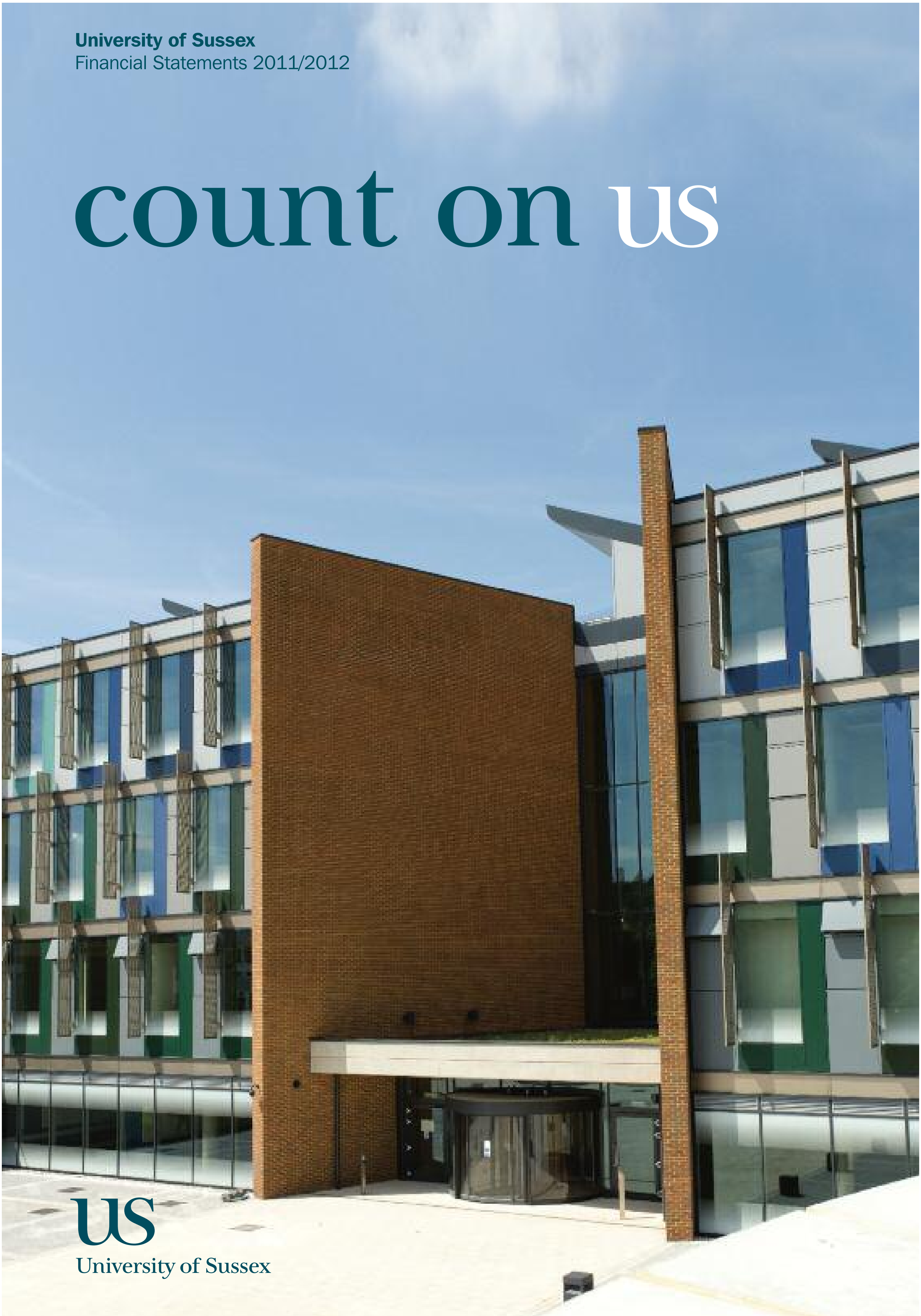
University of Sussex
Financial Statements 2011/2012

count on us



University of Sussex

Principal officers

Visitor
Her Majesty The Queen

Chancellor
Sanjeev Bhaskar OBE
BA (Hatfield)

Chair of Council
Simon Fanshawe
BA (Sussex) Hon MA (Brighton)

Vice-Chair (Finance)
Chris Brodie
MA (Oxon)

Vice-Chair (Performance)
Lisa Rodrigues CBE
BA, MA (Sussex)

Vice-Chancellor
Professor Michael Farthing
DSc (Med) (London) MD (London)
FRCP FMedSc

Deputy Vice-Chancellor
Professor Clare Mackie
BSc (Strathclyde) MSc (Glasgow) Phd
(Strathclyde) MCPP MRPharms

Pro-Vice-Chancellor
Chris Marlin
BSc, PhD (Adelaide)
FACS, FAICD, Comp IE Aust

Registrar and Secretary
John Duffy
MA (Glasgow) MBA (City)

Director of Finance
Allan Spencer
MA (Oxon) ACA

Cover: our new Jubilee Building, home of the School of Business, Management and Economics

Contents

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 2011/12 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. 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 during 2012-13 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 4% surplus target was exceeded in 2011/12 (actually achieving 7.5%) and in 2010/11. Setting aside exceptional staff costs, the 4% target would also have been met in 2009/10.

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 2012 and the previous three years are summarised as follows:

	2011/12	2010/11	2009/10	2008/09
	£m	£m	£m	£m
Income	**182.7**	174.9	165.9	158.6
Expenditure	**169.0**	163.6	165.7	160.3
(Deficit)/surplus for the year before disposal of assets	**13.7**	11.3	0.2	(1.7)
(Deficit)/surplus for the year after disposal of assets	**13.7**	11.3	0.2	(1.6)

The University's total income rose by 4.5% 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 fell by 12% on the prior year due to the further impact of public finance cuts to Higher Education. The major component of growth in revenue again came from a further large increase in International Student fee income, which grew by 35% over 2010/11. Home/EU Student fee income also increased by 15% compared with 2010/11. Real terms increases in income were achieved in other operating income. There was a fall in research grants and contracts income of around 15% driven by a fall in income from research councils but also from UK based charities. This is reflective of Government departments commissioning less research and charities and industry/commerce struggling to maintain investment in research given the current economic conditions.

