University of Sussex
Financial Statements 2010/2011

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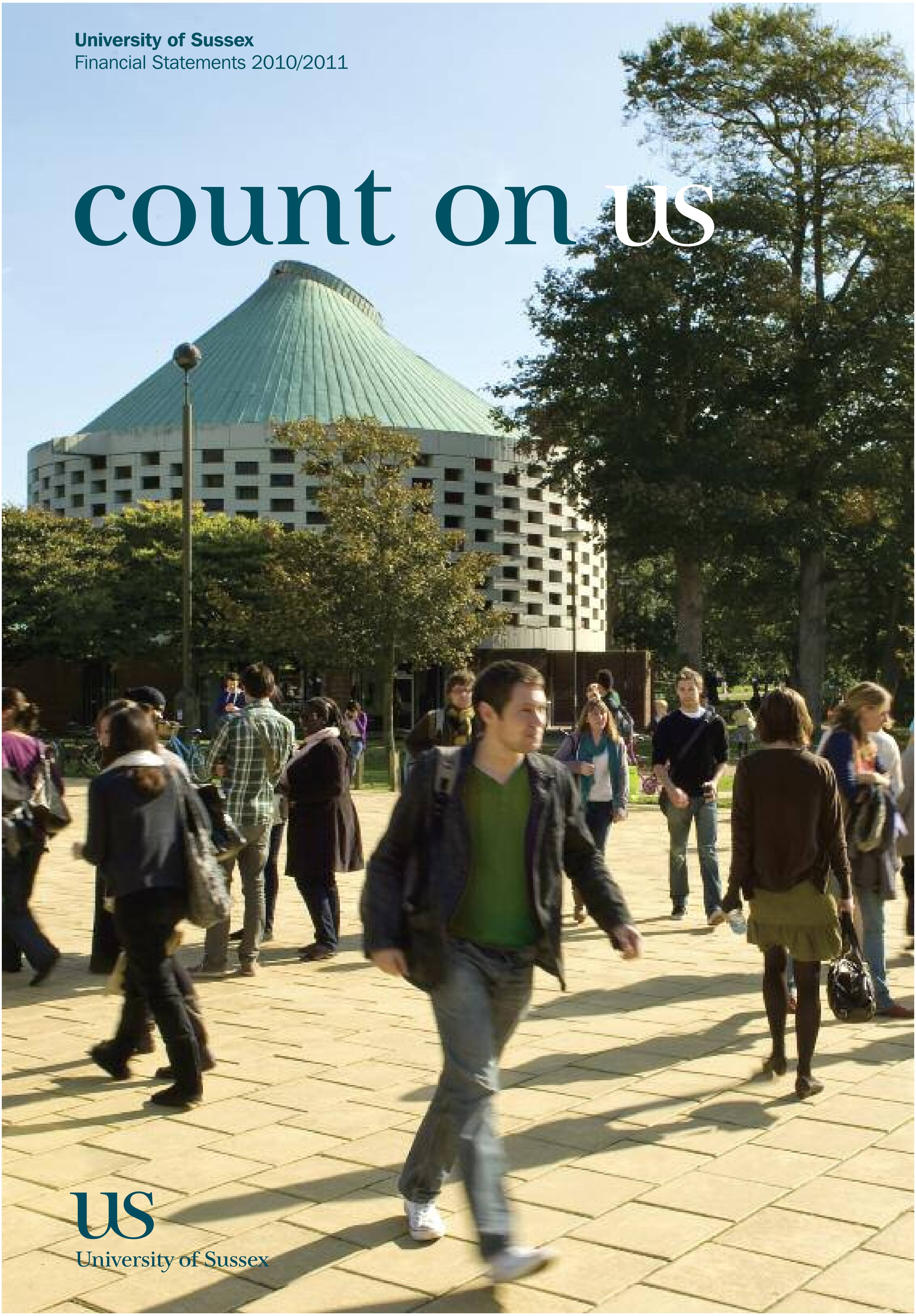

University of Sussex

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Operating and Financial Review

The University of Sussex is a leading higher education institution based at Falmer near Brighton, dedicated to excellence in academic achievement across a broad range of disciplines. It is research intensive, engaged in delivering individual and thematic research and intellectually demanding, research-led teaching. Council is committed to the continuing successful development of the University and to maintaining financial sustainability in support of this aim. The University is a charity established by Royal Charter and its charitable objectives and outputs are set out in the attached Corporate Governance and Public Benefit statement.

The Financial Statements for the Group comprise the consolidated results of the University and its subsidiaries, which undertake activities that for legal, commercial or taxation reasons are more appropriately undertaken through a limited company. The principal trading subsidiaries consolidated in the accounts are: Sussex Innovation Centre Development Limited, Sussex Innovation Centre Management Limited, University of Sussex Intellectual Property Limited and East Slope Housing Limited. In addition the University has a major share in the Brighton and Sussex Medical School (BSMS), which is accounted for as a joint venture according to Financial Reporting Standard (FRS) 9.

This statement is drawn up in accordance with the Accounting Standards Board's "Reporting Standard: Operating and Financial Review" and seeks to set the financial results in the context of the University's strategy and operations.

Strategy and context

The University is working towards a number of academic, financial and other objectives set out in the strategy *Making the future* published in 2009. This strategy sets out a vision for growth in quantity and quality of research and teaching & learning, supported by investments in capital, IT and learning and research infrastructure and increasing financial and environmental sustainability. The University's growth is being achieved not by incremental improvement but by targeted and focused projects. The strategy is being successfully implemented, overall, with strong progress towards many targets well ahead of the 2015 horizon set in *Making the future*.

The greatest growth contribution to date has come from International Student activity. This is a growing market for the UK as a whole and Sussex has played a part in expanding quality provision. Home/EU student numbers were still heavily regulated in 2010/11 and so offered little opportunity for significant growth. Research, our other principal activity has also been constrained by the pressure on available public and private funds. These areas have grown but less strongly. Other critical targets such as recognition of student experience have also been met early. Given the strong progress made in a number of these areas and the increase in opportunities for growth afforded by announced and likely future UK government policy changes, the University will be reviewing its strategy this year with the likely outcome that we will replace targets in many areas (especially in student recruitment at all levels and origins) with still more ambitious ones.

The University Council's prime target for achieving financial sustainability is that, taking one year with another, we publish surpluses of 4% of turnover. This objective serves as a benchmark for evaluating plans and performance and is largely being met: the operational surplus excluding non-recurrent items has been in the range £3 million to £12 million in each of the last four years, only a little short of the average of £6-7 million required. A 4% surplus was met in 2010/11 and has been met twice in the last four years. Setting aside exceptional staff costs in 2009/10, the objective would have been met three out of the last four years.

Council has also set borrowing policies (for maximum level of borrowings and deployment between interest-only and amortising loans, and between fixed and floating interest rates) and capital investment targets which have been applied in full during the year. Council monitors performance of the institution through a number of Key Performance Indicators (KPIs) and risk measures at each meeting. Our KPIs and risk measurement and mitigation are specifically aligned to the University's objectives as set out in *Making the future*. Performance is assessed against a balanced range of targets which include financial and non financial measures. Despite the difficult prevailing economic conditions, our long term focus remains unaltered and our specific objectives continue to be for growth in targeted areas, to be delivered by specific action plans.

Results for the year

The Group consolidated income and expenditure (gross including our share of joint venture income and expenditure, since the medical school is a core part of our academic activities) and results after taxation for the year ended 31 July 2011 are summarised as follows:

	2010/11	2009/10	2008/09	2007/08
	£m	£m	£m	£m
Income	**177.1**	165.9	158.6	145.3
Expenditure	**165.9**	165.7	160.3	139.8
(Deficit)/surplus for the year before disposal of assets	**11.3**	0.2	(1.7)	5.5
(Deficit)/surplus for the year after disposal of assets	**11.3**	0.2	(1.6)	10.8

The University's total income rose by 6.7% compared with the previous year.

Our strategy is for selective growth and diversification of our income base. Consolidation of the University's reputation for teaching excellence is key to this and to delivering our core activity. Total recurrent grants from funding councils again fell slightly due to the impact of public finance cuts to Higher Education. Real terms increases in income were achieved in Research grants and contracts income and other operating income. The major component of growth in revenue came from a further large increase in International Student fee income, which grew by 36% over 2009/10.

Within our cost base, pay unit costs increased as a result of nationally agreed cost of living rises, (settled this year at 0.4%), and the impact of incremental salary increases (around 2%). We have been implementing policy to increase the quality and functional suitability of our estate year on year; as result, spend on non-capitalised property maintenance funds was higher than last year.

As noted above the bottom line resulting surplus is £11.3m compared to a position just over breakeven after exceptional staff costs in 2009/10.

Balance Sheet review

Capital investment

The University is currently in the third year of implementing a three year capital programme, comprising £120m of developments for the period to 2011/12. Projects have been carefully prioritised to support *Making the future*, addressing major academic, research and student services initiatives, while removing some of our poorer quality buildings and replacing them with new fit-for-purpose facilities. Our approach has been endorsed by the funding council through approval of our Capital Investment Fund Round 2 strategy submission.

The University is thus undertaking a series of major projects, making investments from funds from the HEFCE administered Capital Investment Framework, together with matched funding from internal resources and donations, coupled with access to bank borrowing. In total, capital investments in buildings of £42.7 million were made in 2010/11. These include a major redevelopment of the iconic Library building, the delivery of a new 777 bed-space residence at Northfield and the start of works on new facilities for social science research and teaching centred around our hugely successful expansion of Business and Management activity. We have also delivered a major facelift and refit of our catering facilities with a retail space occupied by Southern Co-operative. These facilities are already providing a major uplift to the student and staff experience.

Financing, cashflow, and liquidity

The University manages its liquid resources to minimise the cost of financing while meeting all its liabilities as they fall due. Council annually endorses a Treasury Management and Investment Policy which has been set in accordance with Treasury Management guidance published by CIPFA and which sets the framework for management of liquid resources and longer term endowment and other investments.

The University adopted a formal policy on borrowing and financing in 2009. This resulted in setting maximum borrowings for the University, for the time being at £105 million, of which around half was to be secured as core borrowings on longer term non-amortising arrangements on an interest only basis.

