the 'Terms and conditions of funding for higher education institutions' between the Office for Students (the Memorandum of assurance and accountability issued by HEFCE up to 31 March 2018) and the University.

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

Council normally meets six times a year (seven times in 2016/17), and receives reports on the functioning of the University and of its subsidiary companies. These include the critical assessment of agreed Key Performance Indicators. Matters specifically reserved for Council decision include the Mission and strategic direction of the University, and the approval of budgetary allocations and major new developments.

**Senate** - is the University's main academic authority, and its responsibilities include (subject to Council approval where necessary) the direction and regulation of education and examinations, the award of degrees, and the promotion of research.

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

**Audit Committee** is responsible for reviewing the University's arrangements for matters of governance, internal control, risk management, data assurance, value for money and for reviewing and commenting on the annual financial statements and accounting policies. It meets four times a year with the University's senior officers and the external and internal auditors. The Committee will discuss detailed audit reports and recommendations for the improvement of the University's systems of control, together with management's response and implementation plans. The Committee also considers reports from the Office for Students (HEFCE up to 31 March 2018) relating to the conduct of business and monitors adherence to the regulatory requirements. Whilst senior executives are in attendance at meetings, they are not members of the Committee. The Committee members also meet twice a year separately with external and internal auditors for independent consultations.

**Nominations Committee** is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University. The Committee also appoints the lay members of the Audit Committee, Remuneration Committee, Finance Committee, and Health and Safety Audit & Assurance Committee.

**Remuneration Committee** (from September 2017, previously Senior Salaries Committee) determines the remuneration of the

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## Corporate Governance (continued)

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President and Vice-Chancellor and members of the University Executive Board, and has oversight of the remuneration arrangements for other senior members of staff, including members of our professoriate and senior professional services staff. The members of Remuneration Committee are all lay members of Council; membership comprises the Chair of Council, the Vice-Chair of Council, the Treasurer and two other lay members of Council.

**Finance Committee** considers and makes recommendations to Council regarding the University's financial plans and interests and takes into consideration both local constraints and aspirations together with the context of the wider environment of Higher Education funding, public policy and the demand for Higher Education services.

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

Council has other committees tasked with overseeing health and safety.

The University has complied with the key recommendations of the Committee of University Chairs' 'The Higher Education Code of Governance'. The Statement of Primary Responsibilities adopted by the University's governing body can be viewed at:

<http://www.southampton.ac.uk/about/governance/council.page>

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### President and Vice-Chancellor

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The President and Vice-Chancellor is the principal academic and administrative officer of the University and has overall responsibility to Council for the executive management of the University. Under the 'Terms and conditions of funding for higher education institutions' between the Office for Students (the Memorandum of assurance and accountability issued by HEFCE up to 31 March 2018) the President and Vice-Chancellor is the designated 'accountable officer', and in that capacity is required to advise Council on the discharge of all its responsibilities under the terms of funding and the Audit Code of Practice.

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### Statement of Internal Control

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Council is responsible for maintaining a sound system of internal control that supports the achievement of the University's policies, aims and objectives, whilst safeguarding public and other funds and assets for which it is responsible. The system of internal control is designed to understand and manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore provide only a reasonable, but not absolute, assurance against financial misstatement or loss.

The internal control system has been in place for the year ended 31 July 2018 and up to the date of approval of the financial statements, and accords with HEFCE and Office for Students guidance.

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

- clear definitions of the responsibilities and delegated authority of Deans of Faculties or the Chief Operating Officer;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of business, operational, compliance and financial risk;
- regular reviews of overall performance and at least termly reviews of financial performance and updates of forecast outcomes;
- clearly defined and formalised requirements for approval and control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations approved by the Audit Committee and Council;
- receipt of regular reports by Audit Committee from the Head of Internal Audit, which include an independent opinion on the adequacy and effectiveness of the institution's systems of governance, risk management and internal control, together with recommendations for improvement.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks and the likelihood and impact of those risks becoming a reality; and to manage them efficiently, effectively and economically. There have been no significant

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## Corporate Governance (continued)

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internal control weaknesses or failures during the year or post year end.

Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system.

Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council reviews the University's strategic risk register on a regular basis, and reviews the University Key Performance Indicators annually in July.

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

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

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### Role of Council in the Preparation of the Financial Statements

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Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the financial statements are prepared in accordance with the 'Statement of Recommended Practice (SORP): Accounting for Further and Higher Education' and other relevant accounting and financial reporting standards. In addition, within the 'Terms and conditions of funding for higher education institutions' between the Office for Students (the Memorandum of assurance and accountability issued by HEFCE up to 31 March 2018) and the Council of the University, Council, through the President and Vice-Chancellor, 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.

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

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

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

The Council has taken reasonable steps to:

- ensure that funds from the Office for Students (HEFCE up to 31 March 2018) are used only for the purposes for which they have been given and in accordance with the 'Terms and conditions of funding for higher education institutions' (the Memorandum of assurance and accountability under HEFCE) and any other conditions which the Funding Council may have prescribed;
- ensure that there are appropriate financial and management controls in place to safeguard funds from all sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

Members of Council have had due regard to the guidance on public benefit published by the Charity Commission in exercising their powers or duties.

**Corporate Governance (continued)****Members of the Council**

There are five classes of Council membership.

Class 1: Officers

Class 2: Lay members appointed by the Council

Class 3: Academic members of staff

Class 4: Non-academic member of staff

Class 5: Representatives of the Students' Union

Membership for the period 1 August 2017 – 28 November 2018

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 28 Nov 2018	Attendance Aug 2017 – Jul 2018	Membership of other Committees of Council (including joint committees)
Dr G Rider	Class 1 Chair	August 2012	July 2018	5/6	Standing Committee of Council Nominations Committee Remuneration Committee Finance Committee
Mr P D Greenish CBE	Class 1 Vice-Chair	August 2017	July 2018	6/6	Standing Committee of Council Nominations Committee Remuneration Committee
	Class 1 Chair	August 2018	July 2021		Standing Committee of Council Nominations Committee Remuneration Committee Finance Committee
Dr D J Price CBE	Class 1 Treasurer	August 2015	July 2021	5/6	Standing Committee of Council Nominations Committee Remuneration Committee Finance Committee
Professor Sir C Snowden	Class 1 President and Vice-Chancellor	October 2015	March 2019	6/6	Standing Committee of Council Nominations Committee Finance Committee
Professor M Spearing	Class 1 Vice President	August 2017	July 2018	6/6	Standing Committee of Council Nominations Committee
Professor A Neill	Class 1 Vice President	August 2018	July 2019	0/0	Standing Committee of Council Nominations Committee
Ms F Barnes	Class 2	November 2016	July 2019	6/6	Finance Committee Nominations Committee

**Corporate Governance (continued)**

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 28 Nov 2018	Attendance Aug 2017 – Jul 2018	Membership of other Committees of Council (including joint committees)
Mr G Berruyer	Class 2	October 2015	July 2021	6/6	Remuneration Committee
Mr G Hobbs	Class 2	August 2016	July 2019	6/6	Audit Committee
Mr P Hollins	Class 2	April 2016	March 2019	5/6	
Dame J Macgregor	Class 2 Class 1 Vice-Chair	April 2017 August 2018	July 2018 July 2021	6/6	Remuneration Committee Standing Committee of Council Nominations Committee Remuneration Committee
Mr W Shannon	Class 2	July 2015	July 2021	4/6	Finance Committee
Dr A Vincent	Class 2	August 2017	July 2020	5/6	Health & Safety Audit and Assurance Committee (from August 2018)
Ms H Pawlby	Class 2	August 2017	July 2020	4/4	
Dr B Lwaleed	Class 3	August 2015	July 2018	5/6	
Professor R Mills	Class 3	August 2017	July 2020	5/6	
Professor P Reed	Class 3	March 2016	July 2021	6/6	
Professor J A Vickers	Class 3	March 2012	July 2018	4/6	Nominations Committee
Professor J Holloway	Class 3	August 2018	July 2021	0/0	
Mr R Cartwright	Class 3	August 2018	July 2021	0/0	
Mr A Reyes-Hughes	Class 4	August 2014	July 2020	6/6	
Ms F Noble	Class 5	July 2017	June 2018	4/5	
Ms E Dawes	Class 5	July 2018	June 2019	1/1	

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## Independent Auditor's report to the Council of University of Southampton

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### Report on the audit of the financial statements

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#### Opinion

In our opinion the financial statements of University of Southampton (the 'university') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and university's affairs as at 31 July 2018 and of the group's and the university's income and expenditure, gains and losses and changes in reserves and cash flows for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice: Accounting for Further and Higher Education.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income and expenditure;
- the consolidated and university balance sheets;
- the consolidated and university statements of changes in reserves;
- the consolidated statement of cash flows; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the university in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the university.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Summary of our audit approach

##### Key audit matters

The key audit matters that we identified in the current year were:

- Recognition of research grant income
- Capitalisation of expenditure

Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .

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## **Independent Auditor's report to the Council of University of Southampton (continued)**

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### **Materiality**

The materiality that we used for the group financial statements was £7.5m which was determined on the basis of being 1.3% of total incoming resources.

### **Scoping**

The significant components of the group are the University of Southampton and the University of Southampton Science Park (SSP). An audit was performed on the University of Southampton, with a component materiality of £7.0m, while procedures were carried out on investment properties and non-current liabilities in SSP to a component materiality of £3m. These procedures covered 99% of group revenue and 99% of group net assets.

### **Significant changes in our approach**

The key audit matters identified are consistent with those identified in the previous year, where the audit was carried out by Mazars LLP, apart from in relation to the defined benefit pension scheme provision, which we have not identified as a key audit matter. This is due to the fact that the same methodology has been used to calculate the liability as in the prior year, with no evidence of significant change in the assumptions used by management. Additionally, with regards to USS specifically, there have been no changes made to the structure of the scheme.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the governing body's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the governing body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the university's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Recognition of research grant income**

#### **Key audit matter description**

The Group recognised £116m (2017: £136m) of research grant income in the year. Income on research grants is recognised in accordance with description performance conditions that generally mean income is recognised when qualifying expenditure is incurred, although this can vary between agreements. This is an area that could therefore be subject to manipulation as performance conditions could be applied incorrectly, inappropriate income could be recognised or income could be recognised in the incorrect period.

We have identified a key audit matter in relation to research grant income totalling £116m (2017: £136m) as disclosed in note 5 of the accounts. There is a risk that income may be recognised where costs do not relate to a project, or are not eligible for recovery from the

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## Independent Auditor's report to the Council of University of Southampton (continued)

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grantor. The significant risk applies specifically to grants totalling £63m that are for grants which are due to end within 12 months of year end and which are not part of an audit regime.

Details of the accounting policies applied are set out on page 36. This income is also included in the financial review on page 3, and is defined as a major financial risk on page 9.

### How the scope of our audit responded to the key audit matter

- We evaluated the design and implementation of controls over the recognition of expenditure (and hence the related income) on research grants.
- For a sample of research projects, we obtained the grant agreements and assessed whether there were any performance conditions attached to receipt of funding. We then tested whether income had been recognised in line with those conditions.
- For the sample of projects above, we tested a sample of expenditure in order to establish whether it related to the project, and that it was eligible for recovery under the specific grant agreement.

### Key observations

Based on the work performed we are satisfied that the recognition of research income is satisfactory.

### Capitalisation of expenditure

#### Key audit matter description

The Group recognised a total of £47m of additions to land and buildings and assets in course of construction in the year to 31 July 2018, as disclosed in Note 14.

There is a judgement as to whether the expenditure included in this amount correctly meets the definitions of capital spend under FRS 102, and a consequent risk that items may have been inappropriately capitalised. This could be utilised as a method to manipulate the financial statements by capitalising amounts which should be recognised as expenditure in the Income Statement.

Details of the accounting policies applied are set out on page 38. Capital expenditure is discussed in the financial review on page 4.

### How the scope of our audit responded to the key audit matter

- We evaluated the design and implementation of controls over the classification of expenditure on capital projects as capital or revenue in nature.
- We assessed management's accounting policies in this area as to their compliance with FRS 102.
- For a sample of additions we tested the appropriateness of their accounting treatment against the standards set out in FRS 102.
- For that sample we assessed whether the expenditure met the required definitions to be recognised as capital.