Within our cost base, pay unit costs increased only marginally as a result of nationally agreed cost of living rises, but are impacted by incremental salary increases (around 2%).

As noted above the bottom line resulting surplus is £13.7m compared to a position of £11.3m in 2010/11.

Balance Sheet review

Capital investment

The University has reached the end of its 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 Infrastructure Fund Round 2 strategy submission.

The University has thus undertaken a series of major projects, making investments from funds from the HEFCE administered Capital and Investment Framework, together with matched funding from internal resources and donations, coupled with access to bank borrowing. In total, capital investments in buildings of £24.9 million were made in 2011/12. These include completion of works on the flagship Jubilee Building centered round our hugely successful expansion of Business and Management activity and the delivery of a second phase of the Northfield student residences development increasing the number of bed-spaces at Northfield to 957. 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 The Chartered Institute of Public Finance and Accountancy (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 in 2009 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. Of the £50 million from Lloyds £20 million was drawn down in year with the remaining £30 million being drawn down prior to 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 £18.2 million of cash from operating activities before interest, paid £3.8 million in net interest, drew down (net of repayments) £19.3 million of loan funding and invested some £22.4 million in capital developments. Short term and overnight cash reserves less overdrafts were increased substantially at 31 July 2012 as the University was required to draw down £20 million of its loan funding from Lloyds and 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 accounts.

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 is currently being revalued as at 31 March 2012, but employer and employee contribution rates (under the cost-sharing arrangement for cost increase) will not be reviewed until Spring 2013.

The net liability has increased by £11.5m principally as a result of the reduction in the yields for investments which are used to discount future payments and thus increase the present value of liabilities to members.

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 changes remains lower than in the past. Thus the risk that the 2012 valuation will lead to significant further cash recovery plan payments is also reduced.

Operating and Financial Review (continued)

The USPAS scheme was closed to new entrants on 1 April 2009, when the University opened a new defined contribution Sussex Group Stakeholder pension scheme with life and health assurance benefits. This scheme now has more than 150 active members and will be used for relevant categories of non academic/academic related staff when the UK Government auto-enrolment rules apply to the University whose staging date is 1st April 2013. 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 was at 31 March 2011 and the results were published during the year. The recovery plan confirms that for the next three years a rate of 16% for the employers will prevail with costs unlikely to increase above this rate over the ten year recovery plan period. However, the scheme continues to contain long term financial uncertainty. 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 strong Income and Expenditure Account result, and been further boosted by increases in endowment funds although are not as high as they would have been as a result of the increase in USPAS pension liability compared with the prior year. Reserves stand at £94.9 million compared to £92.8 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 being followed by a more difficult period as grant funding is cut to reduce public sector borrowing and as funding will be much more directly correlated with student numbers.

In the wake of the 2011 HE White Paper the government has for 2012 entrants' switched teaching funding for Home/EU Undergraduates, from grant to student fees. This has introduced 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 impact of the change in non-quota numbers to AAB for the current year will become clear once all students for 2012/13 have registered. While we would hope to fill more non-quota places with AAB and even AAA students, future changes to reducing quota numbers and reducing the quality threshold on non-quota numbers to ABB and equivalent will further enhance our position in ability to recruit students, but we are fully aware that this objective will be shared by other peer group Universities and that competition and student mobility will increase in the new competitive regime.

The severe reductions in capital grants require us to find other sources of income to maintain and increase our capital development plans. Ongoing update of the campus master plan will inform the capital development programme beyond the current year.

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 and we seek to at least retain market share for prestigious peer reviewed sponsors such as the UK research councils.

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. This will be achieved 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 were reviewed during 2011 and amended with effect from 1 March 2012 following Privy Council approval.

The 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; up to fifteen independent members appointed by Council; three members of the Senate; two other members of the academic staff; one member of professional services staff, the President of the Students' Union and the student representative of the Research Postgraduate School. It meets at least four times a year and has five committees and two joint committees. 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 (Performance) and Vice-Chair (Finance) 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.

Finance and Investments Committee (FIC) is a Committee of Council, focusing on the oversight of the University Executive's planning and management of finance, investments and assets of the University in their widest sense in the context of economy, efficiency and value for money. Finance and Investment Committee has a particular remit in relation to providing advice and recommendations to Council. FIC also has a remit to review, monitor and approve on behalf of Council, financial strategy and policy, budget setting and financial forecasting, financial performance, the capital project governance framework and investment and treasury matters. The committee's membership comprises four independent members of Council, the Vice-Chancellor and Deputy Vice-Chancellor.

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 not members of Finance and Investment Committee. 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.

Performance Committee is a committee of Council providing oversight of the University's performance in delivering strategies, projects and plans which have been agreed by Council including identifying and measuring the indicators by which plans can be monitored. The Committee will agree a range of operational indicators which will enable the Council to oversee the general operations of the University and the format and timing of reporting on these. For strategies, projects and plans and areas of operation, the Committee will monitor the management of the main risks. The Committee will also monitor the University's compliance against a range of statutory requirements. The Committee is chaired by Vice Chair (Performance) and includes four independent members of Council, Vice-Chancellor, Pro-Vice-Chancellors, two members of staff on Council appointed by Nominations Committee and the President of the Students' Union (or nominee)

Nominations Committee reports to Council and is responsible for making recommendations to Council and Court on the

Corporate Governance (continued)

appointment of the independent members of Council and Court and for making appointments to Council Committees.

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.

Remuneration Committee is responsible on behalf of Council for determining the principles and strategy for the reward of all staff; and for the framework for the remuneration of all Heads of School, Professional Services Directors at grade 10, the Librarian, and the Professoriate.

Chair's Group Co-ordinates the business to be transacted at Council Committees with specific responsibility for ensuring that the rolling agendas of Finance & Investment, Performance and Audit Committees are reflected in Council business and for oversight of reporting to Council, ensuring that discussions are coordinated and papers complementary.

Human Resources Committee is a sub-committee of Performance Committee with responsibility for recommending and implementing human resources strategy and advising on and recommending employment related policy.

Health, Safety and Environment Committee is a sub-committee of Performance Committee which advises 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 is a sub-committee of performance Committee which 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.