In accordance with these decisions, the University took out a £40 million long term interest-only facility with Barclays Bank plc, part drawn down in 2008/09 and the remainder early in 2009/10. In addition the University secured access to £50 million of amortising term funding from Lloyds TSB Bank plc for construction of Northfield residences and to complete all elements of the capital programme to 2011/12. The latter facility remained undrawn in 2010/11 though we have prudently entered into some interest rate management commitments over £20 million of the loan to protect against adverse long term interest rate movements. These loans started to be drawn down shortly after the balance sheet date and some £30 million remains undrawn at the date of signing the accounts.

The Consolidated Cash Flow Statement shows the cash generated by operations and the application of cash to capital investments. The University generated £16.4 million of cash from operating activities before interest, paid £2.9 million in net interest, repaid £0.7 million of net loan funding and invested some £37.5 million in capital developments. Short term and overnight cash reserves less overdrafts were reduced substantially at 31 July 2011 as the University chose not to draw down borrowings to which it had full contractual access, in order to keep net interest costs low. With the financing in place and careful management of operational performance, the University remains in a strong cash position.

Pension funding

The University fully adopts the FRS 17 "Retirement benefits" treatment of pension costs and assets/liabilities. The University participates in three major pension arrangements which all carry different accounting treatment under the accounting standard. Details are set out in the notes to the account.

The actuarial valuation of the USPAS scheme at 31 March 2009 was completed in Spring 2010. The University agreed a Recovery Plan with the Trustees (which was accepted in September 2010 by The Pension Regulator) which includes repaying the £47 million deficit over a period of 20 years from June 2010 to May 2030, through increased employer cash contributions, circa £2m per annum with lower repayments (c £1m per annum) in the first three years. The scheme will be revalued at 31 March 2012, but employer and employee contribution rates (under the cost-sharing

Operating and Financial Review (continued)

arrangement for cost increase) will not be reviewed until 2013/14.

The net liability on the USPAS self-administered trust scheme is held on our balance sheet. This would have increased but for the change in the Officials Pensions Act which replaces RPI with CPI to set the inflation rate which applies inter alia to pensions in payment. The outcome is a reduction of around £8.5 million in net liability, to £25.5 million at the balance sheet date.

While this scheme has significant financial impact on the University's financial position and cash contributions, we expect that the effect of closing the scheme to new entrants in 2009 and the high Recovery Plan payments agreed will mean that the risks are largely contained and that the opportunity for significant down-side change is lower than in past years and decreasing. Thus the risk that the 2012 valuation will lead to further cash payments is also reduced.

The USPAS scheme was closed to new entrants on 1 April 2009, when the University opened a new defined contribution Sussex Group Stakeholder Scheme pension scheme with life and health assurance benefits,. This scheme now has more than 100 active members and will be used for relevant categories of non academic/academic related staff when the UK Government auto-enrolment rules are applied over the next two years. As a defined contribution scheme with life and health assurance benefits, the cost of this scheme is recognised in the Income and Expenditure Account and there is no risk of costs to the University changing retrospectively once a year is complete.

In addition, the University has obligations to the national academic and academic related staff scheme, USS. As this is treated under accounting rules as a defined contribution scheme, it does not affect the University's published reserve position although it does represent a financial risk to the University. Employer contributions rose by 2% in October 2009, with no guarantee that further rises would not be required. The risk of further contribution rates rises, however, has been reduced by implementation in October 2011 of a set of changes to the scheme which, inter alia, set the scheme as a Career Revalued Benefits scheme for new joiners and make changes to benefits and contributions relating to the Final Salary scheme members. The scheme's triennial formal valuation is at 31 March 2011; the results are expected to be ratified late 2011 or early 2012. Given the valuation date and likely assumptions, it is expected that a deficit will be revealed but we currently consider that the likelihood of a significant rise in employer contribution rates is low. The scheme continues to introduce long term financial uncertainty but the sponsoring employers remain committed to it and share the view that the risk of major short term cost volatility has been reduced by the recent scheme changes.

Reserves

Consolidated reserve funds have benefited from the reduction in USPAS pension liability and the strong Income and Expenditure Account result, and been further boosted by increases in deferred capital grants and endowment funds. Reserves stand at £92.8 million compared to £70.8 million last year.

Future outlook

This continues to be a time of major change in Higher Education. Recent years have represented a relatively benign period of increasing income through the Full Economic Cost regime for funding research grants and contracts from public sponsors, the introduction of the new undergraduate fee regime and significant public capital funding streams. This is now clearly very shortly to be followed by a more difficult period as grant funding is cut to reduce public sector borrowing.

In the wake of the 2011 HE White Paper the University is preparing for a major switch in teaching funding for Home/EU Undergraduates, from grant to student fees, for 2012 entrants onwards. This will introduce increased accountability direct to students as well as increased income sensitivity to under- or over-recruitment. The changes in student number control will be complex to manage but the University will be in a position to target controlled growth in a number of areas which have been held back by previous public policy, enabling us to continue to offer a top quality higher education experience to larger numbers of students.

The severe reductions in capital grants require us to find other sources of income to maintain and increase our capital development plans. Lower funding of Research Councils and other grant awarding bodies also mean that success in bidding is harder than ever. We remain confident that the quality and impact of our research is such that we will continue to build on the success of the past few years in this increasingly competitive environment.

In this context, the *Making the future* strategy remains relevant and core to our overall objectives in increasing the size and maintaining the broad-based discipline shape of the University, through income diversification and targeted growth where circumstances are favourable, while investing in capital and infrastructure to improve the staff and student experience.

The University has incorporated elements of growth on a prudent basis in its budgets and forecasts for the coming years to reflect the plans that are in place. Project management disciplines and robust scrutiny and action on progress will ensure that management and governance within the University will track the success of these initiatives. While the operating environment is becoming more competitive and more uncertain in many areas, we remain confident that we will continue to grow and build on a position of financial and operational strength, to extend our academic activities and impact, based on our recognised core strengths.

Simon H D Fanshawe
Chair of Council

Professor Michael J Farthing
Vice-Chancellor

Corporate Governance

The University is committed to best practice in all aspects of corporate governance. This statement describes the manner in which the University actively applies the principles set out in the Committee of University Chairs (CUC) Governance Code of Practice and in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council, as applied to the higher education sector. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

Summary of the University's structure of corporate governance

The University is an independent corporate body whose legal status derives from a Royal Charter. Its objects, powers and framework of governance are set out in the Charter and supporting Statutes. The Charter and Statutes are currently undergoing review and the revised version is likely to be submitted for approval to the Privy Council in December 2011.

The current Charter and Statutes establish three separate bodies, each with clearly defined functions and responsibilities, to manage and oversee the University's activities:

Council is the governing body of the University, responsible for setting the general strategic direction of the institution, for ensuring proper accountability, and for managing its finances, property and investments and the general business of the University. Council comprises independent, professional services, academic and student members appointed or elected under the Statutes of the University. The majority are independent, non-staff, non-student members. The roles of Chair and Vice-Chair of the Council are separate from the role of the University's Chief Executive, the Vice-Chancellor. Council has a membership of 25. These are the Vice-Chancellor, Deputy Vice-Chancellor; six independent members elected by Court; nine independent members appointed by Council; four academic members of the Senate; two other members of the academic staff; one member of professional services staff and the President of the Students' Union. It meets at least four times a year and has five committees and two joint committees, some of this substructure changing from September 2011. The matters specially reserved to Council for decision are set out in a list specifically approved by Council; by its own decision and under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE), Council holds to itself the responsibilities for the ongoing strategic direction of the University, the monitoring of institutional effectiveness and approval of major developments. It receives regular reports from the senior executives on the day-to-day operations of the University and its subsidiary companies. The Chair, Vice-Chair and Treasurer are appointed from amongst the independent members. The University is fully compliant with the key recommendations of the Committee of University Chairs (CUC) code.

Senate is the main academic body of the University and draws its membership entirely from the staff and students of the University. Its principal role is to direct and regulate the teaching and research of the University. Its remit also permits discussion of any matter relating to the University and it offers comments to Council on a wide range of matters.

Court provides a public forum where members can raise matters about the University. Court meets once a year to receive the Annual Report and Financial Statements. It is also responsible for electing the University's Chancellor. The majority of the members of Court are from outside the University, representing the local community and other designated bodies with an interest in the work of the University.

Strategy and Performance Committee (SPC) operated throughout the academic year 2010/11 and is a joint committee of Council and Senate which oversees all aspects of resource allocation, financial planning, risk management, staffing matters and estate management. It is responsible, in particular, for advising Council on the overall financial strategy, treasury and investment matters (through the work of the Finance Sub-Committee), strategic capital investment, and the budgetary system. It had four sub-committees: Physical Resources Committee (responsible for the physical planning and environmental aspects of the University campus), Human Resources Committee (responsible for advising on the human resources strategy, staffing policies and staff terms and conditions of employment, and for general matters of staff management including equal opportunities, appraisal and reward, staff development and employer/employee relations); Information Services Committee (responsible for overseeing the library and information services strategy); and Scholarships, Bursaries and Awards Committee (responsible for overseeing policy on the award of bursaries and scholarships).

With effect from 1 September 2011 the Strategy and Performance Committee has been replaced by the Performance Committee and the Finance Sub-Committee has been replaced by the Finance & Investments Committee which reports direct to Council on annual budgets and financial forecasts, corporate finance, treasury and investment policy, purchasing policy and capital projects. Responsibilities of the Physical Resources Committee and Information Systems Committee are now combined under a management committee, Capital Planning Committee, which will recommend approvals of major capital works after review for approval by Finance and Investments Committee.

Audit Committee provides assurance on governance, accounting integrity, internal controls, data integrity, risk management, the efficient use of resources and the University's responses to whistle-blowing and fraud. It comprises three independent members of Council who are

Corporate Governance (continued)

not members of SPC (2010/11)/Finance and Investment Committee (2011/12). It has the power to co-opt up to two other independent members from outside of Council with financial, accounting or audit experience. It meets four times a year. Although Senior Executives attend meetings of the Audit Committee as necessary, they are not members, and the Committee reserves sessions for independent discussion with the auditors without officers present.