### Key observations

Based on the work performed we are satisfied that the expenditure capitalised is satisfactory.

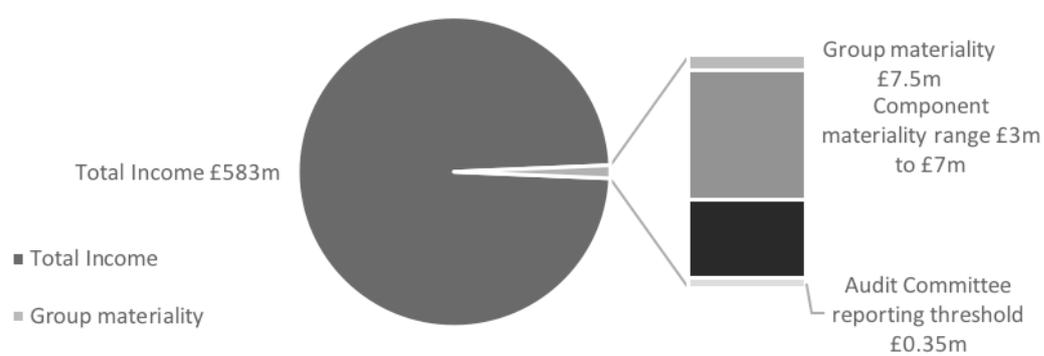
### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

## Independent Auditor’s report to the Council of University of Southampton (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	University financial statements
<b>Materiality</b>	£7.5m (2017: £2.9m)	£7.0m
<b>Basis for determining materiality</b>	1.3% of incoming resources. In the previous year, the formal external auditor, Mazars LLP determined a materiality based on 0.5% of total income.	Materiality of the university represents 1.2% of incoming resources which is capped at a level 93.5% of the group materiality.
<b>Rationale for the benchmark applied</b>	We use total incoming resources as the benchmark for determining materiality as we deem this reflects the underlying performance of the business and is a key metric for users of the financial statements.	We use total incoming resources as the benchmark for determining materiality as we deem this reflects the underlying performance of the business and is a key metric for users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £350k (2017: £50,000 determined by Mazars LLP), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the nature of the University and its subsidiaries, and assessing the risks of material misstatement at the group level. The university has eight subsidiary companies which form part of the consolidation, including subsidiaries based in Malaysia and Singapore. All subsidiaries are wholly owned by the University. The scope of our audit is summarised in the table below.

Component	Component Materiality £m	Scope
University of Southampton	7.0	Full audit to component materiality.
University of Southampton Science Park	3.0	Audit of specified account balances to component materiality, being audit work performed on the valuation of the investment properties and work performed on non-current liabilities (borrowings)
Other non-dormant subsidiaries	n/a	Reviews at group level

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**Independent Auditor's report to the Council of University of Southampton (continued)**

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At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified accounts balances. All audit work on subsidiaries was performed directly by the group engagement team.

Our scoping decisions were made to ensure that all significant balances were covered by our audit procedures. Specifically, our full audit procedures cover 99% of group income, and 95% of Property Plant and Equipment (the only significant contribution to net assets driven by a component which is not the university itself). This scope is consistent with the approach adopted by Mazars LLP in the prior year.

**Other information**

The governing body is responsible for the other information. The other information comprises the information included in the Strategic Report, Public Benefit Statement and Corporate Governance Statement, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**We have nothing to report in respect of these matters.**

**Responsibilities of the governing body**

As explained more fully in the governing body's responsibilities statement, the governing body is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the governing body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the governing body is responsible for assessing the group's and the university's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the governing body either intends to liquidate the group or the university or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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## **Independent Auditor's report to the Council of University of Southampton (continued)**

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Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including Fraud**

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### ***Identifying and assessing potential risks related to irregularities***

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or noncompliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including real estate, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in recognition of research grant income and capitalisation of expenditure. Recognition of research grant income represents a fraud risk as this is an area that could be subject to manipulation through incorrect application of performance conditions, recognition of income based on recording ineligible expenditure or recognising income in the incorrect period. Capitalisation of expenditure represents a fraud risk as this could be utilised as a method to manipulate the financial statements by capitalising amounts which should be recognised as expenditure in the Income Statement.
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the OfS regulatory framework and the Higher Education Act.

#### ***Audit response to risks identified***

As a result of performing the above, we identified recognition of research grant income and capitalisation of expenditure as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the OfS and HEFCE; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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## Independent Auditor's report to the Council of University of Southampton (continued)

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We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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### Report on other legal and regulatory requirements

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#### Opinions on other matters prescribed by the Office for Students (OfS) "Regulatory Advice 9: Accounts Direction"

In our opinion, in all material respects:

- funds from whatever source administered by the university for specific purposes during the year ended 31 July 2018 have been applied to those purposes and managed in accordance with relevant legislation;
- funds provided by the OfS and Research England have been applied in accordance with the terms and conditions of the Accounts Direction and any other terms and conditions attached to them during the year ended 31 July 2018; and
- the requirements of the OfS's accounts direction have been met.

#### Other matters

##### *Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the governing body on 4 December 2017 to audit the financial statements for the year ending 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the year ending 31 July 2018.

##### *Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

#### Use of our report

This report is made solely to the governing body in accordance with the charter and statutes of the University. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it in an auditor's 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 board of governors as a body, for our audit work, for this report, or for the opinions we have formed.



Craig Wisdom FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

St Albans, UK

29 November 2018

**Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2018**

	Notes	Consolidated		University	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Income</b>					
Tuition fees and education contracts	3	<b>259,212</b>	247,539	<b>257,704</b>	246,310
Funding body grants	4	<b>79,071</b>	76,000	<b>79,071</b>	76,000
Research grants and contracts	5	<b>116,634</b>	136,874	<b>116,244</b>	136,312
Other income	6	<b>117,724</b>	120,937	<b>113,906</b>	117,283
Investment income	7	<b>2,960</b>	1,420	<b>3,287</b>	1,748
Donations and endowments	8	<b>7,146</b>	6,365	<b>7,146</b>	6,365
<b>Total income</b>		<b>582,747</b>	589,135	<b>577,358</b>	584,018
<b>Expenditure</b>					
Staff costs	9	<b>304,488</b>	300,875	<b>302,701</b>	299,149
Other operating expenses	10	<b>196,894</b>	186,047	<b>195,109</b>	180,413
Depreciation and amortisation	12	<b>34,944</b>	31,926	<b>34,699</b>	31,565
Interest and other finance costs	11	<b>17,761</b>	26,767	<b>17,767</b>	26,695
<b>Total expenditure</b>		<b>554,087</b>	545,615	<b>550,276</b>	537,822
<b>Surplus before other gains/losses</b>		<b>28,660</b>	43,520	<b>27,082</b>	46,196
Gain/(loss) on investments		<b>328</b>	(806)	<b>146</b>	487
Gain/(loss) on disposal of fixed assets		<b>2,007</b>	(3,223)	<b>2,007</b>	(3,223)
Share of operating (deficit)/surplus in associate		<b>(108)</b>	299	-	-
<b>Surplus before tax</b>		<b>30,887</b>	39,790	<b>29,235</b>	43,460
Taxation	13	<b>(77)</b>	531	<b>(58)</b>	-
<b>Surplus for the year after tax</b>		<b>30,810</b>	40,321	<b>29,177</b>	43,460

**Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2018 (continued)**

	Notes	Consolidated		University	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Surplus for the year after tax</b>		<b>30,810</b>	40,321	<b>29,177</b>	43,460
<b>Other comprehensive income</b>					
Actuarial gain/(loss) in respect of pension schemes	28	<b>22,458</b>	(3,089)	<b>22,458</b>	(3,089)
<b>Total comprehensive income for the year</b>		<b>53,268</b>	37,232	<b>51,635</b>	40,371
<b>Represented by :</b>					
Endowment comprehensive income for the year		<b>139</b>	447	<b>139</b>	447
Restricted comprehensive income for the year		<b>(16,645)</b>	6,509	<b>(16,645)</b>	6,509
Unrestricted comprehensive income for the year		<b>69,774</b>	30,276	<b>68,141</b>	33,415
		<b>53,268</b>	37,232	<b>51,635</b>	40,371

All income and expenditure relate to continuing operations.

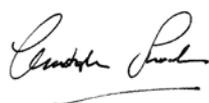
**Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2018**

<b>Consolidated</b>	<b>Income and Expenditure account</b>			<b>Total</b>
	Endowment £000	Restricted £000	Unrestricted £000	<b>£000</b>
<b>Balance at 1 August 2016</b>	<b>12,497</b>	<b>12,153</b>	<b>442,225</b>	<b>466,875</b>
Surplus from the income and expenditure statement	447	23,684	16,190	40,321
Other comprehensive expenditure	-	-	(3,089)	(3,089)
Release of restricted capital funds spent in the year	-	(17,175)	17,175	-
	447	6,509	30,276	37,232
<b>Balance at 1 August 2017</b>	<b>12,944</b>	<b>18,662</b>	<b>472,501</b>	<b>504,107</b>
Surplus from the income and expenditure statement	139	7,405	23,266	30,810
Other comprehensive income	-	-	22,458	22,458
Release of restricted capital funds spent in the year	-	(24,050)	24,050	-
<b>Total comprehensive income for the year</b>	<b>139</b>	<b>(16,645)</b>	<b>69,774</b>	<b>53,268</b>
<b>Balance at 31 July 2018</b>	<b>13,083</b>	<b>2,017</b>	<b>542,275</b>	<b>557,375</b>
<b>University</b>	<b>Income and Expenditure account</b>			<b>Total</b>
	Endowment £000	Restricted £000	Unrestricted £000	<b>£000</b>
<b>Balance at 1 August 2016</b>	<b>12,497</b>	<b>12,153</b>	<b>434,324</b>	<b>458,974</b>
Surplus from the income and expenditure statement	447	23,684	19,329	43,460
Other comprehensive expenditure	-	-	(3,089)	(3,089)
Release of restricted capital funds spent in the year	-	(17,175)	17,175	-
	447	6,509	33,415	40,371
<b>Balance at 1 August 2017</b>	<b>12,944</b>	<b>18,662</b>	<b>467,739</b>	<b>499,345</b>
Surplus from the income and expenditure statement	139	7,405	21,633	29,177
Other comprehensive income	-	-	22,458	22,458
Release of restricted capital funds spent in the year	-	(24,050)	24,050	-
<b>Total comprehensive income for the year</b>	<b>139</b>	<b>(16,645)</b>	<b>68,141</b>	<b>51,635</b>
<b>Balance at 31 July 2018</b>	<b>13,083</b>	<b>2,017</b>	<b>535,880</b>	<b>550,980</b>

**Consolidated and University Balance Sheet as at 31 July 2018**

	Notes	Consolidated		University	
		2018 £000	2017 £000	2018 £000	2017 £000
<b>Non-current assets</b>					
Tangible fixed assets	14	<b>712,767</b>	691,980	<b>674,718</b>	655,364
Heritage assets	14	<b>6,035</b>	6,000	<b>6,035</b>	6,000
Intangible assets	15	<b>1,447</b>	3,388	<b>1,447</b>	3,388
Investments	16	<b>2,601</b>	2,414	<b>21,042</b>	19,257
Investment in associate	17	<b>191</b>	299	-	-
		<b>723,041</b>	704,081	<b>703,242</b>	684,009
<b>Current assets</b>					
Stock		<b>669</b>	656	<b>669</b>	656
Trade and other receivables	18	<b>68,431</b>	78,698	<b>73,894</b>	85,763
Investments	19	<b>225,581</b>	334,071	<b>225,581</b>	334,071
Cash and cash equivalents		<b>261,657</b>	115,882	<b>258,580</b>	112,855
		<b>556,338</b>	529,307	<b>558,724</b>	533,345
<b>Less: Creditors: amounts falling due within one year</b>	20	<b>(162,200)</b>	(148,149)	<b>(158,384)</b>	(144,972)
<b>Net current assets</b>		<b>394,138</b>	381,158	<b>400,340</b>	388,373
<b>Total assets less current liabilities</b>		<b>1,117,179</b>	1,085,239	<b>1,103,582</b>	1,072,382
<b>Creditors: amounts falling due after more than one year</b>	21	<b>(420,410)</b>	(420,311)	<b>(414,078)</b>	(412,958)
<b>Provisions</b>					
Pension provisions	22	<b>(138,524)</b>	(160,079)	<b>(138,524)</b>	(160,079)
Other provisions	22	<b>(870)</b>	(742)	-	-
<b>Total net assets</b>		<b>557,375</b>	504,107	<b>550,980</b>	499,345
Represented by:					
<b>Restricted Reserves</b>					
Income and expenditure reserve - endowment reserve	23	<b>13,083</b>	12,944	<b>13,083</b>	12,944
Income and expenditure reserve - restricted reserve	24	<b>2,017</b>	18,662	<b>2,017</b>	18,662
<b>Unrestricted Reserves</b>					
Income and expenditure reserve - unrestricted		<b>542,275</b>	472,501	<b>535,880</b>	467,739
<b>Total reserves</b>		<b>557,375</b>	504,107	<b>550,980</b>	499,345