Capital Programmes Committee is a sub-committee of Performance Committee which directs the development, enhancement and maintenance of the University's buildings, environment, physical infrastructure and services, and oversees other capital investment commitments, including IT.

Information Services Committee is a sub-committee of Performance Committee which oversees the information services strategy and ensures that it supports the University's mission and strategy. (Information Services in this context includes all library, IT, telecommunications and University web services that support the University). Information Services Committee reports through Capital Programme Committee for large-scale project approvals and monitoring.

Scholarships and Bursaries Committee implements policy and process relating to scholarships, bursaries and awards (including prizes), on behalf of Performance Committee.

New Academic Courses Committee considers on behalf of Performance Committee whether to grant outline approval for new academic courses proposed by Schools of Study. Proposals are considered against a range of criteria including compatibility with corporate strategy, market viability and quality assurance.

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 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 2011. Trustees who served during the year and up to the date of signing the financial statements are Prof RJ Allison, Ms S Bream, Mr C Brodie, Mrs CC Brooke, Mr A Bryant, Dr SW Bunting, Mrs PA Burr, Prof J Cassell, Dr AEW Chitty, Mr D Cichon, Mrs F Clarkson CBE, Mrs PJ Coare, Prof S Dubow, Mr SHD Fanshawe, Prof M J G Farthing, Mr M Fuhr CBE, Mr A Ghosh, Ms S James, Mr E Jenner MBE, Dr J Law, Prof C Mackie, Prof C Marlin, Mrs S Mbubaegbu CBE, Ms K McBride, Ms C Moroz, Prof M Morris, Ms S Nebhrajani, Ms L Rodrigues CBE, Mr P Saraga CBE, Prof JC Bourne Taylor, Prof BL Weiss, Mrs B Winter.

Under the provisions of the Charities Act 2011 charities are required to demonstrate explicitly how they provide public benefit. Under the 2011 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.

Knowledge of and access to our research outputs is of major importance to the effective delivery of benefits. Initiatives in the year aimed to raise the profile of our research and maximise its accessibility include the launch of Sussex Research Online (SRO), which provides an accessible repository of over 23,000 records forming a comprehensive window on our recent research and available as a free resource on the University's website, and the "Sussex Conversations" held at the Royal Institution of Great Britain in London, a series of six plenary lectures each based on one of our research themes, bringing audiences together with esteemed expert panellists and leading Sussex academics.

Three further specific projects, more details of which may be found in the Research Review 2012 on the University's website, demonstrate our commitment to the delivery of public benefit through our research:

- The GABA research cluster at Sussex works to understand the complex processes of addiction. Studying the mechanisms that underlie addictive behaviour lead us to discover why some individuals are more susceptible than others and help us to develop new ways of managing addiction.
- The Sussex Translational Drug Discovery Group is a new group of academics with significant pharmaceutical industry experience aiming to bridge the gap between fundamental biological research within the Schools of Life Sciences and Psychology and the Genome Damage and Stability Centre, and the clinical expertise within the Brighton and Sussex Medical School and the Brighton and Sussex University Hospitals NHS Trust. In doing so, the intention is to translate scientific and clinical expertise into drug-discovery efforts aimed at identifying novel therapeutic targets that will result in the development of new drugs to address unmet clinical needs.
- The Centre for World Environmental History at Sussex is working with partners to transcribe, collate and digitise botanical archives to preserve them and to make them more accessible to researchers. Digitising these vast and dispersed records, housed in museums and botanical archives around the world, amounts to an enormous collective effort for historians and scientists alike. Sussex's Centre for World Environmental History specialises in the environmental history of the tropics, and fosters interdisciplinary and interinstitutional collaborations that cross the boundaries of the social sciences, humanities, and the history of science.

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 and 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. Good NSS ratings have contributed strongly towards the University maintaining its strong top 20 ranking across the major league tables compiled by UK national newspapers. 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. The University was shortlisted for the 'University of the Year' in the Times Higher Education Awards.

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 our careers and employability services who are working with employers to provide more placement opportunities for students alongside

Corporate Governance (continued)

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.
- 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 we are in receipt of 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, 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 has changed on funding for Home/EU undergraduates, who form the majority of our student population, with new rules applying to 2012 entrants. Government action following its 2011 White Paper on Higher Education leads us to a reduction in direct grant funding and

Corporate Governance (continued)

an increase in student fees. This presents a significant challenge for this and other Universities to avoid a price barrier that might restrict access by potential student beneficiaries from low income households. The University works with applicants and their parents and sponsors to ensure that they understand the financial impact of the new regime, which includes loan funding for tuition fees in full, and the benefits of a Higher Education experience which continues 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*). Our OFFA agreement (which may also be found on the University's website) includes a commitment to the development and extension of existing programmes through reinvestment of 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 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 four 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 Performance Committee) 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 2012 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 Finance and Investments 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 Teaching 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 2012 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.

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 2012 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

28 November 2012

Consolidated Income and Expenditure Account
for the year ended 31 July 2012

	Note	2012 £'000	2011 £'000
Income			
Funding Council Grants	1.1	**48,794**	56,619
Academic Fees and Support Grants	1.2	**69,130**	57,066
Research Grants and Contracts	1.3	**24,757**	29,162
Other Operating Income	1.4	**39,581**	31,361
Endowment Income and Interest Receivable	1.5	**437**	734
Total Income: Group and share of joint ventures		**182,699**	174,942
Less: Share of joint ventures income	17	**(10,177)**	(10,313)
Group income		**172,522**	164,629
Expenditure			
Staff costs	2.1	**92,243**	88,923
Depreciation	2.4	**8,426**	7,926
Other operating expenses	2.3	**63,332**	62,134
Interest payable	2.2	**4,949**	4,696
Total expenditure: Group and share of joint ventures		**168,950**	163,679
Less: Share of joint ventures expenditure	17	**(9,710)**	(10,027)
Group expenditure		**159,240**	153, 652
Group surplus on continuing operations after depreciation of fixed assets at cost and before tax		**13,282**	10,977
Share of surplus in joint venture	17	**467**	286
Total surplus on continuing operations after depreciation of fixed assets and disposal of assets at cost but before tax		**13,749**	11,263
Taxation		**-**	-
Historic cost surplus on continuing operations after depreciation of fixed assets at cost, disposal of assets and tax		**13,749**	11,263