Nominations Committee is responsible for making recommendations to Council and Court on the appointment of the independent members of Council and Court and for making appointments to Council Committees.

Remuneration and Review Committee is responsible for determining, on behalf of Council, the remuneration of all senior staff of the University. It is being replaced by Remuneration Committee.

Health, Safety and Environment Committee advises Council on the University's Health and Safety Policy; acts as the consultative body of the University on matters of health, safety and environment; audits the health, safety and environmental performance of the University and provides assurance to Council that the University is meeting its obligations in matters of health, safety and environment.

Equality and Diversity Committee formulates, and provides advice on, policies for the promotion of equality and diversity across the University; monitors the University's equal opportunities policies; advises on the fulfilment of statutory obligations and promotes activities aimed at furthering equality and diversity in the University.

Brighton and Sussex Medical School Joint Board is responsible to the Board of Governors of the University of Brighton and Council of the University of Sussex for the educational character, teaching and research profile of the Brighton and Sussex Medical School (BSMS). It also ensures that the BSMS operates within policies and frameworks set by the parent bodies; it plans for the strategic development and resourcing of the BSMS; it considers the composition and structure of the senior management of the BSMS and it receives and reviews the financial estimates of the BSMS.

Honorary Degrees Committee, a joint committee of Council and Senate, is responsible for recommendations on the number of awards of honorary degrees and to whom they should be awarded.

The Vice-Chancellor, appointed by Council after consultation with the Senate, exercises management supervision of the University. Under the terms of the Financial Memorandum between the University and the HEFCE, the Vice-Chancellor is the accountable officer of the University.

A **Register of Members' Interests** is maintained by the Registrar and Secretary which includes details of the interests of independent members of Council, and of senior officers and members of staff who have significant financial authority or access to privileged information.

Statement of public benefit

The University is an exempt charity within the meaning of the Charities Acts 1993 and 2006. Trustees who served during the year and up to the date of signing the financial statements are Prof RJ Allison, Mr C Brodie, Mrs CC Brooke, Dr SW Bunting, Mrs PA Burr, Prof J Cassell, Dr AEW Chitty, Mr D Cichon, Mrs F Clarkson CBE, Mrs PJ Coare, Mr SHD Fanshawe, Prof M J G Farthing, Mr M Fuhr OBE, Mr A Ghosh, Ms S James, Mr E Jenner MBE, Mr G Jones DL, Dr J Law, Prof C Marlin, Mrs S Mbubaegbu CBE, Ms S Nebhrajani, Ms L Rodrigues, Dr H Prance, Mr P Saraga CBE, Mr C Tait, Prof JC Bourne Taylor, Prof JDM Watson, Prof BL Weiss, Mrs B Winter.

Under the provisions of the Charities Act 2006 charities are required to demonstrate explicitly how they provide public benefit. Under the 2006 Act, the Higher Education Funding Council for England (HEFCE) is the principal regulator of English higher education institutions that are exempt charities and thus for the University of Sussex. The University's Council, in setting and reviewing institutional objectives and activities, has taken into consideration the Charity Commission's guidance on the reporting of public benefit requiring: that there must be clearly identifiable benefits related to the aims of the charity; that the benefits must be to the public or to a section of the public; that where the benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted by geographical or other restrictions or by ability to pay fees; that people in poverty must not be excluded from the opportunity to benefit. Induction of new Council members covers the charitable objectives and charitable responsibilities of members as charity trustees. Annual updates are provided by the University lawyers on a range of issues affecting Council members, and these explicitly cover best practice and statutory developments in the areas of charity law.

Aims and objectives

The objects of the University as set out in its Royal Charter are 'to advance learning and knowledge by teaching and research, and to enable students to obtain the advantages of University education'. These align closely with two of the charitable purposes of advancement of education and the advancement of science. Our values are stated clearly in our strategy *Making the future* and inform all our work to ensure we meet our charitable aims and corporate objectives. They are: excellence, interdisciplinarity, engagement, challenge, partnership, professionalism, equality and diversity and service. Sussex is distinctive in the social engagement of its staff, students and activities, conferring benefits on students and staff but also local and global communities. We offer a top-class teaching and learning environment with access to quality modern infrastructure and a diverse student experience bring together students from over 120 nations to work and study together and benefit from leisure and social facilities to produce well-rounded citizens capable of making an impact on society. Our research impacts on daily lives in a wide spectrum of activities, informing public policy and bringing new technologies for the benefit of society. We are currently expanding our teaching and learning and research activity, ensuring that the benefits of a Sussex education and the downstream benefit of our research can impact on more beneficiaries of our work.

Beneficiaries and activities which generate public benefit

The prime beneficiaries of our teaching are the University's undergraduate and postgraduate students. Our teaching generates public benefit through the quality education which students engage in at Sussex which allows them to undertake jobs and careers in their subject or in areas where the skills and intellectual rigour of their training have direct relevance. Many go on to share their learning and knowledge with others, some through formal teaching careers and others through social and workplace interchange. Graduates make a major contribution to society as a whole through wealth generation and their cultural and economic impact on society.

The prime beneficiaries of our research, which covers a broad range of disciplines and outputs, range from those directly affected by new medical and technological advances to those benefitting more indirectly from economic, cultural, social, environmental and political improvements secured through better knowledge and understanding, including informing public policy in areas such as migration and technology and innovation policies. Our work thus has benefits which may be wide in scope and others which are extremely specific and deliver improved lifestyles to those concerned.

Three projects, more details of which may be found in the Research Review 2011 on the University's website, demonstrate typical specific public benefits arising from our work:

- A radical new software is being developed to produce prognostic information from diagnostic body scan images of cancer patients which will aid the prediction of early response to treatment, prognosis and tissue characterisation particularly in colorectal cancer.
- Research shows that repetition in reading storybooks is more likely to lead to a child acquiring new vocabulary. An experiment in which three-year-olds were exposed to two new words compared one group who heard three different stories with the same new words with another group who repeatedly heard only one of the stories with the same new words. Each book contained drawings of the new objects. When tested after a week, those who had heard just one story were much better at recalling and remembering the new words than those who had been exposed to three different stories.
- Highly fertile dark soils in Amazonia, commonly known as anthropogenic dark earths (ADEs) had been thought to be naturally occurring but are now known to be human made. They are now believed to have supported the tens of millions of people who suffered catastrophic mortality. New research by an international team of anthropologists and soil scientists is revealing the existence of anthropogenic soils in tropical West Africa. These soils are highly prized by farmers who are able to use them to farm intensively, unlike the natural soils in which they are formed. Understanding their creation and complex biology holds great scientific interest: ADEs suggest a potential opportunity for improving agricultural practices while mitigating climate change.

The University's activities in education and in research contribute positively across a range of charitable benefits, including the relief of poverty, the advancement of religion, the advancement of health and the saving of lives, the advancement of citizenship and community development, the advancement of amateur sport, the advancement of human rights, conflict resolution and reconciliation and the promotion of religious and racial harmony, equality and diversity, the advancement of environmental protection or improvement.

Targets and achievements

The University sets key performance indicators and targets for its strategic and charitable objectives as part of its long term strategic plan. Council regularly considers progress across indicators at each meeting and through its key committees.

The quality of learning and teaching is reflected in the University's standing in league tables especially through the National Student Survey (NSS). Summaries of outcomes may be found under HE League Tables on our University's website. The improvements in NSS ratings have contributed strongly to the University being one of fifteen UK universities to appear in the top twenty of all four major UK league tables compiled by UK national newspapers, and this is direct recognition by beneficiaries of the value delivered to them by their education. We regularly receive accolades for the quality and impact of our education work. A prestigious National Teaching Fellowship has been awarded this year to Cath Holmström (Social Work and Social Care) for individual excellence in teaching in higher education.

The University's Strategic Plan 2009-2015 *Making the future*, available on the University website, pays due regard to the obligation to act for the public benefit and sets out a values-based vision which includes the following strategic goals:

- To develop the international renown of the University of Sussex as a research-intensive centre of creative thinking, learning and discovery, where excellence and innovation flourish and every individual is encouraged to make a lasting contribution to scholarship, knowledge and society. To deliver teaching and learning programmes that are informed by current research, are attractive to students from all socio-economic and cultural backgrounds and that deliver skills for life. Monitoring is undertaken through NSS and other student feedback including a developed structure of student representatives to ensure that the student voice is heard on delivering education. We are focusing effort on improving employability of graduates through a restructuring and relocation of careers and employability services, leadership training and other targeted activities, such as our flagship Sussex Plus programme which allows all students to build up a portfolio of activities outside their accredited studies to demonstrate their organisation and social contributions while at Sussex. Successful employment in graduate level jobs demonstrates the public benefit of our education.
- To deliver a vibrant and well-rounded student experience consistent with the attributes of a Sussex graduate including opportunities to participate in a range of cultural and sporting activities, and maintain and provide a social and caring community with high levels of professional and mutual support. Delivery and monitoring is through curricular activities as above and extra-curricular activities are delivered through volunteering, clubs and societies and sports activities funded by the University and delivered through the Students Union who are benchmarking their impact through national independent assessment schemes.
- To create a sustainable university, with a well-functioning and reliable infrastructure, that is financially, socially and environmentally sound. We monitor this through financial KPIs, space efficiency measures and energy and carbon statistics.

Corporate Governance (continued)

- To help businesses and organisations in the region develop higher staff skill levels through training, and to stimulate innovation through partnership with other institutions outside Sussex to benefit the wider society. We monitor our progress through activity statistics returned in data submitted nationally, and it was announced that we will receive extra HEIF grant funding for enterprise and innovation based on our comparative performance to other HEIs.

Removing barriers to public benefit
The University considers possible barriers to benefitting from our education and research, and especially in the case of education, and attempts to mitigate them to secure access to the benefits of our work. There are few barriers geographically as we recruit students from all over the UK and the world. We promote affordable student accommodation which we own and operate, or lease, or head-lease from local property owners, which makes Sussex a safe and accessible destination to study.