The financial statements were approved by the Council on 28 November 2018, and signed on its behalf by:



Professor Sir Christopher Snowden  
President and Vice-Chancellor



David Price  
Treasurer



Sarah Pook  
Executive Director, Finance and Planning

**Consolidated Statement of Cash Flows for the year ended 31 July 2018**

	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
<b>Cash flow from operating activities</b>		
Surplus for the year	<b>30,810</b>	40,321
<b>Adjustment for non-cash items</b>		
Depreciation/amortisation	<b>34,944</b>	31,926
(Gain)/loss on investments	<b>(328)</b>	806
Impairment of investments - increase/(decrease)	<b>95</b>	(10)
(Increase)/decrease in stock	<b>(13)</b>	118
(Increase)/decrease in trade and other receivables	<b>(570)</b>	12,555
Increase in creditors	<b>15,538</b>	13,157
Increase)/(decrease) in pension provision	<b>903</b>	(473)
Increase/(decrease) in other provisions	<b>128</b>	(595)
Receipt of donated equipment and software	<b>(753)</b>	(1,436)
Exchange rate loss on loans	<b>17</b>	339
(Gain)/loss on revaluation of investment property	<b>(177)</b>	2,456
Gain on financial instruments	<b>(145)</b>	(166)
Share of operating deficit/(surplus) in associate	<b>108</b>	(299)
<b>Adjustment for investing or financing activities</b>		
Investment income	<b>(2,960)</b>	(1,420)
New endowments	<b>(2)</b>	(5)
Capital grant income	<b>(7,957)</b>	(33,748)
Interest payable	<b>14,237</b>	9,459
Fixed rate partial termination cost	<b>-</b>	13,724
(Gain)/loss on the disposal/write down of fixed assets	<b>(2,007)</b>	3,223
<b>Net cash inflow from operating activities</b>	<b>81,868</b>	89,932

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**Consolidated Statement of Cash Flows for the year ended 31 July 2018**


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	Year ended 31 July 2018	Year ended 31 July 2017
	£000	£000
<b>Cash flows from investing activities</b>		
Capital grants receipts	18,816	21,130
Payments made to acquire tangible assets	(57,807)	(56,936)
Payments made to acquire intangible assets	(55)	(696)
Payments made to acquire fixed asset investments	(100)	-
Proceeds from disposal of tangible assets	9,796	47
Net divestment from/(investment in) in current investments	108,636	(301,525)
Investment income	2,938	1,039
<b>Net cash inflow/(outflow) from investing activities</b>	<b>82,224</b>	<b>(336,941)</b>
<b>Cash flows from financing activities</b>		
Interest paid	(14,209)	(7,388)
Fixed rate partial termination cost	-	(13,724)
New endowments	2	5
New unsecured loans	-	298,312
Repayment of amounts borrowed	(3,811)	(6,978)
Capital element of finance lease repayments	(299)	(273)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(18,317)</b>	<b>269,954</b>
<b>Increase in cash and cash equivalents in the year</b>	<b>145,775</b>	<b>22,945</b>
Cash and cash equivalents at beginning of the year	115,882	92,937
Cash and cash equivalents at end of the year	261,657	115,882

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## Notes to the Financial Statements for the year ended 31 July 2018

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### 1. Statement of principal accounting policies

#### a. General

The University of Southampton is a chartered corporation established by Royal Charter in 1952, and an exempt charity under the terms of the Charities Act 2011. Its principal place of business is University Road, Southampton, Hampshire, United Kingdom.

#### b. Basis of accounting

These financial statements have been prepared in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and the applicable accounting standard Financial Reporting Standard 102 (FRS 102). The financial statements comply with the requirements of FRS 102.

The financial statements are prepared in accordance with the historical cost convention, modified to include certain items at fair value.

The University has taken the exemption permitted under FRS 102 to not produce a cash flow statement for the University.

The University is a public benefit entity and therefore has applied the relevant public benefit requirements of FRS 102.

#### c. Basis of consolidation

The consolidated financial statements combine the financial statements of the University and its subsidiary undertakings for the financial year to 31 July.

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

The consolidated Statement of Comprehensive Income includes the Group's share of the comprehensive income of associated undertakings and the Consolidated Balance Sheet includes the investment in associated undertakings at the Group's share of their underlying net tangible assets (the 'equity method'). Associated undertakings are those in which the Group has significant, but not dominant, influence over their commercial and financial policy decisions.

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

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

#### d. Income recognition

##### *Grant funding*

Grant funding including funding council block grants, research grants from government sources and grants (including research grants) from non-government sources are recognised as income when the University is entitled to the income and performance related conditions specified in the agreement have been met. In the absence of any performance conditions income is recognised in full as soon as it becomes receivable.

Income received in advance of any performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as the conditions are met. Where grants are received in arrears income is recognised in line with the performance conditions which have been met.

##### *Tuition fees*

Fee income is stated gross of any expenditure and credited to the Statement of Comprehensive Income over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

##### *Provision of goods or services*

Income from the sale of goods or services is credited to the Statement of Comprehensive Income when the goods or services are supplied or the terms of the contract have been satisfied. Where services are being rendered, but are not complete at the end of the period, income is recognised with reference to the stage of completion/degree of provision of the service, as determined on an appropriate basis for each contract.

Operational decision making is based on the activities of the whole institution, and this, along with the fact that materially all of the University's income and expenditure relates to its principal activities and originates in the UK, means that there is only one

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## Notes to the Financial Statements for the year ended 31 July 2018

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operating segment, and no segmental reporting is therefore reported.

### *Donations and endowments*

Donation income is accounted for under the Performance Model and can be split into the following types of donation:

- **Donated income with performance conditions**

Income is recognised within the Statement of Comprehensive Income when receivable (legal/contractual commitment) and performance conditions have been met.

- **Donations with restrictions**

A donation is considered to have a restriction when the gift agreement contains “a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition.”

Income with restrictions, but no performance conditions, is recognised within the Statement of Comprehensive Income when the grant is receivable (legal/contractual commitment) and recorded within restricted reserves. As the funding is expended against the restriction it is transferred to unrestricted reserves by way of a reserves transfer.

- **Donations without restrictions**

Income with neither restrictions nor performance conditions is recognised within the Statement of Comprehensive Income when the University is entitled to the income and recorded within unrestricted reserves.

Endowments are a class of donation where the donor requires the original gift to be invested, with the return to be spent against the donor’s charitable aims. The donor can specify that the capital can be spent (expendable endowment) or maintained in perpetuity (permanent endowment). In addition, the donor can specify how the gift and any associated income should be spent (a restricted endowment) or give the funds for the general benefit of the University (unrestricted endowment).

An endowment gift is recognised in the Statement of Comprehensive Income when the University is entitled to the gift. Investment income and appreciation of endowments is recognised in the year in which it arises and is either restricted or unrestricted income according to the terms of the restriction applied to each individual endowment fund.

### *Capital grants*

Capital grants received for the purpose of purchasing or constructing specific assets are recognised as income when the

University is entitled to the funds subject to any performance related conditions being met. Grants where the University has discretion over the assets being purchased or built are recognised in full as income when the University is entitled to the income.

### *Interest*

Interest is credited to the Statement of Comprehensive Income on a receivable basis.

### *Agency income*

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

## **e. Accounting for retirement benefits**

The two principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS). The University also contributes to the National Health Service Pension Scheme (NHPS), Hampshire County Council (HCC), National Employment Savings Trust (NEST) and schemes relating to subsidiary companies. A small number of staff remain in other schemes.

The USS is a multi-employer scheme for which it is not possible to identify the assets and liabilities of each university due to the mutual nature of the scheme and therefore this scheme is accounted for as a defined contribution retirement benefit scheme. A liability is recorded within provisions for any contractual commitment to fund past deficits within the USS scheme.

PASNAS and HCC are defined-benefit schemes, the assets of which are held in trustee-administered funds which are valued every three years by professionally qualified independent actuaries. NHPS is externally funded and the University’s share of the underlying assets and liabilities of the scheme cannot be identified, therefore this is accounted for as if it were a defined contribution scheme.

### *Defined benefit schemes*

Defined benefit schemes are post-employment benefit schemes other than defined contribution schemes. Under defined benefit schemes, the University’s obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk

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## Notes to the Financial Statements for the year ended 31 July 2018

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(that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The University recognises a liability for its obligations under defined benefit schemes net of scheme assets.

The net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

### *Defined contribution schemes*

A defined contribution scheme is a post-employment benefit scheme under which the University pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Statement of Comprehensive Income in the year during which services are rendered by employees.

### **f. Employment benefits**

Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the period in which the employees render service to the University. Any unused benefits which have accrued at each balance sheet date are recognised as a liability, with the expense being recognised as staff costs in the Statement of Comprehensive Income.

### **g. Leases**

#### *Finance leases*

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases.

Leased assets acquired by way of a finance lease and the associated lease liability are stated at the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is

allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Operating leases*

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term. Any lease premiums or incentives are spread evenly over the minimum lease term.

### **h. Foreign currency**

Transactions denominated in foreign currencies are recorded in the Statement of Comprehensive Income at the actual rate of exchange on conversion to sterling. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate prevailing at that date.

Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

### **i. Tangible fixed assets**

Tangible fixed assets are stated at cost and depreciated on a straight-line basis over a term based on the expected useful economic life of the asset.

Land is not depreciated. Buildings capitalised prior to 1 August 2015 are depreciated over their useful lives which is a period not exceeding fifty years. Since 1 August 2015, where the major components of buildings have significantly different useful lives, the initial cost of the asset or the replacement cost of a component shall be allocated to its major components and each component depreciated separately over its useful life (between eight and fifty years depending on the component and not exceeding the building's useful life).

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

Leasehold buildings are depreciated on the same basis as freehold buildings subject to the expected life of the building not exceeding the period of the lease.

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set

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**Notes to the Financial Statements for the year ended 31 July 2018**


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at appropriate levels that do not exceed £25,000.

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

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

#### **j. Heritage assets**

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

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

Income received to support the purchase of heritage assets is recognised when the University is entitled to the income.

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

#### **k. Intangible assets**

Intangible assets costing less than £25,000 per individual item or group of related items are written off in the year of acquisition.

Intangible assets capitalised by the University are generally stated at cost and amortised over three years on a straight-line basis. Significant assets are amortised over a period equal to their expected useful economic life (up to a maximum period of eight years).

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

#### **l. Gifts in kind**

Gifts in kind are included as fixed assets and depreciated in

accordance with the policy set out above. The value of the donation is included in the Statement of Comprehensive Income in the period in which it is received, using a reasonable estimate of the gross value or the amount actually realised.

#### **m. Investment properties**

Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Statement of Comprehensive Income. Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

#### **n. Investments**

All investments are initially recognised at cost and subsequently measured at fair value at each reporting date, with movements recognised in the Statement of Comprehensive Income. For non-trading investments where fair value cannot be reliably measured, they will be measured at cost less impairment.

Investments in subsidiary undertakings and associates are accounted for at cost less accumulated impairment losses.

All gains and losses on investment assets are recognised in the Statement of Comprehensive Income for that period.

#### **o. Stock**

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

#### **p. Cash and cash equivalents**

Cash includes cash in hand, cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Deposit investments are deemed to be cash equivalents if they have a maturity of three months or less from the date of acquisition.

Cash and cash equivalents contain sums relating to endowment reserves which the University is restricted as to how they disburse.