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 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	3	**201,551**	184,969
Investments	4	**347**	356
Investment in joint venture:			
Share of gross assets	17	**8,007**	7,378
Share of gross liabilities	17	**(2,978)**	(2,816)
Endowment investments	6	**6,989**	6,503
Current assets			
Stocks		**277**	274
Debtors	7	**12,061**	13,310
Investments	11.5	**16,521**	-
Cash at bank and in hand	11.5	**259**	402
		29,118	13,986
Creditors: amounts falling due within one year	8	**(44,464)**	(44,583)
Net current liabilities		**(15,346)**	(30,597)
Total assets less current liabilities		**198,570**	165,793
Creditors: amounts falling due after more than one year	9	**(66,680)**	(47,440)
TOTAL NET ASSETS excluding pension liability		**131,890**	118,353
Pension liability	14	**(37,017)**	(25,524)
TOTAL NET ASSETS including pension liability		**94,873**	92,829
Represented by:			
Deferred capital grants	10	**63,945**	63,947
Endowments			
Permanent	13	**3,504**	3,449
Expendable	13	**3,485**	3,054
		6,989	6,503
Reserves			
Income and expenditure account excluding pension liability	12.1	**59,000**	45,944
Pension reserve	12.1	**(37,017)**	(25,524)
Income and expenditure account including pension liability		**21,983**	20,420
Capital reserve	12.3	**1,802**	1,802
Revaluation reserve	12.2	**154**	157
TOTAL FUNDS		**94,873**	92,829

The Financial Statements were approved by the Council on 28 November 2012 and signed on its behalf by:

Professor M J G Farthing	**S H D Fanshawe**	**R A Spencer**
Vice-Chancellor	**Chair of Council**	**Director of Finance**

University Balance Sheet
as at 31 July 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	3	**197,952**	181,251
Investments	4	**509**	518
Endowment investments	6	**6,989**	6,503
Current assets			
Stocks		**277**	274
Debtors	7	**16,023**	17,212
Investments	11.5	**16,521**	-
Cash at bank and in hand		**-**	-
		32,821	17,486
Creditors: amounts falling due within one year	8	**(44,596)**	(44,703)
Net current liabilities		**(11,775)**	(27,217)
Total assets less current liabilities		**193,675**	161,055
Creditors: amounts falling due after more than one year	9	**(65,109)**	(45,746)
TOTAL NET ASSETS excluding pension liability		**128,566**	115,309
Pension liability	14	**(37,017)**	(25,524)
TOTAL NET ASSETS including pension liability		**91,549**	89,785
Represented by:			
Deferred capital grants	10	**63,400**	63,382
Endowments			
Permanent	13	**3,504**	3,449
Expendable	13	**3,485**	3,054
		6,989	6,503
Reserves			
Income and expenditure account excluding pension liability	12.1	**58,023**	45,267
Pension reserve	12.1	**(37,017)**	(25,524)
Income and expenditure account including pension liability		**21,006**	19,743
Revaluation reserve	12.2	**154**	157
TOTAL FUNDS		**91,549**	89,785

The Financial Statements were approved by the Council on 28 November 2012 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 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	11.1	**18,174**	16,363
Returns on investments and servicing of finance	11.2	**(3,776)**	(2,962)
Capital expenditure and financial investment	11.3	**(22,427)**	(37,374)
Cash outflow before use of liquid resources and financing	11.5	**(8,029)**	(23,973)
Management of liquid resources		**(16,521)**	27,556
Financing	11.4	**19,337**	(688)
(Decrease)/increase in cash		**(5,213)**	2,895

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	2012 £'000	2011 £'000
(Decrease)/increase in cash in the year		**(5,213)**	2,895
Increase/(decrease) in short-term deposits	11.5	**16,521**	(27,556)
New finance acquired	11.4	**(20,000)**	-
Repayment of debt	11.4	**663**	688
Change in net funds		**(8,029)**	(23,973)
Net debt at 1 August	11.5	**(50,252)**	(26,279)
Net debt at 31 July	11.5	**(58,281)**	(50,252)

Statement of Consolidated Total Recognised Gains and Losses
for the year ended 31 July 2012

	Note	2012 £'000	2011 £'000
Surplus after depreciation of assets at cost and tax		**13,749**	11,263
(Depreciation)/appreciation of endowment asset investments	6	**(71)**	247
Endowment income received for year	13	**569**	1,533
Endowment investment income retained for year	13	**192**	143
Endowment expenditure made during year	13	**(204)**	(532)
Unrealised (loss)/gain on revaluation of fixed asset investments	12.2	**(3)**	14
Actuarial (loss)/gain on pension scheme	14	**(12,187)**	7,492
Total recognised surplus relating to the year		**2,045**	20,160

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.

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 2012. These are Sussex Innovation Centre Development 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.

Statement of Accounting Policies (continued)

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 income and expenditure 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 FRS 17 "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.

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.

Statement of Accounting Policies (continued)

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 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

	2012	2011
1.1 Funding council grants	**£'000**	£'000
Recurrent grant		
HEFCE grant	**43,549**	49,059
Training and Development Agency For Schools (TDA)	**1,365**	1,815
Specific grant		
Other	**2,140**	3,336
Deferred capital grants released in year		
Buildings	**1,416**	1,878
Equipment	**324**	531
	48,794	56,619
1.2 Tuition fees and education contracts		
Full-time students: UK/EU	**32,914**	28,660
Full-time students: international	**32,796**	24,261
Part-time and other	**2,459**	2,888
Research training support grants	**186**	220
Short courses	**775**	1,037
	69,130	57,066
1.3 Research grants and contracts		
Research councils	**12,194**	14,709
UK-based charities	**4,613**	5,509
European Commission	**3,199**	3,657
Other grants and contracts	**3,952**	4,469
Releases from deferred capital grants	**799**	818
	24,757	29,162
1.4 Other operating income		
Residences, catering and other operations	**23,963**	18,137
Other services rendered	**2,886**	2,855
Other income		
General academic services	**2,660**	3,053
NHS grants	**2,105**	1,189
Staff and student services	**1,207**	961
Central administrative	**3,210**	3,443
Other	**3,550**	1,723
	39,581	31,361
1.5 Endowment income and interest receivable		
Transferred from endowments (Note 13)	**204**	532
Income from short-term investments	**233**	202
	437	734

