

Directors' Report and Financial Statements

1 August 2013 – 31 July 2014

Southern Universities Management Services

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SOUTHERN UNIVERSITIES MANAGEMENT SERVICES

(A company limited by guarantee)

Registered in England and Wales No 02732244

Registered Charity No 1042175

**Directors' Report and
Financial Statements**

1 August 2013 – 31 July 2014

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**Report of the Directors and Trustees
Year Ended 31 July 2014**

The Directors present their report together with the audited financial statements of the charitable company for the year ended 31 July 2014. The Report of the Directors is the Directors Report as required by S.417 of the Companies Act 2006 and the Trustees' Report as required by the Charities Act 2011. The financial statements comply with the requirements of the Companies Act 2006, the Charities Act 2011, the charitable company's Memorandum and Articles of Association and the Statement of Recommended Practice - Accounting and Reporting by Charities (SORP 2005).

Reference and Administrative Information

<u>Company Name:</u>	Southern Universities Management Services
<u>Registered Company Number:</u>	2732244 (Registered in England and Wales)
<u>Registered Charity Number:</u>	1042175
<u>Registered Office and Operational Address:</u>	University of Reading Science & Technology Centre Earley Gate Whiteknights Road Reading RG6 6BZ
<u>Directors of the Charitable Company:</u>	
I Creagh	King's College London
F Dearn	Brunel University
R Knight (appointed 01/08/2013)	University College London
P Large	Oxford Brookes University
G Melly	University of Surrey
B Morris (Chair)	University of Essex

These directors of the charitable company are also trustees of the charity for the purpose of charity law and are referred to as Members of the Management Committee in the Articles of Association.

Senior Management Team:

M-B Hyde	Managing Consultant and CEO
S Wright	Head of SUPC

Company Secretary:

M Belcher	Company Secretary and Practice Manager
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Report of the Directors and Trustees Year Ended 31 July 2014 (continued)**Auditors:**

Chantrey Vellacott DFK
Prospect House
58 Queens Road
Reading
Berkshire
RG1 4RP

Legal Advisors:

Clarkslegal
One Forbury Square
The Forbury
Reading
RG1 3EB

Structure, Governance and Management**Governing Document**

The organisation is a charitable company limited by guarantee, incorporated on 17 July 1992 and registered as a charity on 18 November 1994. The charitable company was established under a Memorandum of Association which established the objects and powers of the charitable company and is governed under its Articles of Association. The current Memorandum and Articles of Association were adopted on 14 October 2011. Members of the charitable company guarantee to contribute an amount not exceeding £1 to the assets of the charitable company in the event of winding up. As at 31 July 2014 there were 29 members and the total number of such guarantees was 29 (2013: 27).

Appointment of Directors

Under the provisions of the Articles of Association the directors are appointed for an initial term not exceeding four years by the members of the charitable company in General Meeting. Directors may be elected for a second term not exceeding four years but may not serve more than two terms of office. Directors retire in rotation.

Director Induction and Training

SUMS directors are member representatives of the institutions that comprise the charitable company's membership. As such they have a good understanding of how SUMS is structured and operates and will have already worked with SUMS in their capacity as member representative. As part of the induction process new directors participate in discussions with the Managing Consultant and CEO. The Charity Commission publication 'The Essential Trustee' along with the Memorandum and Articles of Association and a role profile are distributed to new directors.

Management

The Management Committee consists of six directors comprising five representatives appointed by members of the charitable company and one appointed to represent the Purchasing Division: Southern Universities Purchasing Consortium (SUPC). The Management Committee reasonably consider that no one amongst their number has

Report of the Directors and Trustees Year Ended 31 July 2014 (continued)

sufficient expertise in human resources and have appointed Ms Patel from Birkbeck University of London to attend the Management Committee. Ms Patel is entitled to speak, but not vote at meetings. The Management Committee meet four times a year.

The Managing Consultant and CEO carries out day-to-day management of the charitable company under the direction of the members of the Management Committee.

The charitable company is organised into two divisions: SUMS Consulting and SUPC. SUMS Consulting has five full-time employees, seven part-time employees and a pool of associate consultants. SUMS Consulting provides management consultancy services. Its principal activity is to promote the efficiency of the administration of educational charities in direct pursuit of their objects through the conduct of management consultancy assignments at the request of beneficiaries.

SUPC has nine full-time employees and one part-time employee. SUPC provides services to institutions of higher education that are its subscribers. Its principal activity is the co-ordination of purchasing activity between its beneficiaries in order to share expertise and to achieve efficiency in purchasing.

Related Parties

The University of Reading is a member of the charitable company for which it pays the annual subscription fee. The University of Reading also provides payroll, creditor payments, income receipts, investment management, banking services and pensions facilities to the charitable company. The charitable company makes payment to the University of Reading for the accounting and administrative services provided and for rentals paid for the premises occupied under lease by the charitable company.

Risk Management

Major risks to which the charitable company is exposed are reviewed regularly and documented in a Risk Register. Risks are categorised according to their severity based on their likelihood and impact. Dynamic risks are reviewed at each meeting of the Management Committee and of the Executive Group. The Register is reviewed by the Management Committee annually. Actions and procedures have been established to identify and mitigate risks. Most of the risks identified are low or negligible.