#### **q. Financial instruments**

As allowable under FRS 102 the University has adopted the option to apply the recognition, measurement and disclosure

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## Notes to the Financial Statements for the year ended 31 July 2018

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requirements of sections 11 and 12 of FRS 102. Financial assets and financial liabilities are recognised when the University becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified at fair value through the Statement of Comprehensive Income, which are initially measured at fair value (normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

### *Investments*

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through the Statement of Comprehensive Income. Where fair value cannot be measured reliably, investments are measured at cost less impairment. In the University's Balance Sheet, investments in subsidiaries are measured at cost less impairment.

### *Loans*

Loans which are basic financial instruments (as defined in paragraph 11.9 of FRS 102) are initially recorded at the transaction price, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method and are subject to an annual impairment review.

### *Public bonds*

Bonds are initially measured at the proceeds of issue less all transaction costs directly attributable to the issue. After initial recognition, the bonds are measured at amortised cost using the effective interest rate method. Under this method the discount at which the bonds were issued and the transaction costs are accounted for as an additional interest expense over the term of the bonds.

### *Derivatives*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are then revalued annually with any gains or losses being reported in the Statement of Comprehensive Income. The fair values are calculated by the bank from proprietary models based upon well recognised financial

principles, data sources believed to be reliable and reasonable estimates about relevant future market conditions.

### *Short-term debtors and creditors*

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

### **r. Provisions, contingent liabilities and contingent assets**

Provisions are recognised in the financial statements when:

- (a) the University has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

### **s. Comparatives**

Where accounting practice has changed, the prior year comparatives have been revised accordingly.

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

### **t. Taxation**

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011. It is therefore a charity within the meaning of Para. 1 of Schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

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**Notes to the Financial Statements for the year ended 31 July 2018**

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The University's subsidiaries are liable to Corporation Tax in the same way as other commercial organisations however, the overall taxation liability of the group is minimised through using the Gift Aid scheme.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised only if they are more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

**u. Reserves**

Reserves are classified as restricted and unrestricted reserves. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

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## Notes to the Financial Statements for the year ended 31 July 2018

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### 2. Significant estimates and judgements

In the process of applying its accounting policies, the University is required to make certain estimates, judgements and assumptions that management believe are reasonable based on the information available. These are reviewed on a regular basis by senior management.

The University's management has sought to adopt those accounting policies most appropriate to the circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows. In determining and applying those accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption could materially affect the reported results or net asset position of the University.

A number of material judgements and significant estimates have been used in the preparation of the financial statements which are detailed below.

#### *Key judgements*

- USS pension provision

The University has a contractual commitment to fund past deficits arising within the Universities Superannuation Scheme (USS), and under FRS 102 (Section 28) this obligation is recognised as a liability on the balance sheet and the resulting expense in the Statement of Comprehensive Income. The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.21% as at 31 July 2018, are included in note 22.

The calculation of the provision has required management to make a judgement regarding the prevailing discount rate. This has been determined by reference to average market yields at the reporting date on high quality corporate bonds (bond rating AA) whose term covers the remaining duration of the recovery plan.

The 2017 actuarial valuation of USS has been undertaken but has not yet been formally completed. In the judgement of the University, as the 2017 valuation has not been completed, and there remains various stages of consultation around the key factors specifically relating to the funding of the past deficit,

including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

#### *Estimation uncertainties and assumptions*

- Defined benefit scheme pension provision

The University contributes to two defined benefit pension schemes for which a provision is recorded in the Balance Sheet; these are University of Southampton Pension and Assurance Scheme (PASNAS) and Hampshire County Council (HCC). The recognised pension deficit liability is based on the valuation provided by professionally qualified independent actuaries which is based on a number of assumptions. These include the future cash flows of the Scheme, the discount rate used (which is based on average AA rated UK corporate bond rates that reflect the duration of our liability), the pensionable salary growth going forward and proposed price inflation (which is based on the Retail Price Index). Further details on these assumptions can be found in note 28.

The net interest expense is based on the interest rates of AA rated corporate bonds and the deficit position.

Management review the assumptions made to derive the provisions recorded within the Balance Sheet to ensure that they are reasonable.

- USS pension provision

In addition to the judgement on the discount rate, the value of the USS pension provision is based on management's estimate of expected changes in staffing levels and pay increases. These are based on the University's business plans which have been reviewed and approved by the University's governing body.

The 2017 valuation is still being finalised and therefore the key factors relating to the funding of the past deficit going forward have not been determined. However, there is a significant risk that the year end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The University expects to have greater clarity in this respect during the next financial year.

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**Notes to the Financial Statements for the year ended 31 July 2018**

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Based on the inputs used to determine the current provision, the following sensitivity analysis outlines the potential impact on the existing liability of £46.7 million (assuming the same discount rate of 2.21%):

- a 1% increase in the deficit contribution rate from 2.1% to 3.1% would have the impact of increasing the provision by £18.6 million to £65.4 million;
  - extending the term of the deficit recovery plan by one year to March 2032 would have the impact of increasing the provision by £4.3 million to £51.0 million;
- Revaluation model for investment property

The University of Southampton Science Park is an investment property which is valued each year by an independent valuation specialist. The property is stated at fair value with changes in the fair value being recognised in the Statement of Comprehensive Income.

The valuer uses a valuation technique based on the net present value of contracted future rental streams. This valuation method requires assumptions to be made regarding the estimated yield from the property and the level of long-term occupancy rates. Management acknowledges that changes to these assumptions can derive a different valuation, but accept that the assumptions used are reasonable based on past performance and existing lease commitments.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**3. Tuition fees and education contracts**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Full-time home/EU students	<b>142,455</b>	141,901	<b>142,455</b>	141,901
Full-time international students	<b>86,448</b>	77,531	<b>84,940</b>	76,302
Part-time home/EU students	<b>3,110</b>	3,039	<b>3,110</b>	3,039
Part-time international students	<b>612</b>	712	<b>612</b>	712
Research training support grants	<b>18,510</b>	17,283	<b>18,510</b>	17,283
Special and short course fees	<b>8,077</b>	7,073	<b>8,077</b>	7,073
	<b>259,212</b>	247,539	<b>257,704</b>	246,310

Included in the above is £13,535,000 (2017: £17,004,000) of NHS Teaching Contract income in respect of full and part time fees. Other income from health authorities is disclosed under note 6.

Fee income is stated net of waivers and discounts.

**4. Funding body grants**

	<b>Consolidated and University</b>	
	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Recurrent grants:</b>		
Higher Education Funding Council for England (HEFCE)/Office for Students (OfS)/Research England	<b>64,072</b>	63,665
National College for Teaching and Leadership	<b>50</b>	31
<b>Specific grants:</b>		
Higher Education Funding Council for England (HEFCE)/Office for Students (OfS)/Research England	<b>6,992</b>	5,036
<b>Capital grants</b>	<b>7,957</b>	7,268
	<b>79,071</b>	76,000

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**5. Research grants and contracts**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Income</b>				
UK Research councils	<b>48,561</b>	46,987	<b>48,561</b>	46,987
UK Research councils - capital grants	-	26,000	-	26,000
UK based charities	<b>13,808</b>	14,513	<b>13,800</b>	14,513
UK Central/Local Government, health authorities and hospitals	<b>18,035</b>	17,026	<b>18,035</b>	17,026
UK industry, commerce and public corporations	<b>8,162</b>	6,676	<b>7,939</b>	6,422
EU Government bodies	<b>16,147</b>	15,810	<b>16,147</b>	15,808
EU other sources	<b>2,904</b>	2,084	<b>2,852</b>	1,978
Other overseas sources	<b>8,406</b>	7,420	<b>8,323</b>	7,226
Other sources	<b>346</b>	351	<b>322</b>	345
Research and development expenditure credit (RDEC) claims from HMRC	<b>265</b>	7	<b>265</b>	7
	<b>116,634</b>	136,874	<b>116,244</b>	136,312

In 2016/17, the University received £26 million from EPSRC for the National Infrastructure Laboratory, which is being funded under Phase 1 of the UKCRIC Capital Programme.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**6. Other income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Residences, catering and conferences	<b>42,384</b>	42,249	<b>42,384</b>	42,249
Consultancies, trading and services rendered	<b>43,565</b>	44,144	<b>41,548</b>	41,711
Health authorities	<b>10,363</b>	10,927	<b>10,363</b>	10,927
Other income	<b>21,412</b>	23,617	<b>19,611</b>	22,396
	<b>117,724</b>	120,937	<b>113,906</b>	117,283

**7. Investment income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Investment income on endowments	<b>250</b>	216	<b>250</b>	216
Other investment income	<b>2,710</b>	1,204	<b>3,037</b>	1,532
	<b>2,960</b>	1,420	<b>3,287</b>	1,748

**8. Donations and endowments**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Capital grants	-	480	-	480
New endowments	<b>2</b>	5	<b>2</b>	5
Donations with restrictions	<b>6,438</b>	5,038	<b>6,438</b>	5,038
Unrestricted donations	<b>706</b>	842	<b>706</b>	842
	<b>7,146</b>	6,365	<b>7,146</b>	6,365

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**9. Staff costs**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Staff costs :</b>				
Salaries and wages	<b>239,987</b>	241,736	<b>238,395</b>	240,186
Social Security costs	<b>24,247</b>	23,560	<b>24,192</b>	23,511
Pension costs	<b>45,171</b>	44,210	<b>45,031</b>	44,083
Movement on USS pension provision	<b>(8,373)</b>	(9,577)	<b>(8,373)</b>	(9,577)
Severance and early retirement	<b>3,456</b>	946	<b>3,456</b>	946
	<b>304,488</b>	300,875	<b>302,701</b>	299,149

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>Number</b>	Number	<b>Number</b>	Number
<b>Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:</b>				
Education, research and enterprise	<b>2,745</b>	2,871	<b>2,730</b>	2,849
Management, specialist and administrative	<b>2,117</b>	2,148	<b>2,083</b>	2,120
Technical and experimental	<b>362</b>	367	<b>360</b>	366
Community and operational	<b>471</b>	489	<b>471</b>	489
	<b>5,695</b>	5,875	<b>5,644</b>	5,824

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**9. Staff costs (continued)****Emoluments of the President and Vice-Chancellor**

Professor Sir Christopher Snowden

	<b>2018</b>	Restated 2017
	<b>£000</b>	£000
Salary	<b>423</b>	423
Performance-related bonus	-	-
Taxable benefits	<b>4</b>	5
	<b>427</b>	428
USS Scheme deficit recovery charge (2.1%) - non-contributory*	<b>9</b>	9
	<b>436</b>	437

\* The University contributed £9,000 (2017: £9,000) to the USS Scheme in respect of deficit recovery contributions, based on 2.1% of the Vice-Chancellor's salary.

**Salary**

At the date of this report, Sir Christopher was paid a salary of £422,598 per annum (2017: £422,598), with no entitlement to any other payments or bonuses. His salary has increased once since his appointment, in line with the 1.1% national inflationary uplift in August 2016. He is not an active member of a pension scheme, and so the University makes no contributions to his pension.

Sir Christopher's appointment marked a step change in the leadership of the University. Leading and managing a multi-million pound university requires an extensive range of academic credentials, business acumen and international experience, together with the gravitas to engage at senior government level, locally, nationally and overseas. Already one of the most experienced Vice-Chancellors in the sector, Sir Christopher brought with him a proven track record of success over more than a decade, delivering exceptional results through a relentless focus on the student experience, delivering impactful research and exploiting industry connections to improve graduate employability.

We are now seeing clear evidence of the benefits of the sharpened strategy Sir Christopher has introduced at Southampton. We have seen marked improvements in our entry tariff, NSS results and all national and international league table positions, alongside stronger financial management and a £300 million public bond secured at a record low interest rate, which is helping to fund changes to our systems and campuses that will contribute to staff and student experience in the long term.

In Sir Christopher, we remain confident that we secured the right leader to commence our transformation and put us on track to achieve our long-term ambitions. His remuneration reflects the market value and availability of his proven skills, experience and expertise at the time of his appointment. Since appointment, Sir Christopher's performance and remuneration have been reviewed annually by Remuneration Committee, giving consideration to a range of factors including institutional performance, progress against personal objectives, market pay data, higher education pay settlements and average annual pay increases for all other University of Southampton employees.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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Sir Christopher's total remuneration was 10.9 times higher (2017: 11.2 times higher) than the £39,992 per annum median total remuneration of all University employees (2017: £39,005 per annum); his basic salary was 12.2 times higher (2017: 12.8 times higher) than the £34,520 per annum median basic salary of all University employees (2017: £33,018 per annum).