NOTE 2 Expenditure

2.1 Staff costs	2012 £'000	2011 £'000
Wages and salaries	**76,422**	73,718
Social security costs	**6,366**	6,405
Other pension costs	**9,455**	8,800
	92,243	88,923

Emoluments of the Vice-Chancellor	2012 £'000	2011 £'000
Salary	**237**	227
Pension contributions	**33**	36
Other	**10**	9
	280	272

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:	2012 Number	2011 Number
Academic/clinical	**836**	849
Technical	**118**	116
Professional management and professional support	**809**	795
Other, including clerical and manual	**147**	142
	1,910	1,902

Trustee expenses

Amounts paid to or on behalf of trustees was £5,370 (2011: £5,626). 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)	2012 Number	2011 Number
£100,001-£110,000	**8**	6
£110,001-£120,000	**4**	8
£120,001-£130,000	**6**	7
£130,001-£140,000	**2**	3
£140,001-£150,000	**3**	1
£150,001-£160,000	**1**	1
£160,001-£170,000	**1**	1
£170,001-£180,000	**2**	1
£180,001-£190,000	**1**	1
£190,001-£200,000	**1**	1
£200,001-£210,000	**-**	-
£210,001-£220,000	**1**	1
£220,001-£230,000	**1**	1
£230,001-£240,000	**1**	-

There were no compensation payments for loss of office paid to former senior post-holders in 2012 (2011: £0).

2.2 Interest payable	2012 £'000	2011 £'000
Loans wholly repayable within five years	**28**	32
Loans not wholly repayable within five years	**3,516**	2,643
Finance leases	**626**	606
Net interest on pension liabilities	**779**	1,415
	4,949	4,696

NOTE 2 Expenditure (continued)

2.3 Other operating expenses

	2012 £'000	2011 £'000
Residences, catering and other operations	9,186	8,424
Consumable and laboratory expenditure	13,802	12,145
Books and periodicals	1,555	2,493
Fellowships, scholarships and prizes	3,806	3,113
Heat, light, water and power	2,322	2,124
Repairs and general maintenance	9,893	8,820
Research grants and contracts	7,100	8,828
Auditors' remuneration*	66	59
Auditors' remuneration in respect of non-audit services	26	102
Equipment	1,890	2,108
Academic services	1,009	1,184
Staff and student	1,488	1,218
General education	7,246	7,878
Central administration and services	2,587	2,564
Premises – other costs	1,356	1,074
	63,332	62,134

* Includes £58,800 in respect of the University (2011: £55,625)

2.4 Analysis of expenditure by activity

	Staff costs £'000	Depreciation £'000	Other operating expenses £'000	Interest payable £'000	Total 2012 £'000	Total 2011 £'000
Schools	50,504	3,378	12,022	-	65,904	58,667
Academic services	5,942	1,591	2,933	-	10,466	12,903
Research grants & contracts	9,952	798	7,100	-	17,850	20,488
Residences, catering and other operations	3,605	1,576	9,186	3,868	18,235	15,975
Premises	3,172	454	13,936	-	17,562	16,857
Administration	14,089	113	2,765	-	16,967	12,463
Other expenses	4,979	516	15,390	1,081	21,966	26,326
Total per income and expenditure account	**92,243**	**8,426**	**63,332**	**4,949**	**168,950**	**163,679**
Total 2011	88,923	7,926	62,134	4,696	163,679	

	2012 £'000	2011 £'000
The depreciation charge has been funded by:		
Deferred capital grants released	**2,539**	3,069
General income	**5,887**	4,857
	8,426	7,296

The charge for depreciation includes amounts of £0.006m 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 3 Tangible assets

Consolidated

	Total £'000	Freehold £'000	Leasehold £'000	Assets in course of construction £'000	Equipment £'000
Cost and valuation					
At 1 August 2011	**269,399**	22,132	166,696	43,957	36,614
Additions at cost	**24,913**	-	3,996	20,215	702
Transfer of constructed assets	**-**	-	30,272	(30,272)	-
At 31 July 2012	**294,312**	22,132	200,964	33,900	37,316
Depreciation					
At 1 August 2011	**84,430**	6,592	46,609	-	31,229
Charge for year	**8,331**	475	5,807	-	2,049
At 31 July 2012	**92,761**	7,067	52,416	-	33,278
Net book value at 31 July 2012	**201,551**	**15,065**	**148,548**	**33,900**	**4,038**
Net book value at 31 July 2011	184,969	15,540	120,087	43,957	5,385

University

	Total £'000	Freehold £'000	Leasehold £'000	Assets in course of construction £'000	Equipment £'000
Cost and valuation					
At 1 August 2011	**263,967**	16,981	166,696	43,957	36,333
Additions at cost	**24,887**	-	3,996	20,215	676
Transfer of constructed assets	**-**	-	30,272	(30,272)	-
At 31 July 2012	**288,854**	16,981	200,964	33,900	37,009
Depreciation					
At 1 August 2011	**82,716**	5,135	46,609	-	30,972
Charge for year	**8,186**	346	5,807	-	2,033
At 31 July 2012	**90,902**	5,481	52,416	-	33,005
Net book value at 31 July 2012	**197,952**	**11,500**	**148,548**	**33,900**	**4,004**
Net book value at 31 July 2011	181,251	11,846	120,087	43,957	5,361

Freehold land valued at £0.366m 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 £3.595m (2011: £3.719m) in respect of assets held under finance leases. Depreciation for the year on these assets was £0.124m (2011: £0.124m).