Cost of study and maintenance could present the largest hurdle to suitably qualified students so this is where we focus many of our initiatives to reduce barriers to the public benefit offered by our education. We have a number of scholarship schemes accessible to different levels of study, open in most cases to home and international students to ensure access to our education programmes is available to those demonstrating the academic excellence which confirms they would benefit from studying at Sussex. We source scholarships on merit from agencies such as UK research councils, and scholarships to secure access for students is one of the three points of focus of our 50th anniversary fund-raising in a specific 'People' strand. These are equally applicable to postgraduate work as to undergraduate, especially as in future the public funding for postgraduate taught courses could mean that fees will have to rise. An important part of our response to the new fees regime for Home/EU undergraduate students has been to agree a comprehensive range of pre-Sussex, at Sussex and post-Sussex support measures for first generation scholars, as well as for all students from poorer backgrounds. Interventions include aspirations raising in the regions (and wider, for example annual HE awareness raising in the Channel Islands) through close work with selected schools, access to bursaries at Sussex, and support for job seeking or further study after graduating. We have been successfully exceeding HEFCE benchmarks in most areas for several years and continue to work hard to improve access.

We work hard to ensure that capital investments address accessibility issues for physically disabled students, including purpose built flats integrated into our key student accommodation. We support students through our Student Life Centre to ensure that our retention rate is high, and have access to dyslexia support, counselling services and study support especially for students with mental health issues. All these initiatives focus on enabling students to remain and benefit from their experience at Sussex.

In the case of research we have to be mindful of rules concerning proper use of funds, which means that our areas of research investigation could in theory be limited to areas funded by third party research grant and contract sponsors. An amount of blue skies research, unfunded by sponsors, is possible through our funding council block grant. In the case of important research for which we cannot secure funds from external agencies, we have on occasions successfully approached philanthropic donors who have contributed to ensuring that work can be carried out; one successful instance is around the health problems of the honey bee, which has been funded from a donations campaign. Such targeted initiatives can ensure that our research impact in important areas is not held back by lack of coverage by research grant-awarding bodies.

Incidental private benefits
The University is aware that certain activities may confer private benefit on employees (other than their core employment remuneration), especially in areas of enterprise development, spin-offs and other commercial intellectual property related activity. The University therefore has in place strict contractual policies to ensure that the public interest and wider public benefit are protected by requiring that rewards to individual staff inventors are paid out of additional income over and above the full economic cost of the University's activity which is the first call on revenues generated in such activity. Income is shared between University and inventors beyond this limit and is such that private benefit conferred is incidental to the public benefit of our education and research mission.

Avoiding detriment in our activities
Generally our activities will promote public benefit by their very nature. We take care during the conduct of our research work that we carry out ethical assessments of our work at proposal stage and we have a number of staff and student policies which require ethical considerations to be taken into account before commencing work which does not meet our stated policies.

Future activities to enhance public benefit of our activities
We have noted above a number of initiatives where we are seeking to make improvements through more targeted interventions in benefit to local and regional businesses through restructured organisation and focused initiatives, in increasing placement opportunities for students to improve their career prospects, and in wider careers and employability activities.

The landscape is changing on funding for Home/EU undergraduates, who form the majority of our student population, with new rules applying to entrants from 2012. The Government's proposals as set out in the 2011 White Paper on Higher Education will lead to a reduction in direct grant funding and an increase in student fees. This presents a significant challenge for this and other Universities to avoid the introduction of a price barrier that might restrict access by potential student beneficiaries from low income households. The University is already working with applicants and their parents and sponsors to ensure that they understand the financial impact of the new regime, which will include loan funding for tuition fees in full (rather than previous means-testing and potential restricted access to funding based on income), and the benefits of the Higher Education experience which continue to be compelling in terms of the direct and indirect benefit to graduands over their working (and private) lives. The University is fully committed to developing access and progress routes for students from all backgrounds (Making the future). As noted above, we have developed a comprehensive development and extension of existing programmes in our successful submission to OFFA (which may also be found on the University's website) through proposals to reinvest additional fee income equating to £6.5 million (at 2010/11 prices) in a programme of widening access activities. These will cover a step change in engagement with local and regional educational providers, assistance for students while at Sussex and extensive support through targeted careers and placement activity and/or assistance with access to postgraduate study on completion of undergraduate degree.

We continue to develop assistance through scholarships and bursaries for postgraduate courses in order that students who are capable of benefiting from a Sussex education should not be prevented access for affordability reasons. This may become more pressing potentially as students exit undergraduate courses in four years time with higher levels of debt than at present. In part at least we expect that increased success with attracting philanthropic gifts will help to secure funds to enable continued wide access to our education.

Statement on internal control

Scope of responsibility

Council, as the governing body of the University, has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter and Statutes and the Financial Memorandum with HEFCE.

The purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

Review of effectiveness

Council's review of the effectiveness of the system of internal control is informed by the work of internal auditors, not employed by the University, who operate to the standards defined in Accountability and Audit: HEFCE Code of Practice. It is also informed by the Audit Committee, which has oversight of internal audit and which reports annually to Council for its approval of the effectiveness of risk management and the system of internal control; by the work of the Senior Executives and the risk owners within the University who have responsibility for the development and maintenance of the internal control framework and by comments made by the external auditors.

Capacity to handle risk

As the governing body, Council has responsibility for the University's risk management framework. For this purpose, the Audit Committee oversees and provides assurance on the operation of the framework. The Vice Chancellor's Executive Group, which meets to receive and consider reports on recommendations for action or decision to Council, co-ordinates the management of risk within the University's Schools and departments and ensures that the risk register is kept up-to-date and that appropriate business continuity and disaster recovery plans are in place. It is supported for this purpose by Internal Audit. Risk management within Schools and departments is supplemented by risk assessments and monitoring by project managers for cross-organisational projects.

The risk and control framework

The following processes have been established:

- Council meets at least three times through the year to consider the plans and strategic direction of the University
- Council requires regular reports from Senior Executives on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects
- Council receives periodic reports from the Chair of the Audit Committee concerning internal control, and receives copies of the minutes of all Audit Committee meetings. The Audit Committee meets four times a year and receives regular reports from internal audit, which include internal audit's independent opinion on the adequacy and effectiveness of the institution's system of internal control, including the risk register, together with recommendations for improvement
- the Risk Management Strategy classifies risks as strategic (managed by SRC) and operational (managed by the Vice-Chancellor's Executive Group) and reports are provided to Audit Committee, which assures itself from reports and representations received and the work of the internal auditors that a comprehensive system of risk management is operational throughout the year
- risk management has been embedded at School and support unit level by ensuring that the annual planning cycle includes detailed review of the risks facing each School or support unit, by each School or support unit having a risk mitigation strategy and each risk being assigned to a manager
- a risk prioritisation methodology based on risk ranking has been established
- reports are received from those managers identified as having responsibility for managing key corporate risks
- an organisation-wide risk register is maintained of all the key corporate risks and is reviewed formally by Council once a year
- a system of key performance indicators has continued to be developed, and risk management considerations are addressed specifically on all major projects and decision-making papers through the committee structure.

Council is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, that it has been in place for the year ended 31 July 2010 and up to the date of approval of the Financial Statements, that it is regularly reviewed by Council and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for Higher Education.

Responsibilities of the University's Council

In accordance with the University's Charter of Incorporation, Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

Council is responsible for ensuring the proper maintenance of accounting records and the preparation of financial statements that give a true and fair view of the state of affairs of the University in accordance with the University's Charter and Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions dated June 2007, other relevant accounting and financial reporting standards and within the terms and conditions of a Financial Memorandum agreed between HEFCE and Council of the University.

Council, through its senior officers and the Strategy and Performance and Audit Committees, is required to ensure that in the preparation of accounting 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, and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation.

Council has taken reasonable steps, through its senior officers and Audit Committee to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which HEFCE may from time to time prescribe
- ensure that funds from the Training and Development Agency are used only for the purposes for which they have been given and in accordance with the Funding Agreement with the Agency and any other conditions which the Agency may from time to time prescribe
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources
- safeguard the assets of the University and to prevent and detect fraud and other irregularities, and
- secure the economical, efficient and effective management of the University's resources and expenditure.

Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

Independent auditor's report to the Council of the University of Sussex

We have audited the group and University financial statements (the "financial statements") of University of Sussex for the year ended 31 July 2011 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses ,and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charters and Statutes of the University. Our audit work has been undertaken so that we might state to the University Council 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 University Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Council and auditor

As explained more fully in the Statement of Responsibilities of the University Council set out on page 10 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The maintenance and integrity of the University's website is the responsibility of the University's Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes
- income has been applied in accordance with the University's Statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the University and group.

Chris Wilson (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditors
Chartered Accountants
1 Forest Gate, Brighton Road
Crawley, West Sussex RH11 9PT

25 November 2011

Consolidated Income and Expenditure Account
for the year ended 31 July 2011

	Note	2011 £'000	2010 £'000
Income			
Funding council grants	1.1	**56,619**	56,675
Academic fees and support grants	1.2	**57,066**	49,142
Research grants and contracts	1.3	**31,337**	29,607
Other operating income	1.4	**31,361**	30,044
Endowment income and interest receivable	1.5	**734**	529
Total income: Group and share of joint ventures		**177,117**	165,997
Less: Share of joint ventures income	17	**(10,313)**	(9,332)
Group income		**166,804**	156,665
Expenditure			
Staff costs	2.1	**88,923**	89,460
Exceptional staff costs	2.5	**-**	5,089
Depreciation	2.4	**7,926**	8,485
Other operating expenses	2.3	**64,309**	57,284
Interest payable	2.2	**4,696**	5,416
Total expenditure: Group and share of joint ventures		**165,854**	165,734
Less: Share of joint ventures expenditure	17	**(10,027)**	(9,113)
Group expenditure		**155,827**	156,621
Group surplus on continuing operations after depreciation of fixed assets at cost and before tax		**10,977**	44
Share of surplus in joint venture	17	**286**	219
Total surplus on continuing operations after depreciation of fixed assets and disposal of assets at cost but before tax		**11,263**	263
Taxation		**-**	-
Historic cost surplus on continuing operations after depreciation of fixed assets at cost, disposal of assets and tax		**11,263**	263

The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations. The Statement of Consolidated Income and Expenditure should be read in conjunction with the Statement of Consolidated Total Recognised Gains And Losses on Page 15.