The pay ratios above exclude agency and casual workers. All the data required for these calculations is not held in an accessible format which limits our ability to provide these ratios without substantial alterations to our record keeping. This was not achievable within the timescales available.

**Taxable benefits**

In common with other senior post holders, the University provides Sir Christopher with single membership of a healthcare scheme to help ensure his availability for work, at a cost of £872 in 2018 (2017: £921). He is also entitled to biennial health screening but has elected not to take up this option to date.

Sir Christopher is contractually obliged to reside at the Vice-Chancellor's official residence in Southampton for the better performance of his duties. The residence is used regularly for University meetings and official functions. The non-taxable benefit of the official residence is £6,390 based on current market rental prices. These living arrangements incurred a taxable benefit of £3,512 in 2018 (2017: £3,708). In 2018 the University paid outstanding tax to HM Revenue & Customs relating to the private use element of the official residence, for the tax years 2015/16 and 2016/17, of £5,146.

**Compensation for loss of office**

Aggregate payments for compensation for loss of office for 119 (2017: 30) members of staff was £3,456,000 (2017: £946,000).

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

**Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs includes compensation paid to key management personnel.

The key management personnel are represented as the University Executive Board (UEB). The costs comprise the salary and benefits for the 14.8 (2017: 15.2) full-time equivalent members of UEB.

	<b>2018</b>	2017
	<b>£000</b>	£000
Key management personnel compensation	<b>3,301</b>	3,723

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**9. Staff costs (continued)****Higher Paid Staff**

Remuneration of higher paid staff based on basic salary is detailed below. Where a proportion of the salary is reimbursed by a third party, only the proportion paid by the University is included.

	2018		2017	
	Headcount	FTE	Headcount	FTE
£100,000 - £104,999	<b>41</b>	<b>25.9</b>	41	23.9
£105,000 - £109,999	<b>28</b>	<b>22.1</b>	18	16.1
£110,000 - £114,999	<b>9</b>	<b>8.1</b>	5	3.7
£115,000 - £119,999	<b>1</b>	<b>1.0</b>	2	1.7
£120,000 - £124,999	<b>4</b>	<b>2.7</b>	2	2.0
£125,000 - £129,999	<b>3</b>	<b>3.0</b>	2	2.0
£130,000 - £134,999	<b>1</b>	<b>1.0</b>	2	2.0
£135,000 - £139,999	<b>5</b>	<b>4.0</b>	6	5.1
£140,000 - £144,999	-	-	2	2.0
£145,000 - £149,999	<b>2</b>	<b>1.0</b>	1	1.0
£150,000 - £154,999	<b>1</b>	<b>1.0</b>	-	-
£155,000 - £159,999	-	-	-	-
£160,000 - £164,999	-	-	-	-
£165,000 - £169,999	-	-	-	-
£170,000 - £174,999	-	-	-	-
£175,000 - £179,999	<b>1</b>	<b>0.3</b>	-	-
£180,000 - £184,999	-	-	-	-
£185,000 - £189,999	-	-	-	-
£190,000 - £194,999	-	-	-	-
£195,000 - £199,999	-	-	-	-
£200,000 - £204,999	-	-	1	1.0
£205,000 - £209,999	<b>1</b>	<b>1.0</b>	-	-
£210,000 - £214,999	-	-	-	-
£215,000 - £219,999	-	-	1	0.2
.....	-	-	-	-
£420,000 - £424,999	<b>1</b>	<b>1.0</b>	1	1.0

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**10. Other operating expenses**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Non-capitalised equipment	<b>20,396</b>	19,909	<b>20,213</b>	19,772
Impairment of property value	<b>2,619</b>	-	<b>2,619</b>	-
Consumables and laboratory expenditure	<b>18,208</b>	18,079	<b>18,150</b>	18,028
Office expenses and professional fees	<b>31,085</b>	26,834	<b>29,761</b>	26,152
Travel costs	<b>14,762</b>	14,602	<b>14,537</b>	14,458
Repairs, refurbishment and scheduled maintenance	<b>18,387</b>	15,968	<b>17,135</b>	14,856
Heat, light, water and power	<b>9,307</b>	9,555	<b>9,281</b>	9,499
Books and periodicals	<b>5,493</b>	5,508	<b>5,493</b>	5,508
Bursaries, fellowships, scholarships and prizes	<b>28,823</b>	30,740	<b>28,812</b>	30,735
External agencies and staff secondments	<b>12,312</b>	10,896	<b>12,256</b>	10,808
Rents, rates and hire of facilities	<b>8,735</b>	9,406	<b>8,906</b>	9,688
Catering supplies	<b>2,548</b>	2,600	<b>2,433</b>	2,463
Conference fees	<b>3,391</b>	3,127	<b>3,396</b>	3,133
Grant to Students' Union	<b>2,531</b>	2,740	<b>2,531</b>	2,740
Other expenses	<b>18,297</b>	16,083	<b>19,586</b>	12,573
	<b>196,894</b>	186,047	<b>195,109</b>	180,413

Lay members and non University staff officers of the Council did not receive payment, apart from the reimbursement of expenses, for fulfilling their role as members of the governing body.

Total expenses paid to fourteen (2017: eleven) members of Council were £15,000 (2017: £7,000), representing reimbursement of travel and other expenses incurred in attending Council and related meetings, and representing the University in the UK and overseas.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**10. Other operating expenses (continued)**

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Other operating expenses include:				
Deloitte:				
External auditor's remuneration in respect of audit	<b>161</b>	-	<b>108</b>	-
External auditor's remuneration in respect of other services	<b>15</b>	-	<b>10</b>	-
Mazars:				
External auditor's remuneration in respect of audit	<b>17</b>	86	<b>17</b>	42
External auditor's remuneration in respect of other services	<b>104</b>	131	<b>104</b>	126

In addition, Deloitte completed the statutory audit of the University's pension scheme (PASNAS) at a cost of £12,000 (including VAT) for the year ended 31 July 2018.

The external audit fee for Mazars of £17,000 incurred in 2017/18 relates to audit work completed for the 2016/17 year end.

**11. Interest and other finance costs**

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Loan interest	<b>3,617</b>	3,675	<b>3,391</b>	3,419
Bond interest	<b>6,792</b>	2,066	<b>6,792</b>	2,066
Finance lease interest	<b>3,828</b>	3,718	<b>3,828</b>	3,718
Fixed rate partial termination cost	-	13,724	-	13,724
Exchange rate (gain)/loss on currency loans	<b>(70)</b>	321	<b>17</b>	339
Decrease in fair value of financial instrument	<b>(145)</b>	(166)	-	-
Net charge on pension schemes	<b>3,739</b>	3,429	<b>3,739</b>	3,429
	<b>17,761</b>	26,767	<b>17,767</b>	26,695

During 2016/17 the University restructured its borrowing commitments and as part of this exercise incurred costs of £13,724,000.

See note 21 for further information.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**12. Analysis of 2018 expenditure by activity****Consolidated**

	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	<b>2018 Total</b>	2017 Total
	£000	£000	£000	£000	<b>£000</b>	£000
Academic departments	156,668	4,289	26,774	-	<b>187,731</b>	192,931
Academic services	20,295	4,466	18,611	-	<b>43,372</b>	39,767
Research grants and contracts	53,950	4,769	24,335	-	<b>83,054</b>	82,642
Residences, catering and conferences	6,261	4,319	15,092	2,805	<b>28,477</b>	29,206
Premises	10,252	15,515	29,147	-	<b>54,914</b>	50,864
Administration and central services	25,578	537	12,367	-	<b>38,482</b>	35,857
General educational expenditure	6,724	-	47,684	-	<b>54,408</b>	44,414
Consultancies, trading and services rendered	22,490	1,049	20,792	80	<b>44,411</b>	46,578
Other activities	2,270	-	2,092	14,876	<b>19,238</b>	23,356
	<b>304,488</b>	<b>34,944</b>	<b>196,894</b>	<b>17,761</b>	<b>554,087</b>	<b>545,615</b>

**University**

	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	<b>2018 Total</b>	2017 Total
	£000	£000	£000	£000	<b>£000</b>	£000
Academic departments	156,094	4,160	26,673	-	<b>186,927</b>	192,015
Academic services	20,212	4,466	18,352	-	<b>43,030</b>	39,476
Research grants and contracts	53,950	4,755	24,010	-	<b>82,715</b>	82,152
Residences, catering and conferences	6,261	4,319	15,092	2,805	<b>28,477</b>	29,206
Premises	10,250	15,503	29,336	-	<b>55,089</b>	51,004
Administration and central services	25,101	537	12,068	-	<b>37,706</b>	34,775
General educational expenditure	6,613	-	47,219	-	<b>53,832</b>	44,413
Consultancies, trading and services rendered	21,950	959	18,542	-	<b>41,451</b>	41,402
Other activities	2,270	-	3,817	14,962	<b>21,049</b>	23,379
	<b>302,701</b>	<b>34,699</b>	<b>195,109</b>	<b>17,767</b>	<b>550,276</b>	<b>537,822</b>

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**13. Taxation**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Analysis of tax charge:</b>				
UK Corporation Tax	<b>77</b>	-	<b>58</b>	-
Deferred tax	-	(531)	-	-
	<b>77</b>	(531)	<b>58</b>	-

**Recognised in the Statement of Comprehensive Income:**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Current tax</b>				
Current tax	<b>58</b>	-	<b>58</b>	-
<b>Current tax expense</b>	<b>58</b>	-	<b>58</b>	-
<b>Deferred tax</b>				
Origination and reversal of timing differences	<b>19</b>	(531)	-	-
<b>Deferred tax expense</b>	<b>19</b>	(531)	-	-
<b>Total tax expense</b>	<b>77</b>	(531)	<b>58</b>	-

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**14. Tangible fixed assets****Consolidated**

	Freehold land and buildings	Leasehold land and buildings	Assets in course of construction	Investment properties	Fixtures, fittings and equipment	Heritage assets	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 August 2017	610,677	142,194	58,862	33,984	135,531	6,000	987,248
Additions at cost	6,197	1,876	39,250	313	13,711	35	61,382
Transfers at cost	6,808	21,253	(31,430)	-	3,369	-	-
Gain on revaluation	-	-	-	177	-	-	177
Disposals at cost	(6,237)	-	(36)	-	(1,979)	-	(8,252)
<b>At 31 July 2018</b>	<b>617,445</b>	<b>165,323</b>	<b>66,646</b>	<b>34,474</b>	<b>150,632</b>	<b>6,035</b>	<b>1,040,555</b>
<b>Depreciation</b>							
At 1 August 2017	(128,779)	(51,186)	-	(179)	(109,124)	-	(289,268)
Charge for year	(13,032)	(6,468)	-	(12)	(14,265)	-	(33,777)
Eliminated on disposal	2,027	-	-	-	1,885	-	3,912
Eliminated on write down	(2,482)	(138)	-	-	-	-	(2,620)
<b>At 31 July 2018</b>	<b>(142,266)</b>	<b>(57,792)</b>	<b>-</b>	<b>(191)</b>	<b>(121,504)</b>	<b>-</b>	<b>(321,753)</b>
<b>Net book value</b>							
<b>At 31 July 2018</b>	<b>475,179</b>	<b>107,531</b>	<b>66,646</b>	<b>34,283</b>	<b>29,128</b>	<b>6,035</b>	<b>718,802</b>
At 1 August 2017	481,898	91,008	58,862	33,805	26,407	6,000	697,980

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**14. Tangible fixed assets (continued)****University**

	Freehold land and buildings £000	Leasehold land and buildings £000	Assets in course of construction £000	Fixtures, fittings and equipment £000	Heritage assets £000	Total £000
<b>Cost or valuation</b>						
At 1 August 2017	610,675	139,781	58,789	133,304	6,000	948,549
Additions at cost	6,197	1,855	38,568	13,226	35	59,881
Transfers at cost	6,809	21,252	(31,430)	3,369	-	-
Disposals at cost	(6,237)	-	(36)	(1,755)	-	(8,028)
<b>At 31 July 2018</b>	<b>617,444</b>	<b>162,888</b>	<b>65,891</b>	<b>148,144</b>	<b>6,035</b>	<b>1,000,402</b>
<b>Depreciation</b>						
At 1 August 2017	(128,779)	(51,101)	-	(107,305)	-	(287,185)
Charge for year	(13,031)	(6,420)	-	(14,081)	-	(33,532)
Eliminated on disposal	2,027	-	-	1,661	-	3,688
Eliminated on write down	(2,482)	(138)	-	-	-	(2,620)
<b>At 31 July 2018</b>	<b>(142,265)</b>	<b>(57,659)</b>	<b>-</b>	<b>(119,725)</b>	<b>-</b>	<b>(319,649)</b>
<b>Net book value</b>						
<b>At 31 July 2018</b>	<b>475,179</b>	<b>105,229</b>	<b>65,891</b>	<b>28,419</b>	<b>6,035</b>	<b>680,753</b>
At 1 August 2017	481,896	88,680	58,789	25,999	6,000	661,364

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**14. Tangible fixed assets (continued)**

At 31 July 2018, freehold land and buildings included £92,804,000 (2017: £94,996,000) in respect of land, which is not depreciated.