NOTE 4 Fixed asset investments

	Consolidated		University	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Listed securities	**189**	193	**189**	193
Unlisted securities (includes investments in subsidiaries and associates)	**158**	163	**320**	325
	347	356	**509**	518

NOTE 5 Investment in subsidiary and associate companies and minority holdings

	Share class	No.	Ordinary holding	Value at cost 2012	2011	Nature of activity
				£	£	
Sussex Innovation Centre Development Ltd	Ord Pref	100 1,800,000	100% -	**100** **2**	100 2	Property development
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 Pref	200 2,235	100% -	**161,616** **437**	161,616 437	Property management
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**	20,000	Research & development
WZVI Limited	Ord	100	10%	**100**	100	Research & development
Adsfab Ltd	Ord C	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	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
At 1 August	**6,503**	5,112	**6,503**	5,112
Net additions	**557**	1,144	**557**	1,144
Appreciation/(depreciation)	**(71)**	247	**(71)**	247
At 31 July	**6,989**	6,503	**6,989**	6,503
Fixed interest stocks	**109**	120	**109**	120
Equities	**5,280**	3,345	**5,280**	3,345
Property	**43**	47	**43**	47
Bank balances	**1,557**	2,991	**1,557**	2,991
Total endowment asset investments	**6,989**	6,503	**6,989**	6,503

Endowment Fund investments of £6.989m (2011: £6.503m) at market value are included in the Balance Sheet as Long Term Investments. Their market value is higher than cost by £0.3310m and in 2011: higher by £0.4024m.

NOTE 7 Debtors

	Consolidated		University	
	2012	2011	**2012**	2011
Amounts falling due within one year:	**£'000**	£'000	**£'000**	£'000
Debtors and prepayments	**10,514**	11,764	**10,327**	11,507
Amounts due from subsidiary undertaking	**-**	-	**1,146**	1,162
	10,514	11,764	**11,473**	12,669
Amounts falling due after more than one year:				
Debtors	**1,547**	1,546	**1,547**	1,446
Amounts due from subsidiary undertaking	**-**	-	**3,003**	3,097
	1,547	1,546	**4,550**	4,543
Total debtors	**12,061**	13,310	**16,023**	17,212

NOTE 8 Creditors: amounts falling due within one year

	Consolidated		University	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Bank overdraft	**7,622**	2,552	**7,622**	2,552
Mortgages and other loans	**430**	372	**308**	257
Obligations under finance leases	**329**	290	**329**	290
Research creditor	**9,771**	8,906	**9,771**	8,906
Exceptional staff costs accrued	**-**	963	**-**	963
Creditors and accruals	**26,312**	31,500	**26,100**	31,068
Amounts owed to subsidiary undertakings	**-**	-	**466**	667
	44,464	44,583	**44,596**	44,703

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

	Consolidated		University	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Mortgages and other loans between one and five years	**2,599**	1,537	**2,027**	1,000
Mortgages and other loans in five years or more	**59,664**	41,156	**58,665**	40,000
Obligations under finance leases between one and five years	**1,671**	1,568	**1,671**	1,568
Obligations under finance leases in five years or more	**2,746**	3,179	**2,746**	3,178
	66,680	47,440	**65,109**	45,746

Of the above loans, £56.218m funded the purchase of land and buildings.

Amounts repayable in respect of bank loans outstanding at 31 July 2012 may be analysed as follows:

Lender	**Year loan obtained**	**Year of final repayment**	**Interest**	**Balance 2012 £'000**	Balance 2011 £'000
University					
Barclays Bank	2009	2039	Fixed	**40,000**	40,000
HSBC	1996	2016	Variable	**1,000**	1,250
HSBC	1991	2011	Variable	**-**	7
Lloyds	2012	2034	Fixed	**20,000**	-
				61,000	41,257
Subsidiary company					
Barclays Bank	2004	2022	Fixed	**1,693**	1,808
				62,693	43,065
Due within one year				**430**	372
Due between one and five years				**2,599**	1,537
Due in five years or more				**59,664**	41,156
				62,693	43,065

On 15th October 2012 the University received the final £30m of the Lloyds TSB Bank plc £50m loan. The loan was drawn at libor until the 5th November when it will be rolled into three fixed rate loans as follows: £5m fixed at 5.815%, £5m fixed at 6.085% and £30m fixed at £3.805%.

NOTE 10 Deferred capital grants

	Consolidated £'000	University £'000
At 1 August 2011		
Land and buildings	**61,114**	**60,549**
Equipment	**2,371**	**2,371**
Other	**462**	**462**
Total	**63,947**	**63,382**
Cash receivable		
Land and buildings	**2,056**	**2,056**
Equipment	**412**	**412**
Other	**-**	**-**
Total	**2,468**	**2,468**
Released to income and expenditure		
Land and buildings	**1,774**	**1,754**
Equipment	**696**	**696**
Other	**-**	**-**
Total	**2,470**	**2,450**
At 31 July 2012		
Land and buildings	**61,395**	**60,850**
Equipment	**2,088**	**2,088**
Other	**462**	**462**
Total	**63,945**	**63,400**

NOTE 11 Notes to consolidated cash flow statement

11.1 Reconciliation of consolidated surplus to net cash from operating activities

	Note	2012 £'000	2011 £'000
Surplus before tax		**13,749**	11,263
Depreciation		**8,331**	7,814
Deferred capital grants released to income	10	**(2,470)**	(3,069)
Investment income		**(407)**	(708)
Interest payable	2.2	**4,949**	4,696
Net pension credit		**(1,471)**	(2,503)
(Increase)/decrease in stocks		**(3)**	5
Decrease/(increase) in Debtors		**1,249**	(557)
Investment in joint venture		**(467)**	(286)
Decrease in creditors		**(5,286)**	(292)
Net cash inflow from operating activities		**18,174**	16,363

NOTE 11 Notes to consolidated cash flow statement (continued)

11.2 Returns on investments and servicing of finance

	2012	2011
	£'000	£'000
Income from endowments	**192**	143
Income from short-term investments	**203**	176
Interest paid	**(4,171)**	(3,281)
	(3,776)	(2,962)

11.3 Capital expenditure and financial investment

	2012	2011
	£'000	£'000
Tangible fixed assets acquired (other than leased equipment)	**(24,913)**	(42,665)
Fixed asset investments	**6**	(20)
Endowment asset investments acquired	**(557)**	(1,144)
	(25,464)	(43,829)
Deferred capital grants received	**2,468**	4,922
Endowments received	**569**	1,533
	(22,427)	(37,374)

11.4 Analysis of changes in consolidated financing during the year

	Total	Finance leases	Mortgages loans/other	Preference share capital
	£'000	£'000	£'000	£'000
Balance at 1 August 2011	**49,908**	5,039	43,067	1,802
New capital borrowing	**20,000**	-	20,000	-
Capital repayments	**(663)**	(291)	(372)	-
Balances at 31 July 2012	**69,245**	**4,748**	**62,695**	**1,802**