Consolidated Balance Sheet
as at 31 July 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	3	**184,969**	150,118
Investments	4	**356**	322
Investment in joint venture:			
Share of gross assets	17	**7,378**	6,459
Share of gross liabilities	17	**(2,816)**	(2,183)
Endowment investments	6	**6,503**	5,112
Current assets			
Stocks		**274**	279
Debtors	7	**13,310**	12,753
Investments	11.5	**-**	27,556
Cash at bank and in hand	11.5	**402**	209
		13,986	40,797
Creditors: amounts falling due within one year	8	**(44,583)**	(47,605)
Net current liabilities		**(30,597)**	(6,808)
Total assets less current liabilities		**165,793**	153,020
Creditors: amounts falling due after more than one year	9	**(47,440)**	(48,100)
TOTAL NET ASSETS excluding pension liability		**118,353**	104,920
Pension liability	14	**(25,524)**	(34,104)
TOTAL NET ASSETS including pension liability		**92,829**	70,816
Represented by:			
Deferred capital grants	10	**63,947**	62,094
Endowments			
Permanent	13	**3,449**	3,252
Expendable	13	**3,054**	1,860
		6,503	5,112
Reserves			
Income and expenditure account excluding pension liability	12.1	**45,944**	35,769
Pension reserve	12.1	**(25,524)**	(34,104)
Income and expenditure account including pension liability		**20,420**	1,665
Capital reserve	12.3	**1,802**	1,802
Revaluation reserve	12.2	**157**	143
TOTAL FUNDS		**92,829**	70,816

The Financial Statements were approved by the Council on 25 November 2011 and signed on its behalf by:

Professor M J G Farthing
Vice-Chancellor

S H D Fanshawe
Chair of Council

R A Spencer
Director of Finance

University Balance Sheet
as at 31 July 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	3	**181,251**	146,262
Investment	4	**518**	484
Endowment investments	6	**6,503**	5,112
Current assets			
Stocks		**274**	261
Debtors	7	**17,212**	16,635
Investments	11.5	**-**	27,556
Cash at bank and in hand		**-**	1
		17,486	44,453
Creditors: amounts falling due within one year	8	**(44,703)**	(47,969)
Net current liabilities		**(27,217)**	(3,516)
Total assets less current liabilities		**161,055**	148,342
Creditors: amounts falling due after more than one year	9	**(45,746)**	(46,293)
TOTAL NET ASSETS excluding pension liability		**115,309**	102,049
Pension liability	14	**(25,524)**	(34,104)
TOTAL NET ASSETS including pension liability		**89,785**	67,945
Represented by:			
Deferred capital grants	10	**63,382**	61,509
Endowments			
Permanent	13	**3,449**	3,252
Expendable	13	**3,054**	1,860
		6,503	5,112
Reserves			
Income and expenditure account excluding pension liability	12.1	**45,267**	35,285
Pension reserve	12.1	**(25,524)**	(34,104)
Income and expenditure account including pension liability		**19,743**	1,181
Revaluation reserve	12.2	**157**	143
TOTAL FUNDS		**89,785**	67,945

The Financial Statements were approved by the Council on 25 November 2011 and signed on its behalf by:

Professor M J G Farthing
Vice-Chancellor

S H D Fanshawe
Chair of Council

R A Spencer
Director of Finance

Consolidated Cash Flow Statement
for the year ended 31 July 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	11.1	**16,363**	15,757
Returns on investments and servicing of finance	11.2	**(2,962)**	(3,170)
Capital expenditure and financial investment	11.3	**(37,374)**	(14,013)
Cash outflow before use of liquid resources and financing	11.5	**(23,973)**	(1,426)
Management of liquid resources		**27,556**	(286)
Financing	11.4	**(688)**	1,456
Increase/(decrease) in cash		**2,895**	(256)

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	2011 £'000	2010 £'000
Increase/(decrease) in cash in the year		**2,895**	(256)
(Decrease)/increase in short-term deposits	11.5	**(27,556)**	286
New finance acquired	11.4	**-**	(40,000)
Repayment of debt	11.4	**688**	38,544
Change in net funds		**(23,973)**	(1,426)
Net debt at 1 August	11.5	**(26,283)**	(24,857)
Net debt at 31 July	11.5	**(50,256)**	(26,283)

Statement of Consolidated Total Recognised Gains and Losses
for the year ended 31 July 2011

	Note	2011 £'000	2010 £'000
Surplus after depreciation of assets at cost and tax		**11,263**	263
Appreciation of endowment asset investments	6	**247**	362
Endowment income received for year	13	**1,248**	329
Endowment investment income retained for year	13	**143**	134
Endowment expenditure made during year	13	**(532)**	(302)
Unrealised surplus on revaluation of fixed asset investments	12.2	**14**	38
Actuarial gain on pension scheme	14	**7,492**	867
Total recognised surplus relating to the year		**19,875**	1,691

Statement of Accounting Policies

1. Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting in Further and Higher Education Institutions 2007 and in accordance with applicable Accounting Standards. They conform to guidance published by the Higher Education Funding Council.

In these financial statements the following new standard has been adopted for the first time: FRS 30 Heritage Assets. The implementation of FRS 30 has had no material effect on these financial statements.

2. Basis of accounting

The financial statements are prepared under the historical cost convention modified for the valuation of Endowment Asset Investments and Fixed Asset Investments.

3. Basis of consolidation

The consolidated financial statements include the financial statements of the University and its subsidiary undertakings for the financial year to 31 July 2011. These are Sussex Innovation Centre Development Limited, East Slope Housing Limited, University of Sussex Intellectual Property Limited and Sussex Innovation Centre Management Limited. The results of the Students' Union are not consolidated because it is an independent association with separate control.

4. Recognition of income

Funding Council Grants are accounted for in the period to which they relate.

Tuition Fee income is credited to the income and expenditure account in the year in which students are studying. Bursaries and scholarships are accounted for as expenditure and not deducted from income.

Research grants, contracts and other services rendered are accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as deferred income within creditors.

Capital Grants received in respect of the acquisition or construction of fixed assets are credited to deferred capital grants in the balance sheet and are released to the income and expenditure account over the useful economic life of the asset for which the grant was awarded.

Sale of goods receipts are credited to the income and expenditure account at the time of supply to the customers or when the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Revaluation Surplus on fixed asset investments is credited to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it exceeds a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets, are accounted for by debiting or crediting the endowment asset, crediting or debiting the endowment fund and is reported in the statement of total recognised gains and losses.

5. Charitable Donations

Unrestricted donations are those with no restrictions on their application. Where there is also no requirement for their capital to be maintained, they are credited to the income and expenditure account when received. Unrestricted donations whose capital must be maintained are credited to permanent (unrestricted) endowments in the balance sheet.

Restricted donations are those which must be applied to a specific purpose. Where there is no requirement for capital to be maintained, a restricted donation is credited to expendable (restricted) endowments in the balance sheet and then released to the income and expenditure account to match expenditure incurred in meeting the objectives set out by the donor. However if the donation is to be applied to the acquisition or construction of a fixed asset it is credited to deferred capital grants and released to the income and expenditure account over the useful economic life of the asset which it has funded. A restricted donation whose capital must be maintained is credited to permanent (restricted) endowments.

6. Agency Arrangements

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

7. Leases and Hire Purchase Contracts

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the Institution, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

8. Taxation

The University is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The University is registered for and subject to VAT on its business activities. The University's charitable non business activities fall outside the scope of VAT. Any irrecoverable input VAT suffered on the acquisition of goods and services forms part of the cost, charged to the income and expenditure account, of those goods and services and of the values attributed to assets and liabilities in the balance sheet.

The University's subsidiary companies are subject to taxes including corporation tax and VAT in the same way as any commercial organisation. The tax charged to the profit and loss account is based on the subsidiary companies' profit for the year and takes into account tax arising because of timing differences between the treatment of certain items for tax and accounting purposes.

In Sussex Innovation Centre Management Ltd deferred tax is recognised without discounting in respect of all material timing differences arising from the treatment of certain items for tax and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by Financial Reporting Standard (FRS) 19 'Deferred Tax'. The remaining subsidiary companies have put a deed of covenant in place to pay over taxable profits to the University and therefore do not expect to incur any income or capital tax liabilities.

9. Pension schemes

Pension schemes are accounted for in accordance with FRS17 'Retirement Benefits'.

Defined contribution scheme contributions are charged to the income and expenditure account as they become payable.

Defined benefit multi-employer schemes, where the University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis, are accounted for as defined contribution schemes.

The accounting impact of defined benefit schemes is reflected throughout the financial statements. The difference between the fair value of the pension scheme's assets and the scheme's liabilities measured on an actuarial basis are recognised in the University's balance sheet. The bid value is used to determine the fair value of traded assets. Changes in the net asset/liability arising from the current service cost, interest cost on scheme liabilities and the expected return on scheme assets are charged to the income and expenditure account in the year in which they occur. Actuarial gains and losses are taken to the statement of consolidated total recognised gains and losses for the year.

10. Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

11. Equipment, land and buildings

Equipment, Land and Buildings are stated at cost. Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future benefits to the institution from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

No depreciation is charged on assets in the course of construction and a full charge for the year is made for assets brought into use during the year. No charge for depreciation is made in the year in which an asset is disposed of.

Freehold land is not depreciated; freehold buildings are depreciated over their expected useful economic life of 50 years and Improvements to buildings over 20 years.

Leasehold land with an unexpired term of more than 50 years is not amortised. Leasehold land with an unexpired term of 50 years or less and leasehold buildings are amortised over the term of the lease up to a maximum of 50 years.

Equipment, including computers and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows

- General equipment 5 years
- Equipment acquired for specific research projects 3 years
- Structural equipment 10 years

Where buildings and equipment are acquired with the aid of specific grants, the assets are capitalised and depreciated in accordance with the policy set out above, with the related grant credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related asset.

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

Works of art and other valuable artefacts (heritage assets) valued at more than £50,000 are capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

12. Investments

Listed investments held as fixed assets or endowment assets are shown at market value. Investments in subsidiary undertakings are shown at the lower of cost or net realisable value, and investments in joint ventures are shown in the consolidated balance sheet at attributable share of net assets.

Current asset investments, which may include listed investments, are shown at the lower of cost and net realisable value.

13. Stocks

Stock is valued at the lower of cost and net realisable value.