The figures for completed leasehold land include an asset held under a finance lease which has been capitalised. This is held at a cost of £49,000,000, with accumulated depreciation of £3,757,000 (2017: £2,777,000) and a net book value of £45,243,000 (2017: £46,223,000).

Included in the balances for leasehold land and buildings is expenditure of £27,800,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £14,600,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2018 by Vail Williams LLP. In accordance with FRS 102, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £277,000 during the year. The historical cost of these assets at 31 July 2018, net of assistance grants, amounted to £30,838,000 (2017: £30,504,000).

In addition to the above expenditure on tangible assets a further £61,433,000 has been committed by the University and its subsidiary undertakings (note 26).

**Heritage Assets**

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

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

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

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

In 2017/18, the Honor Frost Archive (1940s to 2010) was donated to the University. The archive provides a comprehensive record of Honor Frost's archaeological work, together with series of correspondence, photographs and material relating to publications and research. The archive has been attributed a value of £35,000.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**15. Intangible assets****Consolidated and University**

	Software £000	Software in progress £000	Total £000
<b>Cost or valuation</b>			
At 1 August 2017	15,658	1,062	16,720
Additions at cost	2	53	55
Transfers at cost	234	(234)	-
Disposals at cost	-	(829)	(829)
<b>At 31 July 2018</b>	<b>15,894</b>	<b>52</b>	<b>15,946</b>
<b>Amortisation</b>			
At 1 August 2017	(13,332)	-	(13,332)
Charge for year	(1,167)	-	(1,167)
<b>At 31 July 2018</b>	<b>(14,499)</b>	<b>-</b>	<b>(14,499)</b>
<b>Net book value</b>			
<b>At 31 July 2018</b>	<b>1,395</b>	<b>52</b>	<b>1,447</b>
At 1 August 2017	2,326	1,062	3,388

**16. Non-current investments****Consolidated**

	Subsidiary companies £000	Investments held by subsidiaries £000	Other fixed asset investments £000	Total £000
<b>At 1 August 2017</b>	-	1,262	1,152	2,414
Additions	-	-	100	100
Disposals	-	(38)	-	(38)
Market value gain	-	188	-	188
Impairment	-	(63)	-	(63)
<b>At 31 July 2018</b>	<b>-</b>	<b>1,349</b>	<b>1,252</b>	<b>2,601</b>

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**16. Non-current investments (continued)****University**

	Subsidiary companies	Investments held by subsidiaries	Other fixed asset investments	Total
	£000	£000	£000	£000
<b>At 1 August 2017</b>	18,105	-	1,152	19,257
Additions	1,685	-	100	1,785
Disposals	(38)	-	-	(38)
Impairment	38	-	-	38
<b>At 31 July 2018</b>	<b>19,790</b>	<b>-</b>	<b>1,252</b>	<b>21,042</b>

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

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

	Percentage holding	Nature of activity
<b>Held by the University</b>		
AccelerComm Limited	19.96	Enterprise
ECS Partners Limited (ECSP Limited)	100.00	Consultancy
IT Innovation Limited	100.00	Dormant
IT Innovation Centre Limited	100.00	Dormant
Southampton Asset Management Limited (SAM Limited)	80.00	Investment company
Southampton Innovations Limited (SI Limited)	100.00	Investment company
Southampton International Singapore Limited	100.00	* Research
USMC Sdn Bhd (Malaysia)	100.00	Education
University of Southampton Holdings Limited (USH Limited)	100.00	Investment company
The University of Southampton Science Park Limited (SSP Limited)	100.00	Science park management
Lumenicity Limited	10.46	Research

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

All of the above subsidiary companies are domiciled in England and Wales, apart from USMC Sdn Bhd and Southampton International Singapore Limited, which are domiciled in Malaysia and Singapore respectively.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**16. Non-current investments (continued)****Investments held by USH Limited**

Clantect Limited	33.00	Enterprise
Renovos Biologics Limited	25.00	Enterprise
Southampton Education Consulting (Beijing) Limited	100.00	Dormant
Z21 Limited	100.00	Dormant

All of the above subsidiary companies are domiciled in England and Wales, with the exception of Southampton Education Consulting (Beijing) Limited, which is domiciled in China.

**17. Investment in associate****Consolidated**

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>At 1 August</b>	<b>299</b>	-
Share of operating (loss)/surplus	<b>(108)</b>	299
<b>At 31 July</b>	<b>191</b>	299

University of Southampton Holdings Limited owns 33% of Clantect Ltd. It has a financial year end of 31 October. The consolidated Financial Statements of the University reflect a carrying value of £191,000 (2017: £299,000) equal to 33% of the net assets at 31 July 2018.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**18. Trade and other receivables**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Amounts falling due within one year:				
Grants from Office for Students/Research England	<b>6,930</b>	5,585	<b>6,930</b>	5,585
Student debtors	<b>1,053</b>	1,181	<b>1,053</b>	1,181
Research grants and contracts	<b>27,866</b>	39,861	<b>27,866</b>	39,861
Trade and other receivables	<b>20,575</b>	19,574	<b>19,120</b>	18,112
Amounts due from group undertakings	-	-	<b>1,063</b>	1,646
Prepayments to group undertakings	-	-	<b>102</b>	109
Other prepayments	<b>9,786</b>	9,519	<b>9,137</b>	8,933
	<b>66,210</b>	75,720	<b>65,271</b>	75,427
Amounts falling due after more than one year:				
Prepayments	<b>2,221</b>	2,978	<b>2,132</b>	2,895
Amounts owed by subsidiary undertakings	-	-	<b>6,491</b>	7,441
	<b>68,431</b>	78,698	<b>73,894</b>	85,763

The 2016/17 figure for receivables from research grants and contracts included an amount for capital grant income of £12,800,000 relating to funds owed by EPSRC.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**19. Current investments**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Cash on deposit	<b>193,397</b>	302,031	<b>193,397</b>	302,031
Investment in shares (at fair value)	<b>32,184</b>	32,040	<b>32,184</b>	32,040
	<b>225,581</b>	334,071	<b>225,581</b>	334,071

**20. Creditors: amounts falling due within one year**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans	<b>2,902</b>	2,818	<b>2,053</b>	2,018
Other loans - Office for Students	<b>1,000</b>	1,000	<b>1,000</b>	1,000
Obligations under finance leases	<b>321</b>	299	<b>316</b>	293
Research grant income received in advance	<b>50,218</b>	48,839	<b>50,218</b>	48,839
Social Security and other taxation	<b>13,020</b>	13,420	<b>13,016</b>	13,415
Amounts owed to group undertakings	-	-	<b>75</b>	352
Trade and other creditors	<b>28,952</b>	23,043	<b>27,482</b>	21,811
Accruals and deferred income	<b>65,787</b>	58,730	<b>64,224</b>	57,244
	<b>162,200</b>	148,149	<b>158,384</b>	144,972

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**21. Creditors: amounts falling due after more than one year**

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Bank loans	<b>67,564</b>	70,442	<b>63,529</b>	65,558
Other loans - Office for Students	-	1,000	-	1,000
Public bond	<b>298,367</b>	298,325	<b>298,367</b>	298,325
Obligations under finance leases	<b>47,525</b>	47,846	<b>47,523</b>	47,839
Accruals and deferred income	<b>6,681</b>	2,280	<b>4,659</b>	236
Derivatives	<b>273</b>	418	-	-
	<b>420,410</b>	420,311	<b>414,078</b>	412,958

**Loans are repayable as follows:**

	Consolidated		University	
	2018	2017	2018	2017
	£000	£000	£000	£000
Bank loans:				
Between one and two years	<b>2,405</b>	2,897	<b>1,504</b>	2,049
Between two and five years	<b>6,890</b>	6,894	<b>3,756</b>	4,022
Over five years	<b>58,269</b>	60,651	<b>58,269</b>	59,487
Due after more than one year	<b>67,564</b>	70,442	<b>63,529</b>	65,558
Due within one year (note 20)	<b>2,902</b>	2,818	<b>2,053</b>	2,018
	<b>70,466</b>	73,260	<b>65,582</b>	67,576
Other loans - Office for Students:				
Between one and two years	-	1,000	-	1,000
Due after more than one year	-	1,000	-	1,000
Due within one year (note 20)	<b>1,000</b>	1,000	<b>1,000</b>	1,000
	<b>1,000</b>	2,000	<b>1,000</b>	2,000
Public bond:				
Over five years	<b>298,367</b>	298,325	<b>298,367</b>	298,325
	<b>298,367</b>	298,325	<b>298,367</b>	298,325

## Notes to the Financial Statements for the year ended 31 July 2018

### 21. Creditors: amounts falling due after more than one year (continued)

Obligations under finance leases:

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Between one and two years	343	320	341	316
Between two and five years	1,188	1,105	1,188	1,103
Over five years	45,994	46,421	45,994	46,421
Due after more than one year	<b>47,525</b>	47,846	<b>47,523</b>	47,840
Due within one year (note 20)	<b>321</b>	299	<b>316</b>	293
	<b>47,846</b>	48,145	<b>47,839</b>	48,133

In April 2017 an unsecured fixed rate public bond was issued for £300 million over a 40 year term with a coupon rate of 2.25%. The bond was issued at 99.76% of the principal amount. It is listed on the London Stock Exchange. There are no capital repayments to be made over the term, with full repayment due in 2057. Interest is payable every six months.

The bond transaction costs of £980,000 and the bond discount of £708,000 are being amortised over the life of the bond and charged to interest and other finance costs.

#### Additional information on bank loans:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2018 £000	Balance outstanding 2017 £000
University:					
National Westminster Bank	1999	2019	fixed	549	1,066
Barclays Bank	1999	2020	fixed	619	894
Barclays Bank	2006	2026	variable	5,593	6,312
Barclays Bank	2006	2036	fixed	8,821	9,304
Barclays Bank	2007	2037	fixed	50,000	50,000
				<b>65,582</b>	67,576
Subsidiaries:					
Santander	2007	2023	fixed	4,884	5,684
				<b>70,466</b>	73,260

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 1.59% to 5.70%, and the variable rate margin is 0.50% over Euribor. The National Westminster Bank loan is secured by Romero Hall and Gateley Hall, Southampton. All other loans are secured against the general covenant of the University.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**22. Provisions****Consolidated**

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 28) £000	Maintenance Fund £000	Deferred tax £000	Total Provisions £000
<b>At 1 August 2017</b>	54,106	105,973	208	534	160,821
Utilised in year	(3,471)	-	(586)	-	(4,057)
(Reductions)/additions in year	(3,901)	(14,183)	695	19	(17,370)
<b>At 31 July 2018</b>	<b>46,734</b>	<b>91,790</b>	<b>317</b>	<b>553</b>	<b>139,394</b>

**University**

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 28) £000	Total Provisions £000
<b>At 1 August 2017</b>	54,106	105,973	160,079
Utilised in year	(3,471)	-	(3,471)
(Reductions)/additions in year	(3,901)	(14,183)	(18,084)
<b>At 31 July 2018</b>	<b>46,734</b>	<b>91,790</b>	<b>138,524</b>

**USS Pension Deficit**

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme. In accordance with the requirements of the SORP, the University currently recognises a provision for this obligation. The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. The provision has been discounted at a rate of 2.21% as at 31 July 2018. Management have assessed the number of future employees within the USS scheme and salary payments over the period of the contracted obligation in assessing the value of this provision.