11.5 Analysis of changes in net debt

	At 1 August 2011	Cash flows	At 31 July 2012
	£'000	£'000	£'000
Cash at bank and in hand	402	(143)	259
Overdraft	(2,552)	(5,070)	(7,622)
	(2,150)	(5,213)	(7,363)
Short term deposits	-	16,521	16,521
Debt due within one year	(662)	(97)	(759)
Debt due after more than one year	(47,440)	(19,240)	(66,680)
Net debt	**(50,252)**	**(8,029)**	**(58,281)**

NOTE 12 Movement on reserves

	Consolidated 2012 £'000	University 2012 £'000	Consolidated 2011 £'000	University 2011 £'000
12.1 Income and expenditure account reserve				
At 1 August	**20,421**	**19,743**	1,666	1,181
Surplus retained for the year	**13,749**	**13,450**	11,263	11,070
Actuarial (loss)/gain on pension scheme	**(12,187)**	**(12,187)**	7,492	7,492
At 31 July	**21,983**	**21,006**	20,421	19,743
Balance represented by:				
Pension reserve	**(37,017)**	**(37,017)**	(25,524)	(25,524)
Income and expenditure account reserve excluding pension reserve	**59,000**	**58,023**	45,944	45,267
At 31 July	**21,983**	**21,006**	20,420	19,743

	2012 £'000	2011 £'000
12.2 Consolidated revaluation reserve		
At 1 August	**157**	143
(Decrease)/increase in the value of fixed asset investments	**(3)**	14
At 31 July	**154**	157

	2012 £'000	2011 £'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 2011					
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**
Additions	51	-	**51**	518	**569**
(Depreciation)/Appreciation of Endowment Asset Investments	(77)	1	**(76)**	5	**(71)**
Income	93	1	**94**	98	**192**
Expenditure	(14)	-	**(14)**	(190)	**(204)**
At 31 July 2012	**3,458**	**46**	**3,504**	**3,485**	**6,989**
Represented by:					
Capital	2,955	36	**2,991**	3,448	**6,439**
Accumulated income	503	10	**513**	37	**550**
	3,458	**46**	**3,504**	**3,485**	**6,989**

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 trustee 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 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 31st March 2011. This was the second 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 levels. In particular he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 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 were 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 6.1% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.4% (with short-term general pay growth at 3.65% per annum plus an additional allowance for increases in salaries due to age and promotion reflecting historical scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for three years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA["light"] YoB tables – No age rating
Female members' mortality	S1NA["light"] YoB tables – Rated down 1 year

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 CMI 2009 projections with a 1.25% per annum long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

NOTE 14 Pension schemes (continued)

At the valuation date, the market value of the assets of the scheme was £32,433.5m and the value of the scheme's technical provisions was £35,343.7m leaving a shortfall of £2,910.2m. The assets therefore were sufficient to cover 92% 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 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 93% funded; on a buy out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using FRS 17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31st March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be revised more frequently.

The technical provisions relate essentially to 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 for 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.

As at the valuation date the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation,

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants
Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age
The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement
Flexible retirement options were introduced.

Member contributions increased
Contributions were uplifted to 7.5% per annum and 6.5% per annum. for FS Section members and CRB Section members respectively.

NOTE 14 Pension schemes (continued)

Cost sharing
If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap
For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 funding under the scheme specific funding regime had fallen from 92% to 77%. Over the past 12 months, the funding level has improved from 91% as at 31 March 2010 to 98%. This estimate is based on the results from the valuation at the 31st March 2011, allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS 17 basis, using a AA bond discount rate of 4.9% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of funding level measured on a buyout basis at that date was approximately 56%.

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 a 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**
Investment return	Decrease by 0.25%	Increase by £1.6 billion
Gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year	Increase by £0.8 billion
Equity markets in isolation fall	Decrease by 25%	Increase by £4.6 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 needs 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.

NOTE 14 Pension schemes (continued)

Before deciding what degree of investment risk to take 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 total pension cost for the University was £8.413m (2011: £7.974m). This includes £0 (2011: £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 31st March 2009 and updated to 31st July 2012 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).

	At 31 July 2012 £'000	At 31 July 2011 £'000
Change in benefit obligation		
Benefit obligation at the beginning of the year	**98,790**	99,433
Current service cost	**912**	819
Interest cost	**5,078**	5,406
Scheme participants' contributions	**680**	896
Actuarial losses/(gains)	**10,654**	(3,739)
Benefits paid	**(3,885)**	(4,025)
Benefit obligation at the end of the year	**112,229**	98,790
Change in scheme assets		
Fair value of scheme assets at the beginning of the year	**73,266**	65,329
Expected return on scheme assets	**4,299**	3,991
Actuarial (losses)/gains	**(1,533)**	3,753
Employer contribution	**2,385**	3,322
Member contributions	**680**	896
Benefits paid	**(3,885)**	(4,025)
Fair value of plan assets at the end of the year	**75,212**	73,266
Funded status		
Net liability recognised in the balance sheet	**(37,017)**	**(25,524)**

NOTE 14 Pension schemes (continued)	**2012**	2011
	£'000	£'000
Components of pension cost:		
Current service cost	**912**	819
Interest cost	**5,078**	5,406
Expected return on scheme assets	**(4,299)**	(3,991)
Total cost recognised in income and expenditure account	**1,691**	2,234
Amounts recognised in the statement of total recognised gains and losses		
Actuarial (losses)/gains	**(12,187)**	7,492

Scheme assets

The weighted average asset allocation at the 31 July 2012 was:

	At 31 July 2012	**At 31 July 2012 £'000**	At 31 July 2011	At 31 July 2011 £'000
Equities	60%	**45,144**	60.3%	44,236
Bonds	21%	**15,825**	19.0%	13,965
Gilts	19%	**14,137**	19.0%	13,964
Cash	0%	**106**	1.7%	1,101
Total Market Value of Assets		**75,212**		73,266