14. Repairs and maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred. The Institution has a planned 5 year rolling maintenance programme, which is reviewed on an annual basis.

15. Cash flows and liquid resources

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

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

16. Provisions

Provisions are recognised when the institution has a present legal or constructive obligation where, as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

17. Joint ventures

The University uses the gross equity method of consolidating joint venture entities in accordance with FRS 9. The University's share of income and expenditure in joint venture entities is recognised in the consolidated income and expenditure account in accordance and its share of assets and liabilities in joint venture entities are recognised in the consolidated balance sheet. Note 17 to the accounts provides additional information on the financial performance of the University's joint venture with the University of Brighton (The Brighton and Sussex Medical School).

18. Intra-Group Transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity.

Notes to the Financial Statements

NOTE 1 Income

	2011	2010
1.1 Funding council grants	**£'000**	£'000
Recurrent grant		
HEFCE grant	**49,059**	47,419
Training and Development Agency For Schools (TDA)	**1,815**	1,695
Specific grant		
Other	**3,336**	4,311
Deferred capital grants released in year		
Buildings	**1,878**	2,238
Equipment	**531**	1,012
	56,619	56,675
1.2 Tuition fees and education contracts		
Full-time students: UK/EU	**28,660**	27,148
Full-time students: international	**24,261**	17,756
Part-time and other	**2,888**	2,974
Research training support grants	**220**	82
Short courses	**1,037**	1,182
	57,066	49,142
1.3 Research grants and contracts		
Research councils	**16,884**	16,369
UK-based charities	**5,509**	4,371
European Commission	**3,657**	3,621
Other grants and contracts	**4,469**	4,441
Releases from deferred capital grants	**818**	805
	31,337	29,607
1.4 Other operating income		
Residences, catering and other operations	**18,137**	17,168
Other services rendered	**2,855**	2,745
Other income		
General academic services	**3,053**	3,373
NHS grants	**1,189**	1,145
Staff and student services	**961**	978
Central administrative	**3,443**	2,654
Other	**1,723**	1,981
	31,361	30,044
1.5 Endowment income and interest receivable		
Transferred from endowments (Note 13)	**532**	302
Income from short-term investments	**202**	227
	734	529

NOTE 2 Expenditure

2.1 Staff costs	2011 £'000	2010 £'000
Wages and salaries	**73,718**	74,271
Social security costs	**6,405**	6,415
Other pension costs	**8,800**	8,774
	88,923	89,460

Emoluments of the Vice-Chancellor	2011 £'000	2010 £'000
Salary	**227**	227
Pension contributions	**36**	36
Other	**9**	7
	272	270

The pension contributions are in respect of employer's contributions to USS and are paid at the same rates as for other academic and related staff.

The average monthly number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents was:	2011 Number	2010 Number
Academic/clinical	**798**	808
Technical	**105**	108
Professional management and professional support	**795**	809
Other, including clerical and manual	**142**	155
	1,840	1,880

Trustee expenses

Amounts paid to or on behalf of trustees was £5,626 (2010: £5,481). The University had no linked charities during the year including the period up to signing the financial statements.

Remuneration of higher paid staff (including the Vice-Chancellor but excluding employer's pension contributions)	2011 Number	2010 Number
£100,001-£110,000	**6**	9
£110,001-£120,000	**8**	3
£120,001-£130,000	**7**	11
£130,001-£140,000	**3**	1
£140,001-£150,000	**1**	2
£150,001-£160,000	**1**	1
£160,001-£170,000	**1**	2
£170,001-£180,000	**1**	-
£180,001-£190,000	**1**	1
£190,001-£200,000	**1**	-
£200,001-£210,000	**-**	2
£210,001-£220,000	**1**	-
£220,001-£230,000	**1**	1

There were no compensation payments for loss of office paid to former senior post-holders in 2011 (2010: £0).

2.2 Interest payable	2011 £'000	2010 £'000
Loans wholly repayable within five years	**32**	15
Loans not wholly repayable within five years	**2,643**	2,888
Finance leases	**606**	605
Net interest on pension liabilities	**1,415**	1,908
	4,696	5,416

NOTE 2 Expenditure (continued)

2.3 Other operating expenses

	2011 £'000	2010 £'000
Residences, catering and other operations	**8,424**	7,814
Consumable and laboratory expenditure	**12,145**	11,031
Books and periodicals	**2,493**	2,313
Fellowships, scholarships and prizes	**3,113**	3,106
Heat, light, water and power	**2,124**	1,948
Repairs and general maintenance	**8,820**	5,118
Research grants and contracts	**11,003**	10,450
Auditors' remuneration*	**59**	58
Auditors' remuneration in respect of non-audit services	**102**	8
Equipment	**2,108**	1,829
Academic services	**1,184**	1,437
Staff and student	**1,218**	1,152
General education	**7,878**	6,507
Central administration and services	**2,564**	1,800
Premises – other costs	**1,074**	2,317
Other expenses	**-**	396
	64,309	57,284

* Includes £55,625 in respect of the University (2010: £53,568)

2.4 Analysis of expenditure by activity

	Staff costs £'000	Exceptional Staff Costs £'000	Depreciation £'000	Other operating expenses £'000	Interest payable £'000	Total 2011 £'000	Total 2010 £'000
Schools	46,927	-	3,411	8,329	-	**58,667**	60,914
Academic services	5,982	-	1,644	5,277	-	**12,903**	11,698
Research grants & contracts	11,361	-	943	10,359	-	**22,663**	21,407
Residences, catering and other operations	3,577	-	855	8,424	3,119	**15,975**	15,863
Premises	3,186	-	444	13,227	-	**16,857**	13,326
Administration	9,555	-	343	2,565	-	**12,463**	11,711
Other expenses	8,335	-	286	16,128	1,577	**26,326**	30,815
Total per income and expenditure account	**88,923**	**-**	**7,926**	**64,309**	**4,696**	**165,854**	165,734
Total comparative 2010	89,460	5,089	8,485	57,284	5,416	165,734	

The depreciation charge has been funded by:	2011 £'000	2010 £'000
Deferred capital grants released	**3,069**	3,896
General income	**4,857**	4,589
	7,926	8,485

The charge for depreciation includes amounts of £0.018m funded by general income and £0.089m funded by deferred capital grants, in respect of the University's share of fixed asset equipment in the Brighton and Sussex Medical School.

NOTE 2 Expenditure (continued)

2.5 Exceptional items

	2011	2010
	£'000	£'000
Exceptional staff costs	**-**	5,089
	-	5,089

During the year 2009-10 the University incurred costs of £5.089m in respect of a planned reduction in staff numbers.

NOTE 3 Tangible assets

Consolidated

	Total £'000	Freehold £'000	Leasehold £'000	Assets in course of construction £'000	Equipment £'000
Cost and valuation					
At 1 August 2010	**226,734**	22,132	158,281	11,322	34,999
Additions at cost	**42,665**	-	8,415	32,635	1,615
At 31 July 2011	**269,399**	22,132	166,696	43,957	36,614
Depreciation					
At 1 August 2010	**76,616**	6,117	41,565	-	28,934
Charge for year	**7,814**	475	5,044	-	2,295
At 31 July 2011	**84,430**	6,592	46,609	-	31,229
Net book value at 31 July 2011	**184,969**	**15,540**	**120,087**	**43,957**	**5,385**
Net book value at 31 July 2010	150,118	16,015	116,716	11,322	6,065

University

	Total £'000	Freehold £'000	Leasehold £'000	Assets in course of construction £'000	Equipment £'000
Cost and valuation					
At 1 August 2010	**221,311**	16,981	158,281	11,322	34,727
Additions at cost	**42,656**	-	8,415	32,635	1,606
At 31 July 2011	**263,967**	16,981	166,696	43,957	36,333
Depreciation					
At 1 August 2010	**75,049**	4,789	41,565	-	28,695
Charge for year	**7,667**	346	5,044	-	2,277
At 31 July 2011	**82,716**	5,135	46,609	-	30,972
Net book value at 31 July 2011	**181,251**	**11,846**	**120,087**	**43,957**	**5,361**
Net book value at 31 July 2010	146,262	12,192	116,716	11,322	6,032

Freehold land valued at £3.639m is included in Fixed Assets and is not subject to depreciation.

Included in the total net book value of leasehold land and buildings for the University and the Group is £3.719m (2010: £3.843m) in respect of assets held under finance leases. Depreciation for the year on these assets was £0.124m (2010: £0.124m).

NOTE 4 Fixed asset investments

	Consolidated		University	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Listed securities	**193**	179	**193**	179
Unlisted securities (includes investments in subsidiaries and associates)	**163**	143	**325**	305
	356	322	**518**	484

NOTE 5 Investment in subsidiary and associate companies and minority holdings

	Share class	No.	Ordinary holding	Value at cost 2011	2010	Nature of activity
				£	£	
Sussex Innovation Centre Development Ltd	Ord	100	100%	**100**	100	Property development
	Pref	1,800,000	-	**2**	2	
East Slope Housing Ltd	Ord	2	100%	**2**	2	Student lettings
University of Sussex Intellectual Property Ltd	Ord	100	100%	**100**	100	IP exploitation
Sussex University Developments Ltd	Ord	100	100%	**100**	100	Inactive
Dreamclean Ltd	Ord	100	100%	**100**	100	Inactive
USPAS Trustee Ltd	Ord	100	100%	**100**	100	Pension corporate trustee
Sussex Innovation Centre Management Ltd	Ord	200	100%	**161,616**	161,616	Property management
	Pref	2,235	-	**437**	437	
Interanalysis	Ord	20	20%	**50,000**	50,000	Software Training
LeNSE Ltd	Ord	100	11%	**50,000**	50,000	Computer networking
Texrad Ltd	Ord	390	39%	**20,000**	-	Research & development
WZVI Limited	Ord	100	10%	**100**	100	Research & development
Adsfab Ltd	Ord C	6,000	-	**6,000**	6,000	Advertising agency
CVCP Properties PLC	Ord	36,582	<1%	**36,582**	36,582	Investment property
The New Statesman Ltd	Ord	1,626	<1%	**1,626**	1,626	Media publication

NOTE 6 Endowment asset investments

	Consolidated		University	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
At 1 August	**5,112**	4,589	**5,112**	4,589
Net additions	**1,144**	161	**1,144**	161
Appreciation/(depreciation)	**247**	362	**247**	362
At 31 July	**6,503**	5,112	**6,503**	5,112
Fixed interest stocks	**120**	118	**120**	118
Equities	**3,345**	3,155	**3,345**	3,155
Property	**47**	-	**47**	-
Bank balances	**2,991**	1,839	**2,991**	1,839
Total endowment asset investments	**6,503**	5,112	**6,503**	5,112

Endowment Fund investments of £6.503m (2010: £5.112m) at market value are included in the Balance Sheet as Long Term Investments. Their market value is higher than cost by £0.4024m and in 2010: higher by £0.1554m.