**Defined Benefit Obligations**

This relates to two defined benefit pension schemes, PASNAS and HCC, to which the University pays contributions on behalf of some of its staff. This provision records the deficit that exists on PASNAS as at 31 July 2018. HCC has a balance of fund assets and liabilities which net to nil at 31 July 2018.

**Maintenance Fund**

The maintenance fund (into which payments are made from landlord and tenants) provides funding for future maintenance of buildings, roadways and other common areas at Southampton Science Park, and includes payments from tenants who have since left the Science Park. The fund is held by University of Southampton Science Park Limited. Provisions are only made when there is a legally binding commitment arising from a past event.

**Deferred Tax**

The provision for deferred tax relates to tax liabilities arising from the revaluation of the University of Southampton Science Park, the revaluation of a financial instrument, and the revaluation of investments held by subsidiary companies at fair value.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**23. Endowment reserves****Consolidated**

	Restricted Permanent £000	Unrestricted Permanent £000	Restricted Expendable £000	<b>2018 Total £000</b>	2017 Total £000
<b>At 1 August</b>					
Capital	7,359	2,482	2,199	<b>12,040</b>	11,520
Accumulated income	731	-	173	<b>904</b>	977
	<u>8,090</u>	<u>2,482</u>	<u>2,372</u>	<b>12,944</b>	12,497
New endowments	2	-	-	<b>2</b>	5
Investment income	144	58	48	<b>250</b>	216
Expenditure	(102)	(58)	(86)	<b>(246)</b>	(276)
	42	-	(38)	<b>4</b>	(60)
Increase in market value of investments	82	27	24	<b>133</b>	502
<b>At 31 July</b>	<b>8,216</b>	<b>2,509</b>	<b>2,358</b>	<b>13,083</b>	<b>12,944</b>
Represented by:					
Capital	7,443	2,509	2,224	<b>12,176</b>	12,040
Accumulated income	773	-	134	<b>907</b>	904
	<b>8,216</b>	<b>2,509</b>	<b>2,358</b>	<b>13,083</b>	12,944
Analysis by type of purpose:					
Chair/Lectureships	3,521	-	-	<b>3,521</b>	3,471
Scholarships and bursaries	1,772	-	649	<b>2,421</b>	2,387
Research support	-	-	1,127	<b>1,127</b>	1,113
Prize funds	462	-	148	<b>610</b>	634
Welfare/Hardship	647	-	37	<b>684</b>	677
General	1,814	2,509	397	<b>4,720</b>	4,662
	<b>8,216</b>	<b>2,509</b>	<b>2,358</b>	<b>13,083</b>	12,944
Analysis by asset:					
Current and non-current asset investments				<b>12,158</b>	12,027
Cash and cash equivalents				<b>925</b>	917
				<b>13,083</b>	12,944

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**24. Restricted Reserves**

Reserves with restrictions are as follows:

	Unspent Capital Grants £000	Donations /Other Restricted Funds £000	<b>2018 Total £000</b>	2017 Total £000
<b>Balances at 1 August</b>	16,093	2,569	<b>18,662</b>	12,153
New grants	7,957	-	<b>7,957</b>	33,748
New donations/other restricted funds	-	10,331	<b>10,331</b>	7,585
Capital grants utilised	(24,050)	-	<b>(24,050)</b>	(17,175)
Expenditure	-	(10,883)	<b>(10,883)</b>	(17,649)
Total restricted comprehensive income for the year	(16,093)	(552)	<b>(16,645)</b>	6,509
<b>Balances at 31 July</b>	<b>-</b>	<b>2,017</b>	<b>2,017</b>	18,662

	<b>2018 Total £000</b>	2017 Total £000
Analysis of donations/other restricted funds by type of purpose:		
Capital grants	-	16,093
Research activities	<b>1,265</b>	1,188
Student support	<b>438</b>	676
Scholarships and bursaries	<b>65</b>	138
Outreach	<b>88</b>	85
Other	<b>161</b>	482
<b>Balances at 31 July</b>	<b>2,017</b>	18,662

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## Notes to the Financial Statements for the year ended 31 July 2018

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### 25. Related party transactions

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

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

The University has a strong partnership with the University Hospital Southampton NHS Foundation Trust; most of the Faculty of Medicine's accommodation is on the Trust's Southampton General Hospital site, and the link with clinical services in the NHS is critical for the delivery of the Faculty's education, research and enterprise strategies. Mr Peter Hollins, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board. Dr David Price, the Treasurer, was also a non-executive member of the University Hospital Southampton NHS Foundation Trust Board until January 2018. Professor Iain Cameron, Dean of the Faculty of Medicine, was also a non-executive member of the University Hospital Southampton NHS Foundation Trust Board until December 2017.

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2018 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Executive Director, Finance and Planning. There were a number of related party transactions during the year ended 31 July 2018 significant enough to warrant disclosure in the Financial Statements.

Mr Philip Greenish, a lay member of Council, was also Chief Executive of the Royal Academy of Engineering until 31 December 2017. The University is in receipt of a number of research grants from the Royal Academy of Engineering. Income to the University was a total of £403,000 in 2017/18 (2016/17: £319,000).

Ms Flora Noble and Ms Emily Dawes were members of Council (Class 5 membership) as representatives of the Students' Union. Ms Emily Dawes (Ms Noble for the period July 2017 to June 2018) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a grant from the University, an amount of £2,531,000 in 2017/18 (2016/17: £2,740,000), which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

In July 2018 the University became a partner of the Alan Turing Institute, the national centre for data science. The University has agreed to make a grant of £5 million to the Institute, of which a balance of £4,667,000 is held under creditors as at 31 July 2018. The University did not receive any grant income from the Institute in the year to 31 July 2018.

In accordance with the exemptions contained within FRS 102 Financial Reporting Standard Section 33 (Related Party Disclosures) no disclosure has been made for transactions between the University and wholly owned group undertakings. Transactions between the University and spin-out companies in which minority shareholdings are held are not generally disclosed as the University does not control or exercise any significant influence over the financial and operating policies of the companies.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**26. Capital and other commitments**

Provision has not been made for the following capital and other commitments at 31 July 2018:

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Commitments contracted for	<b>61,433</b>	54,447	<b>61,144</b>	54,374
	<b>61,433</b>	54,447	<b>61,144</b>	54,374

**27a. Lease obligations**

At 31 July 2018 the University was committed to making the following payments under non-cancellable operating leases:

**Consolidated**

	Land and buildings	Plant and machinery	<b>2018</b> <b>Total</b>	Restated
				2017 Total
	£000	£000	<b>£000</b>	£000
Future minimum lease payments due:				
Not later than one year	3,103	504	<b>3,607</b>	4,439
Between one and five years	6,605	1,423	<b>8,028</b>	8,427
Over five years	15,356	-	<b>15,356</b>	16,754
	<b>25,064</b>	<b>1,927</b>	<b>26,991</b>	29,620

**University**

	Land and buildings	Plant and machinery	<b>2018</b> <b>Total</b>	Restated
				2017 Total
	£000	£000	<b>£000</b>	£000
Future minimum lease payments due:				
Not later than one year	2,928	504	<b>3,432</b>	4,339
Between one and five years	6,764	1,423	<b>8,187</b>	8,307
Over five years	15,356	-	<b>15,356</b>	16,754
	<b>25,048</b>	<b>1,927</b>	<b>26,975</b>	29,400

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**27b. Lease receivables**

At 31 July 2018 the principal future minimum lease payments receivable under non-cancellable leases are as follows:

**Land and buildings:**

	<b>Consolidated</b>		<b>University</b>	
	<b>2018</b>	Restated 2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
Less than one year	<b>5,953</b>	5,800	<b>3,823</b>	3,837
Between one and five years	<b>18,980</b>	18,813	<b>15,746</b>	15,674
More than five years	<b>65,399</b>	72,811	<b>60,934</b>	66,822
	<b>90,332</b>	97,424	<b>80,503</b>	86,333

The 2017 figures for lease obligations and lease receivables have been restated to reflect the impact of break clauses in lease agreements.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes**

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

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

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

The pension scheme costs incurred in 2017/18 and 2016/17 for the consolidated group are summarised as follows:

	2017/18			2016/17		
	Employer contributions £000	Pension accounting adjustment £000	Total Cost £000	Employer contributions £000	Pension accounting adjustment £000	Total Cost £000
USS	29,664	-	29,664	29,977	-	29,977
PASNAS*	6,471	7,277	13,748	6,513	6,025	12,538
NHPS	1,278	-	1,278	1,181	-	1,181
Other pension schemes	2,221	(1,740)	481	864	(350)	514
Total pension cost (note 9)	<b>39,494</b>	<b>5,537</b>	<b>45,171</b>	<b>38,535</b>	<b>5,675</b>	<b>44,210</b>

\* The figure for PASNAS employer contributions excludes an amount of £120,000 (2017: £142,000) which is made on behalf of a third party at no cost to the University.

In addition to the employer contributions made to USS detailed above, there is also the impact of the movement in the USS provision relating to the deficit recovery scheme (see note 22 for further details).

Employer contributions in 2018/19 are expected to be:

	Rate %	£000
USS **	18.00	29,723
PASNAS	17.25	6,564
TPS	16.48	39
NHPS	14.30	1,333
MRCPS	15.90	106
HCC (two separate schemes)	31.70	769
	36.90	378
NEST	3.00	145

HCC contributions include a capital contribution for past service of £1,098,000 which is payable over and above the salary based rates.

\*\* The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges. The rate and projected contributions above take no account of any future changes to the current recovery plan.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

The University has fully adopted the disclosure rules of FRS 102 Section 28 'Employee Benefits'. The notes that follow show the detailed valuations required by the standard. The University continues to support the schemes based on the principles of on-going operations, as advised by the scheme trustees and actuaries.

The actuaries' recommendations for contributions to USS, PASNAS and HCC are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. The latest valuations of the schemes' assets and liabilities for which results are available are:

	<b>USS</b>	<b>PASNAS</b>	<b>HCC</b>
Date of valuation	31 March 2014	31 July 2015	31 March 2016
Market valuation of assets	£41,600 million	£170 million	£5,213 million
Past service liabilities	£46,900 million	£210 million	£6,453 million
Deficit of assets	(£5,300) million	(£40) million	(£1,240) million

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

The latest available complete actuarial valuation of the USS Retirement Income Builder section of the scheme is at 31 March 2014 (the valuation date). The valuation as at 31 March 2017 is underway but not yet completed.

**USS**

The assets of USS are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS is a multi-employer hybrid pension scheme, which provides defined benefits (for all members) as well as defined contribution benefits. It is not possible to identify each institutional members' share of the assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102 paragraph 28.11, this scheme is accounted for as if it were a wholly defined contribution scheme. The University is exposed to actuarial risks associated with other universities' employees.

The amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period.

As a result of the triennial valuation of the USS at 31 March 2014, the University entered into an agreement (the Recovery Plan) which sets the level of employer contributions required towards the correction of the deficit on the defined benefit section of USS. A provision is recognised for the contributions payable that arise from the agreement to the extent that they relate to the deficit (note 22) and the resulting expense is recorded in the Statement of Comprehensive Income.

As the University cannot identify its share of the Retirement Income Builder Section scheme assets and liabilities, the following disclosures reflect those for the scheme as a whole. At the 2014 valuation date, the value of the assets of the scheme was £41,600 million and the value of the scheme's technical provision was £46,900 million indicating a shortfall of £5,300 million. These figures will be revised once the 2017 Scheme Valuation is complete.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

As at 31 March 2018, USS had over 195,000 active members and the University had 3,909 active members participating in the scheme at year end.

The total employer contributions for the year were £29,664,000 (2017: £29,977,000) which includes £2,459,000 (2017: £2,515,000) of contributions outstanding at the Balance Sheet date, payable in August 2018.

**NHPS/TPS/MRCPS**

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

The number of members of these schemes employed by the University as at 31 July 2018 was TPS 3; NHPS 141 and MRCPS 13.