The overall expected return on assets assumption of 5.00% per annum as at 31 July 2012 has been derived by calculating the weighted average of the expected rate of return for each asset class. A further deduction of 0.92% per annum to the expected return was made to allow for administration expenses. The following approach has been used to determine the expected rate of return for each asset class:

- fixed interest securities, current market yields
- equities, net dividend yield on the FTSE All Share Index + Inflation + dividend growth assumption of 1.5%
- cash, in line with CPI assumption

	2012	2011
	£'000	£'000
Financial assumptions		
Discount rate	**4.10%**	5.20%
Salary increases	**3.90%**	4.40%
Rate of increases of pensions in payment – Pensioners		
CPI capped at 6% per annum	**1.90%**	2.20%
CPI capped at 3% per annum	**1.80%**	1.90%
Rate of increases of pensions in payment – Non-pensioners		
CPI capped at 6% per annum	**1.90%**	2.80%
CPI capped at 3% per annum	**1.80%**	2.50%
Rate of increase for deferred pensioners (non GMP)		
RPI	**2.90%**	3.40%
CPI	**1.90%**	2.40%
Expected return on assets	**5.00%**	5.90%

NOTE 14 Pension schemes (continued)

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

	2012		2011	
	Male	**Female**	Male	Female
Member age 65 (current life expectancy)	**22.2**	**24.7**	21.2	24.0
Member age 45 (life expectancy at age 65)	**24.0**	**26.7**	23.1	25.9

Five year history:	**2012 £'000**	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Benefit obligation	**112,229**	98,790	99,433	91,996	92,634
Fair value of scheme assets	**75,212**	73,266	65,329	57,248	57,194
Deficit	**(37,017)**	(25,524)	(34,104)	(34,748)	(35,440)
Experience Gains and (Losses) on Scheme Assets:					
Amount (£'000)	**(1,533)**	3,753	(4,585)	(4,129)	(8,222)
Percentage of Scheme Assets	**(2%)**	5%	7%	(7%)	(14%)
Gains and (Losses) on Scheme Liabilities:					
Due to experience (£'000)	**(36)**	108	-	1,900	1,500
Percentage of the Present Value of Scheme Liabilities	-	-	-	2%	2%
Due to change of basis	**(10,618)**	3,631	(3,718)	3,691	9,300
Percentage of the Present Value of Scheme Liabilities	**(9%)**	4%	4%	4%	11%
Total amount recognised in the statement of total recognised gains and (losses):					
Amount (£'000)	**(12,187)**	7,492	867	1,462	(13,860)
Percentage of the Present Value of the Scheme Liabilities	**(11%)**	8%	1%	2%	(16%)

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 2013 £'000*	**2012 £'000**	2011 £'000
Contributions to USS	8,500	**8,413**	7,974
Contributions to USPAS	2,800	**2,948**	3,248
Contributions to SGSS	330	**243**	166
Other Contributions	350	**353**	355

NOTE 15 HEFCE Access funds

	2012	2011
	£'000	£'000
Balance at 1 August	**2**	4
Funding Council Grants	**179**	194
Disbursed to Students	**(179)**	(196)
Balance unspent at 31 July	**2**	2

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

	2012	2011
	£'000	£'000
Balance at 1 August	**245**	(37)
TDA Grants	**1,405**	2,023
Disbursed to Students	**(1,476)**	(1,704)
Administration costs	**(24)**	(37)
Balance owing to/(owed by) TDA at 31 July	**150**	245

NOTE 17 Brighton and Sussex Medical School

Income and expenditure account for the year ended 31 July 2012

	University of Sussex	University of Brighton	Joint venture Total	Joint venture Total
	2012	2012	2012	2011
Income	£'000	£'000	£'000	£'000
HEFCE grant	**3,875**	**3,800**	**7,675**	7,588
NHS funds	**2,017**	**2,017**	**4,034**	4,752
Academic fees	**1,727**	**1,728**	**3,455**	2,788
Research grants and contracts	**1,512**	**1,207**	**2,719**	3,062
Other	**1,046**	**938**	**1,984**	1,533
Total Income	**10,177**	**9,690**	**19,867**	19,723
Expenditure				
Staff costs	**4,741**	**4,376**	**9,117**	9,604
Depreciation	**95**	**95**	**190**	213
Other operating expenses	**4,874**	**4,729**	**9,603**	9,390
Total expenditure	**9,710**	**9,200**	**18,910**	19,207
Surplus on continuing operations	**467**	**490**	**957**	516
Surplus Brought forward for the year	**4,562**	**4,131**	**8,693**	8,177
Surplus retained for the year	**5,029**	**4,621**	**9,650**	8,693

NOTE 17 Brighton and Sussex Medical School (continued)

Balance sheet of the Community Chest as at 31 July 2012

	University of Sussex	University of Brighton	Joint venture total	Joint venture total
	2012	2012	2012	2011
	£'000	£'000	£'000	£'000
Fixed assets	371	372	743	932
Current assets				
Debtors	591	577	1,168	1,468
Cash at bank and in hand	7,045	6,553	13,598	11,663
Current liabilities				
Creditors	(2,621)	(2,524)	(5,145)	(4,478)
Net current assets	5,015	4,606	9,621	8,653
Total net assets	5,386	4,978	10,364	9,585
Represented by:				
Deferred capital grants	357	357	714	892
Income and expenditure account	5,029	4,621	9,650	8,693
	5,386	4,978	10,364	9,585

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 the school is reimbursed from the community chest.

(ii) Accounting arrangements
The income and expenditure of the BSMS for the year ended 31st July 2012 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 £13.598m was held on behalf of the School at 31st July 2012 by the University of Sussex to meet expenditure commitments in 2012-13 to be settled by claims for reimbursement of expenditure from each University.

NOTE 18 Capital commitments

	2012	2011
Authorised and contracted for at 31 July	£'000	£'000
Wholly or partly funded from loans and consolidated reserves	2,494	18,142
	2,494	18,142

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 1.7m.

	2012	2011
	£'000	£'000
Annual rentals under operating leases payable and expiring after 5 yrs	1,700	1,400

University of Sussex
Sussex House, Falmer
Brighton BN1 9RH
United Kingdom

T +44 (0)1273 606755
www.sussex.ac.uk

Designed by Chimney 01273 243387 chimneydesign.co.uk

University of Sussex