NOTE 7 Debtors

	Consolidated		University	
	2011	2010	**2011**	2010
Amounts falling due within one year:	**£'000**	£'000	**£'000**	£'000
Debtors and prepayments	**11,764**	11,209	**11,507**	10,939
Amounts due from subsidiary undertaking	**-**	-	**1,162**	1,159
	11,764	11,209	**12,669**	12,098
Amounts falling due after more than one year:				
Debtors	**1,546**	1,544	**1,446**	1,444
Amounts due from subsidiary undertaking	**-**	-	**3,097**	3,093
	1,546	1,544	**4,543**	4,537
Total debtors	**13,310**	12,753	**17,212**	16,635

NOTE 8 Creditors: amounts falling due within one year

	Consolidated		University	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Bank overdraft	**2,552**	5,254	**2,552**	5,254
Mortgages and other loans	**372**	432	**257**	324
Obligations under finance leases	**290**	258	**290**	258
Research creditor	**8,906**	8,607	**8,906**	8,607
Exceptional staff costs accrued	**963**	4,452	**963**	4,452
Creditors and accruals	**31,500**	28,602	**31,068**	28,232
Amounts owed to subsidiary undertakings	**-**	-	**667**	842
	44,583	47,605	**44,703**	47,969

NOTE 9 Creditors: amounts falling due after more than one year

	Consolidated		University	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Mortgages and other loans between one and five years	**1,537**	1,512	**1,000**	1,007
Mortgages and other loans in five years or more	**41,156**	41,552	**40,000**	40,250
Obligations under finance leases between one and five years	**1,568**	1,407	**1,568**	1,407
Obligations under finance leases in five years or more	**3,179**	3,629	**3,178**	3,629
	47,440	48,100	**45,746**	46,293

Of the above loans, £37.218m funded the purchase of land and buildings.

Amounts repayable in respect of bank loans outstanding at 31 July 2011 may be analysed as follows:

Lender	**Year loan obtained**	**Year of final repayment**	**Interest**	**Balance 2011 £'000**	**Balance 2010 £'000**
University					
Barclays Bank	2009	2039	Fixed	**40,000**	40,000
HSBC	1996	2016	Variable	**1,250**	1,500
HSBC	1992	2012	Variable	**-**	47
HSBC	1991	2011	Variable	**7**	33
				41,257	41,580
Subsidiary company					
Barclays Bank	2004	2022	Fixed	**1,808**	1,916
				43,065	43,496
Due within one year				**372**	432
Due between one and five years				**1,537**	1,512
Due in five years or more				**41,156**	41,552
				43,065	43,496

On 16 August the University drew down the first £10m of a £50m loan facility from Lloyds TSB Bank plc, a further £10m was drawn on 5 September 2011. This loan consists of £5m fixed for 10 years and £5m fixed for 5 years both of which have to be drawn by 3 November 2012 and £20m fixed for 23 years which has to be drawn by 3 November 2011. All the amounts are repayable by October 2034. The term and interest rate of the remaining £20m will be agreed with the bank by October 2012.

NOTE 10 Deferred capital grants

	Consolidated 2011 £'000	University 2011 £'000
At 1 August 2010		
Land and buildings	58,950	58,365
Equipment	2,682	2,682
Other	462	462
Total	62,094	61,509
Cash receivable		
Land and buildings	4,400	4,400
Equipment	522	522
Other	-	-
Total	4,922	4,922
Released to income and expenditure		
Land and buildings	2,236	2,216
Equipment	833	833
Other	-	-
Total	3,069	3,049
At 31 July 2011		
Land and buildings	61,114	60,549
Equipment	2,371	2,371
Other	462	462
Total	63,947	63,382

NOTE 11 Notes to consolidated cash flow statement

11.1 Reconciliation of consolidated surplus to net cash from operating activities

	Note	2011 £'000	2010 £'000
Surplus before tax		11,263	263
Depreciation		7,814	8,373
Deferred capital grants released to income	10	(3,069)	(3,896)
Investment income		(708)	(506)
Interest payable	2.2	4,696	5,416
Net pension credit		(2,503)	(1,685)
Decrease/(increase) in stocks		5	(37)
(Increase) in debtors		(557)	(1,172)
Investment in joint venture		(286)	(388)
(Decrease)/increase in creditors		(292)	4,300
Exceptional costs	2.5	-	5,089
Net cash inflow from operating activities		16,363	15,757

NOTE 11 Notes to consolidated cash flow statement (continued)

11.2 Returns on investments and servicing of finance

	2011 £'000	2010 £'000
Income from endowments	143	134
Income from short-term investments	176	204
Interest paid	(3,281)	(3,508)
	(2,962)	(3,170)

11.3 Capital expenditure and financial investment

	2011 £'000	2010 £'000
Tangible fixed assets acquired (other than leased equipment)	(42,665)	(25,444)
Fixed asset investments	(20)	(50)
Endowment asset investments acquired	(1,144)	(161)
	(43,829)	(25,655)
Deferred capital grants received	4,922	11,313
Endowments received	1,533	329
	(37,374)	(14,013)

11.4 Analysis of changes in consolidated financing during the year

	Total £'000	Finance leases £'000	Mortgages loans/other £'000	Preference share capital £'000
Balance at 1 August 2010	50,596	5,297	43,497	1,802
Capital repayments	(688)	(258)	(430)	-
Balances at 31 July 2011	**49,908**	**5,039**	**43,067**	**1,802**

11.5 Analysis of changes in net debt

	At 1 August 2010 £'000	Cash flows £'000	At 31 July 2011 £'000
Cash at bank and in hand	209	193	402
Overdraft	(5,254)	2,702	(2,552)
	(5,045)	2,895	(2,150)
Short term deposits	27,556	(27,556)	-
Debt due within one year	(690)	28	(662)
Debt due after more than one year	(48,104)	660	(47,444)
Net debt	**(26,283)**	**(23,973)**	**(50,256)**

NOTE 12 Movement on reserves

	Consolidated 2011 £'000	University 2011 £'000	Consolidated 2010 £'000	University 2010 £'000
12.1 Income and expenditure account reserve				
At 1 August	**1,665**	**1,181**	535	277
Surplus retained for the year	**11,263**	**11,070**	263	37
Actuarial gain on pension scheme	**7,492**	**7,492**	867	867
At 31 July	**20,420**	**19,743**	1,665	1,181
Balance represented by:				
Pension reserve	**(25,524)**	**(25,524)**	(34,104)	(34,104)
Income and expenditure account reserve excluding pension reserve	**45,944**	**45,267**	35,769	35,285
At 31 July	**20,420**	**19,743**	1,665	1,181

	2011 £'000	2010 £'000
12.2 Consolidated revaluation reserve		
At 1 August	**143**	105
Increase/(decrease) in the value of fixed asset investments	**14**	38
At 31 July	**157**	143

	2011 £'000	2010 £'000
12.3 Consolidated Capital reserve		
At 31 July	**1,802**	1,802

The capital reserve balance of £1.802m arises on consolidation of the University's subsidiary companies, Sussex Innovation Centre Developments Limited and Sussex Innovation Centre Management Limited, and relates to the acquisition of £1.8m and £0.002m respectively of preference shares (nominal value) in the companies on the 31 July 2008 for a consideration of £2.

NOTE 13 Movement on endowments

	Permanent Restricted £'000	Permanent Unrestricted £'000	Permanent Total £'000	Expendable Restricted £'000	Total £'000
At 1 August 2010					
Capital	2,841	33	2,874	1,299	4,173
Accumulated income	370	8	378	561	939
	3,211	41	3,252	1,860	5,112
Additions	(16)	-	(16)	1,549	1,533
Appreciation of Endowment Asset Investments	156	2	158	89	247
Income	81	1	82	61	143
Expenditure	(27)	-	(27)	(505)	(532)
At 31 July 2011	**3,405**	**44**	**3,449**	**3,054**	**6,503**
Represented by:					
Capital	2,981	35	3,016	2,925	5,941
Accumulated income	424	9	433	129	562
	3,405	**44**	**3,449**	**3,054**	**6,503**

NOTE 14 Pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Sussex Pension and Assurance Scheme (USPAS). The schemes are defined benefit schemes, which are valued every three years by actuaries using the projected unit method. The rates of contribution payable are determined by the trustees on the advice of the actuaries. Both schemes provide benefits based on final pensionable salary. During the year the University opened its 'Group Stakeholder' defined contribution scheme which will become more significant in future years.

USS

The institution participates in the Universities Superannuation Scheme, a defined benefit scheme contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund, Universities Superannuation Scheme Limited. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2011 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions are derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by the government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historical scheme experience, with further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members' mortality	PA92 MC YoB tables – rated down 1 year
Female members' mortality	PA92 MC YoB tables – No age rating

The actuary also carries out regular reviews of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2011 are also included in this note.

NOTE 14 Pension schemes (continued)

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the market value of the assets of the scheme was £28,842.6m and the value of the value of the scheme's technical provisions was £28,135.3m leaving a surplus of £707.3m. The assets therefore were sufficient to cover 103% of the benefits, which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 107% funded; on a buy out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance of promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable , historic, salary experience. However when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and as at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the 'Official Pensions Index' from the Retail Price Index to the Consumer Prices Index. The actuary has taken this all into account into his funding level as at 31 March 2011 by reducing the assumption for pension increases from 3.3% to 2.9% pa. The actuary estimated that the funding level as at 31 March 2011 funding under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Over the past the past 12 months, the funding level has improved from 91% as at 31 March 2010 to 98%. This estimate is based on the funding level at the 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of funding level measured on a buyout basis at that date was approximately 54%.