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

	<b>Pension cost</b>		<b>Outstanding at 31 July</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>£000</b>	£000	<b>£000</b>	£000
NHPS	<b>1,278</b>	1,181	<b>109</b>	103
TPS	<b>41</b>	69	<b>3</b>	5
MRCPS	<b>114</b>	124	<b>9</b>	10

**NEST**

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

The total pension cost for the year was £132,000 (2017: £144,000) which includes £12,000 (2017: £13,000) of contributions outstanding at the Balance Sheet date, payable in August 2018.

The number of members of this scheme as at 31 July 2018 was 853.

**Federated Superannuation Scheme for Universities (FSSU)**

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year there was no payments (2017: £0) made to former members of FSSU or widows of members in respect of these unfunded liabilities.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)****PASNAS**

The University operates a final salary defined benefit scheme for non-academic staff (PASNAS). The scheme is funded by contributions made in accordance with the recommendations of the scheme's actuaries. Following a consultation process, in May 2018 Council ratified a decision to close the scheme to new members as at 31 December 2018. All new eligible staff will be enrolled into a new defined contribution arrangement from 1 January 2019.

As at 31 July 2018 there was a total of 1,971 active members of PASNAS.

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2015 and indicated that the scheme's assets represented 81% of the technical provisions. No allowance has been made for Guaranteed Minimum Pension (GMP) Equalisation in the current valuation.

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2018	31 July 2017
Increase in salaries	3.50% pa	3.60% pa
Increase in pensions – pre 1 Oct 2010 (CPI)	2.50% pa	2.60% pa
Increase in pensions – post 1 Oct 2010 (CPI max 2.5%)	1.90% pa	1.95% pa
Discount rate	2.80% pa	2.70% pa
Inflation (RPI)	3.50% pa	3.60% pa
Inflation (CPI)	2.50% pa	2.60% pa

The changes in the above financial assumptions - the increase in the discount rate and the reduction in inflation and salary increases - have had a positive impact of £13.4 million on the overall scheme deficit.

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of male and female members at age 65.

	Retiring today	Retiring in 20 years
Male	21.9	23.7
Female	24.2	26.0

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

The asset allocation of the scheme's assets calculated at fair value is:

	<b>Value 31 July 2018 £000</b>	Value 31 July 2017 £000	Value 31 July 2016 £000
Gilts	<b>31,496</b>	27,268	24,511
Bonds	<b>31,496</b>	29,366	18,855
Equities	<b>92,240</b>	94,390	99,930
Target return funds and cash	<b>49,494</b>	48,243	35,824
Property	<b>20,248</b>	10,488	9,427
Total	<b>224,974</b>	209,755	188,547

**Analysis of the amount shown in the balance sheet**

Scheme assets	<b>224,974</b>	209,755
Scheme liabilities	<b>(316,764)</b>	(314,238)
Deficit in the scheme – net pension liability recorded within pension provisions (note 22)	<b>(91,790)</b>	(104,483)

**Analysis of the amount charged to staff costs within operating surplus**

Current service cost	<b>(13,868)</b>	(12,680)
Total operating charge	<b>(13,868)</b>	(12,680)

**Analysis of the amount charged to interest payable within operating surplus**

Expected return on scheme assets	<b>5,663</b>	4,927
Interest cost	<b>(8,381)</b>	(7,225)
Net finance cost	<b>(2,718)</b>	(2,298)

**Analysis of other comprehensive income**

Gain on assets	<b>9,611</b>	14,391
Experience (losses)/gains on liabilities	<b>(292)</b>	2,523
Gains/(losses) from changes to financial assumptions	<b>13,369</b>	(20,883)
Credit/(charge) to other comprehensive income	<b>22,688</b>	(3,969)

**Movement in deficit during the year**

Deficit in scheme at beginning of the year	<b>(104,483)</b>	(92,191)
Movement in the year:		
Current service cost	<b>(13,868)</b>	(12,680)
Contributions	<b>6,591</b>	6,655
Net finance cost	<b>(2,718)</b>	(2,298)
Gain/(loss) recognised in other comprehensive income	<b>22,688</b>	(3,969)
Deficit in scheme at end of year	<b>(91,790)</b>	(104,483)

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	<b>209,755</b>	188,547
Employer contributions	<b>6,591</b>	6,655
Employee contributions	<b>2,557</b>	2,516
Benefits paid (net of expenses)	<b>(8,018)</b>	(6,045)
Administration costs	<b>(1,185)</b>	(1,236)
Interest on assets	<b>5,663</b>	4,927
Return on scheme assets	<b>9,611</b>	14,391
Assets at end of year	<b>224,974</b>	209,755

**Analysis of movement in present value of liabilities**

Liabilities at beginning of year	<b>(314,238)</b>	(280,738)
Current service cost	<b>(13,868)</b>	(12,680)
Interest on scheme liabilities	<b>(8,381)</b>	(7,225)
Employee contributions	<b>(2,557)</b>	(2,516)
Benefits paid	<b>9,203</b>	7,281
Actuarial experience (loss)/gain on liabilities	<b>(292)</b>	2,523
Changes in assumptions underlying the present value of the scheme liabilities	<b>13,369</b>	(20,883)
Liabilities at end of year	<b>(316,764)</b>	(314,238)

	<b>2018</b>	2017	2016
<b>History of experience gains and losses</b>			
Experience gains on assets in excess of interest (£000)	<b>9,611</b>	14,391	10,881
Percentage of scheme assets	<b>4.3%</b>	6.9%	5.8%
Experience (losses)/gains on liabilities (£000)	<b>(292)</b>	2,523	9,652
Percentage of scheme liabilities	<b>0.1%</b>	0.8%	3.4%

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)****HCC**

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

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2018	31 July 2017
Increase in salaries	3.6% pa	3.5% pa
Increase in pensions	2.1% pa	2.0% pa
Discount rate	2.8% pa	2.6% pa
RPI inflation	3.2% pa	3.1% pa
CPI inflation	2.1% pa	2.0% pa

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

	Retiring today	Retiring in 20 years
Male	24.1	26.2
Female	27.2	29.4

The number of active members of this scheme employed by the University as at 31 July 2018 was 4.

The asset allocation of the scheme's assets calculated at fair value is:

	<b>Value 31 July 2018 £000</b>	Value 31 July 2017 £000	Value 31 July 2016 £000
Equities	<b>4,960</b>	3,415	2,692
Government bonds	<b>1,802</b>	363	1,249
Property	<b>546</b>	1,384	352
Corporate bonds	<b>86</b>	61	86
Cash	<b>164</b>	167	247
Other	<b>242</b>	190	124
Total	<b>7,800</b>	5,580	4,750

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Analysis of the amount shown in the balance sheet</b>		
Scheme assets	<b>7,800</b>	5,580
Scheme liabilities	<b>(7,050)</b>	(7,070)
Adjustment in respect of FRS 102 section 28.22	<b>(750)</b>	-
Nil balance/(deficit) in the scheme – net pension liability recorded within pension provisions (note 22)	<b>-</b>	(1,490)
<b>Analysis of the amount charged to staff costs within operating surplus</b>		
Current service cost	<b>(50)</b>	(50)
Total operating charge	<b>(50)</b>	(50)
<b>Analysis of the amount charged to interest payable within operating surplus</b>		
Expected return on scheme assets	<b>160</b>	110
Interest on scheme liabilities	<b>(180)</b>	(170)
Net finance cost	<b>(20)</b>	(60)
<b>Analysis of other comprehensive income</b>		
Gain on assets	<b>470</b>	530
Gain on liabilities	<b>50</b>	350
Charge to other comprehensive income	<b>520</b>	880
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year	<b>(1,490)</b>	(2,660)
Movement in the year:		
Current service cost	<b>(50)</b>	(50)
Employer contributions	<b>1,790</b>	400
Net finance cost	<b>(20)</b>	(60)
(Loss)/gain recognised in other comprehensive income	<b>(230)</b>	880
Nil balance/(deficit) in scheme at end of year	<b>-</b>	(1,490)
<b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	<b>5,580</b>	4,750
Employer contributions	<b>1,790</b>	400
Employee contributions	<b>10</b>	10
Benefits paid	<b>(210)</b>	(220)
Interest on assets	<b>160</b>	110
Return on scheme assets	<b>470</b>	530
Assets at end of year	<b>7,800</b>	5,580

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**28. Pension Schemes (continued)**

	<b>2018</b>	2017
	<b>£000</b>	£000
<b>Analysis of movement in present value of liabilities</b>		
Liabilities at beginning of year	<b>(7,070)</b>	(7,410)
Current service cost	<b>(50)</b>	(50)
Interest on scheme liabilities	<b>(180)</b>	(170)
Employee contributions	<b>(10)</b>	(10)
Benefits paid	<b>210</b>	220
Actuarial experience gain on liabilities	<b>50</b>	350
Liabilities at end of year	<b>(7,050)</b>	(7,070)

Based on the present values of the fund assets and fund liabilities at the reporting date, the scheme had a surplus of £750,000 at 31 July 2018. In line with the guidance provided by section 28.22 of FRS 102, this surplus has not been recognised.

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**29. Financial Instruments**

The University's Treasury function monitors and manages the financial assets and liabilities relating to our operations and the financial risks that arise from these instruments. The identified risks - credit risk, liquidity risk and interest rate risk - are actively managed to limit the potential impact of any adverse events on our financial sustainability.

The carrying value of the Consolidated and University financial assets and liabilities are summarised by category below:

		<b>Consolidated</b>		<b>University</b>	
		<b>2018</b>	2017	<b>2018</b>	2017
Note		<b>£000</b>	£000	<b>£000</b>	£000
<b>Financial assets:</b>					
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Investments in unit trusts	23	<b>12,158</b>	12,027	<b>12,158</b>	12,027
Other investments	19	<b>20,026</b>	20,013	<b>20,026</b>	20,013
Investment in ordinary shares	16	<b>1,349</b>	1,262	-	-
<i>Equity instruments measured at cost less impairment</i>					
Non-current asset investments	16	<b>1,252</b>	1,152	<b>1,252</b>	1,152
<i>Debt instruments measured at amortised cost</i>					
Long-term loans receivable	18	-	-	<b>6,491</b>	7,441
<i>Measured at undiscounted amount receivable</i>					
Trade and other receivables	18	<b>28,557</b>	26,340	<b>28,268</b>	26,633
		<b>63,342</b>	60,794	<b>68,195</b>	67,266
<b>Financial liabilities:</b>					
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Derivative financial liabilities	21	<b>273</b>	418	-	-
<i>Measured at amortised cost</i>					
Loans payable	21	<b>417,679</b>	421,730	<b>412,788</b>	416,034
<i>Measured at undiscounted amount payable</i>					
Trade and other creditors	20	<b>74,733</b>	64,316	<b>71,772</b>	61,945
		<b>492,685</b>	486,464	<b>484,560</b>	477,979

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**Notes to the Financial Statements for the year ended 31 July 2018**


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**29. Financial Instruments (continued)**

The Consolidated and University's income, expenses, gains and losses in respect of financial instruments are summarised below:

	Note	Consolidated		University	
		2018 £000	2017 £000	2018 £000	2017 £000
<i>Interest income and (expense)</i>					
Total income for financial assets at amortised cost	7	<b>2,960</b>	1,420	<b>3,287</b>	1,748
Total interest expense for financial liabilities at amortised cost	11	<b>(14,237)</b>	(9,459)	<b>(14,011)</b>	(9,203)
		<u><b>(11,277)</b></u>	<u>(8,039)</u>	<u><b>(10,724)</b></u>	<u>(7,455)</u>
<i>Fair value gains and (losses)</i>					
On financial assets measured at fair value through the Statement of Comprehensive Income	16	<b>328</b>	(806)	<b>146</b>	487
On derivative financial liabilities	11	<b>(145)</b>	(166)	-	-
		<u><b>183</b></u>	<u>(972)</u>	<u><b>146</b></u>	<u>487</u>

**30. National College for Teaching and Leadership (NCTL) bursaries****Consolidated**

	At 1 August 2017 £000	Income received £000	Disbursements £000	Returned to NCTL £000	At 31 July 2018 £000
Student training bursaries	<b>205</b>	<b>3,299</b>	(3,097)	<b>(136)</b>	<b>271</b>
	<u><b>205</b></u>	<u><b>3,299</b></u>	<u>(3,097)</u>	<u><b>(136)</b></u>	<u><b>271</b></u>

The receipts and disbursements above are excluded from the Statement of Comprehensive Income as the funds are administered by the University on an agency basis on behalf of the NCTL.



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