The next formal valuation is at 31 March 2011 and this will incorporate updated assumptions agreed by the Trustee Company.

NOTE 14 Pension schemes (continued)

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Increase/decrease by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the University was £7.974m (2010: £7.862m). This includes £0 (2010: £0) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 16% of pensionable salaries.

USPAS

The University operates a defined benefit scheme in the UK. An actuarial valuation was carried out at 31 March 2009 and updated to 31 July 2011 by a qualified independent actuary.

The pension expense charged to the income and expenditure account makes no allowances for actuarial gains and losses during the year. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses (STRGL) in the year that they occur. (The current practice of increasing pensions in line with inflation is included in the measurement of the defined benefit obligation).

NOTE 14 Pension schemes (continued)

	At 31 July 2011 £'000	At 31 July 2010 £'000
Change in benefit obligation		
Benefit obligation at the beginning of the year	**99,433**	91,996
Current service cost	**819**	1,045
Interest cost	**5,406**	5,733
Scheme participants' contributions	**896**	904
Actuarial (gains)/losses	**(3,739)**	3,718
Benefits paid	**(4,025)**	(3,963)
Benefit obligation at the end of the year	**98,790**	99,433
Change in scheme assets		
Fair value of scheme assets at the beginning of the year	**65,329**	57,248
Expected return on scheme assets	**3,991**	3,825
Actuarial gains	**3,753**	4,585
Employer contribution	**3,322**	2,730
Member contributions	**896**	904
Benefits paid	**(4,025)**	(3,963)
Fair value of plan assets at the end of the year	**73,266**	65,329
Funded status		
Net liability recognised in the balance sheet	(25,524)	**(34,104)**

	2011 £'000	2010 £'000
Components of pension cost:		
Current service cost	**819**	1,045
Interest cost	**5,406**	5,733
Expected return on scheme assets	**(3,991)**	(3,825)
Total pension cost recognised in income and expenditure account	**2,234**	2,953

Actuarial (gains)/losses immediately recognised:

	2011 £'000	2010 £'000
Actual return on scheme assets	**(7,744)**	(8,410)
Less expected return on scheme assets	**(3,991)**	(3,825)
	(3,753)	(4,585)
Changes in assumptions	**9,124**	3,718
Changes in assumptions due to change to cpi from rpi	**(12,863)**	-
Total changes in assumptions	**(3,739)**	3,718
Total pension cost recognised in the STRGL	**(7,492)**	(867)
Cumulative amount of actuarial losses immediately recognised	**18,104**	21,878

NOTE 14 Pension schemes (continued)

Scheme assets

The weighted average asset allocation at the 31 July 2011 was:

	At 31 July 2011	**At 31 July 2011 £'000**	At 31 July 2010	At 31 July 2010 £'000
Equities	60.3%	**44,236**	60.3%	39,366
Bonds	19.0%	**13,965**	19.8%	12,933
Gilts	19.0%	**13,964**	19.5%	12,786
Cash	1.7%	**1,101**	0.4%	244
Total Market Value of Assets		**73,266**		65,329

To develop the expected long-term rate of return on assets assumption, the university considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.90% assumption for the pension expense for the year ended 31 July 2011 and the 6.10% assumption for the pension expense for the year ended 31 July 2010.

	2011 £'000	2010 £'000
Actual return on plan assets	**7,744**	8,410
Financial assumptions		
Discount rate	**5.20%**	5.50%
Salary increases	**4.40%**	3.70%
Rate of increases of pensions in payment - Pensioners		
RPI capped at 6% pa	**N/A**	2.80%
RPI capped at 3% pa	**N/A**	2.50%
CPI capped at 6% pa	**2.20%**	N/A
CPI capped at 3% pa	**1.90%**	N/A
Rate of increases of pensions in payment – Non - pensioners		
RPI capped at 6% pa	**N/A**	4.00%
RPI capped at 3% pa	**N/A**	2.90%
CPI capped at 6% pa	**2.80%**	N/A
CPI capped at 3% pa	**2.50%**	N/A
Rate of increase for deferred pensioners (non GMP)		
RPI	**3.40%**	2.70%
CPI	**2.40%**	N/A
Expected return on assets	**5.90%**	6.10%

Weighted average life expectancy for mortality tables used to determine benefit obligations

	2011		2010	
	Male	**Female**	Male	Female
Member age 65 (current life expectancy)	**21.2**	**24.0**	21.1	23.8
Member age 45 (life expectancy at age 65)	**23.1**	**25.9**	23.0	25.7

NOTE 14 Pension schemes (continued)

Five year history:	**2011**	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Benefit obligation	**98,790**	99,433	91,996	92,634	82,548
Fair value of scheme assets	**73,266**	65,329	57,248	57,194	60,719
Deficit	**(25,524)**	(34,104)	(34,748)	(35,440)	(21,829)
Experience Gains and (Losses) on Scheme Assets:					
Amount (£'000)	**3,753**	4,585	(4,129)	(8,222)	1,141
Percentage of Scheme Assets	**5%**	7%	(7%)	(14%)	2%
Experience Gains and (Losses) on Scheme Liabilities:					
Amount (£'000)	**108**	-	1,900	1,500	1,449
Percentage of the Present Value of Scheme Liabilities	**-**	-	2%	2%	2%
Total amount recognised in the statement of total recognised gains and (losses):					
Amount (£'000)	**7,492**	867	1,462	(13,860)	11,890
Percentage of the Present Value of the Scheme Liabilities	**8%**	1%	2%	(16%)	14%

SGSS

Sussex Group Stakeholder Scheme (SGSS) is a defined contribution scheme for newly employed technical, clerical and other support staff. The scheme allows members to contribute a minimum 3% of monthly salary and offers life assurance and income protection in addition to pension benefits. The University contributes two times the member contribution up to a maximum 12% of monthly salary.

The pension costs for the University and its subsidiaries were:	*Forecast*		
	2012	**2011**	2010
	£'000	**£'000**	£'000
Contributions to USS	*8,013*	**7,974**	7,862
Contributions to USPAS	*3,322*	**3,248**	2,292
Contributions to SGSS	*167*	**166**	174
Other Contributions	*357*	**355**	318

NOTE 15 HEFCE Access funds

	2011	2010
	£'000	£'000
Balance at 1 August	**4**	10
Funding Council Grants	**194**	226
Disbursed to Students	**(196)**	(232)
Balance unspent at 31 July	**2**	4

Funding Council grants are solely for students; the University acts only as a paying agent.
The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

NOTE 16 TDA training bursaries

	2011 £'000	2010 £'000
Balance at 1 August	(37)	104
TDA Grants	2,023	1,329
Disbursed to Students	(1,704)	(1,441)
Administration costs	(37)	(29)
Balance owing to/(owed by) TDA at 31 July	245	(37)

NOTE 17 Brighton and Sussex Medical School

Income and expenditure account for the year ended 31 July 2011	**University of Sussex**	**University of Brighton**	**Joint venture total**	Joint venture total
	2011	**2011**	**2011**	2010
Income	**£'000**	**£'000**	**£'000**	£'000
HEFCE grant	3,834	3,754	7,588	7,538
NHS funds	2,376	2,376	4,752	2,471
Academic fees	1,394	1,394	2,788	2,477
Research grants and contracts	1,753	1,309	3,062	2,291
Other	956	577	1,533	3,201
Total Income	10,313	9,410	19,723	17,978
Expenditure				
Staff costs	5,019	4,585	9,604	9,005
Depreciation	112	101	213	213
Other operating expenses	4,896	4,494	9,390	8,412
Total expenditure	10,027	9,180	19,207	17,630
Surplus on continuing operations	286	230	516	348
Surplus Brought forward for the year	4,276	3,901	8,177	7,830
Surplus retained for the year	4,562	4,131	8,693	8,177

Balance sheet of the Community Chest as at 31 July 2011	**University of Sussex**	**University of Brighton**	**Joint venture total**	Joint venture total
	2011	**2011**	**2011**	2010
	£'000	**£'000**	**£'000**	£'000
Fixed assets	466	466	932	1,145
Current assets				
Debtors	734	734	1,468	1,002
Cash at bank and in hand	6,178	5,485	11,663	10,273
Current liabilities				
Creditors	(2,370)	(2,108)	(4,478)	(3,173)
Net current assets	4,542	4,111	8,653	8,102
Total net assets	5,008	4,577	9,585	9,247
Represented by:				
Deferred capital grants	446	446	892	1,070
Income and expenditure account	4,562	4,131	8,693	8,177
	5,008	4,577	9,585	9,247

NOTE 17 Brighton and Sussex Medical School (continued)

Explanatory notes

(i) Background

The Brighton & Sussex Medical School (BSMS) is an equal partnership between the Universities of Sussex and Brighton. However it is agreed that the University of Sussex will be allocated 75% of the income and expenditure relating to Oncology Research.

In accordance with FRS 9 transactions are reported under the definition of a 'joint venture'.

All revenue income received in respect of BSMS by each University is held in a 'community chest', managed by the University of Sussex. Expenditure incurred by each university on behalf of BSMS is reimbursed from the community chest.

(ii) Accounting arrangements

The income and expenditure of the BSMS for the year ended 31 July 2011 is reflected in the audited Financial Statements of both Universities as reflected in the table above. Each University has included its share of the gross assets and liabilities of the joint venture and its share of the turnover and surplus.

(iii) Cash at bank and in hand

The balance of £11.663m was held on behalf of the School at 31 July 2011 by the University of Sussex to meet expenditure commitments in 2011-12 to be settled by claims for reimbursement of expenditure from each University.

NOTE 18 Capital commitments

	2011	2010
Authorised and contracted for at 31 July	**£'000**	£'000
Wholly or partly funded from loans and consolidated reserves	**18,142**	20,821
	18,142	20,821

NOTE 19 Operating lease commitments

The University entered into an operating lease in September 2007 on a new student residence comprising 450 rooms. The lease has a minimum term of 20 years with annual rentals of £1.4m.

	2011	2010
	£'000	£'000
Annual rentals under operating leases payable and expiring after 5 yrs	**1,400**	1,400

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