Objectives and Activities, Achievements and Performance

In setting the objectives and planning the activities of the charitable company the Management Committee has given consideration to the Charity Commission's general guidance on public benefit and in particular to its supplementary public benefit guidance on the advancement of education.

Report of the Directors and Trustees Year Ended 31 July 2014 (continued)

The objects for which the charitable company is established are to promote the efficiency of the administration of educational charities in direct pursuit of their objects by:

- (a) advice, training and information about financial planning, effective management procedures, and the best use of available resources, and
- (b) any other assistance appropriate to the provision of financial planning, procedural advice and resource management.

The services provided promote the efficiency and effectiveness of educational charities. The trustees have access to the Charity Commission's website which they review regularly to ensure that the aims of the charitable company meet the public benefit requirement.

The objectives for SUMS Consulting for the year have focused on delivering consulting assignments, seminar and workshop events to help members reshape their organisations in the face of reduced resources in the Higher Education environment.

SUPC has focused on developing collaborative procurement and framework agreements, and with SUMS Consulting the development of the Procurement Shared Service, to continue to enhance beneficiaries' purchasing practices.

The objectives, activities, output and achievements of the two operating units are set out in detail in two separate annual reports that focus on their operating activities. These reports are produced by the operating units and are available either from their respective websites (www.sums.org.uk and www.supc.ac.uk), or upon request to the charitable company at its registered office. Copies of the operating units' detailed annual reports are distributed widely within the HE sector and beyond.

Financial Review

For the financial year 2013/14, resources expended exceeded incoming resources and resulted in a deficit of £58,573 for the year (2013: £111,014 deficit). The Management Committee cognisant of the level of reserves determined that reserves should be invested in service delivery and therefore planned a deficit for two years: 2012/13 and 2013/14.

The amount that SUMS aims to recover from members in subscriptions, is based on a break even budget, although it is recognised that small surpluses/deficits will be realised that should work themselves out over time.

Incoming Resources:

Overall income for the year was £1,723,469, which is £150k more than in the previous year. Income derived from external consultations was £64k more than in the prior year. There was a reduction in grants income from £212k in prior year to £172k.

In the year, the HEFCE funded GeM Supplier Adoption programme was completed: a small surplus resulted, which will be returned to the funding body: the balance is in restricted funds at the year end.

Report of the Directors and Trustees Year Ended 31 July 2014 (continued)**Resources expended:**

Significant variances in expenditure this year included Administration and Governance costs related to professional advice in relation to our pursuance of obtaining VAT cost sharing exemption: to become a cost sharing group for our members. We have not been successful as yet but are continuing with our application.

In the year we have invested a significant sum in our websites and IT software, both for SUMS and SUPC, which has helped to improve internal efficiencies and supports our relationship management initiatives with members and subscribers.

The impact of expenditure being higher than incoming resources for the year was a reduction of £58,573 in Reserves.

Reserves Policy

The directors review and consider the charitable company's reserves in the context of risks and funding. In setting a reserves policy the directors aim to establish reasonable, but not absolute protection against risks and to balance this with the need to deploy resources in pursuit of the company's charitable objectives. SUMS maintain financial reserves to provide flexibility to meet:

- Future investments for new and/or growing areas of activity
- Annual fluctuations in operating income and/or expenditure
- Most potential unexpected costs.

The Management Committee have agreed that target reserves – working capital - to be maintained in a range of 6 and 12 months' of operating costs.

It has been established that due to recent changes to pension fund arrangements a cessation event on the University of Reading Employees Pension Fund is now inevitable. This will occur at some indeterminable point in the future and the potential liability arising from this is estimated by the scheme's actuaries to be in the region of £210,000.

Reserves at the end of the financial year were £1,451,604 (2013: £1,510,177) 4% reduction year on year.

Principal Funding Sources

The majority of the charitable company's funding is from its membership subscriptions and subscribers. As at 31 July 2014 there were 29 members of the charitable company and 59 subscribers to SUPC: 43 full subscribers and 16 associates.

Additional funding is obtained for the performance of extra consulting work over and above core membership work and also fees for events which are set to recover the costs of these activities.

Report of the Directors and Trustees Year Ended 31 July 2014 (continued)

The charitable company has reached agreement with the Higher Education Funding Council for England (HEFCE) and the Innovation and Transformation (ITF) regarding grants to fund activities in relation to procurement shared services; these include the Procurement Maturity Assessment Programme.

Investment Policy

Surplus funds are managed by The University of Reading which provides the charitable company's banking services and pays interest on funds held. The charitable company does not operate a bank account. Interest is earned at the rate achieved through the University's investment pool and is credited to the charitable company on a monthly basis. The rate of interest earned for the financial year has ranged from 0.41% to 0.56% (2013: 0.41% to 0.89%).

Future Plans

The charitable company plans to continue similar activities into future periods, tailoring the content of these activities to encompass specific member needs and focusing on the issues, challenges and opportunities emerging for the Higher Education sector as a whole.

The coming year will see a continuation of the SUPC procurement shared service that includes the Procurement Maturity Assessment Programme.

Responsibilities of the Directors

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charitable company as at the balance sheet date and of its incoming resources and application of resources, including income and expenditure, for the financial year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue to operate.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the charitable company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

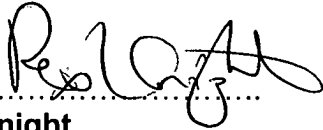
As far as the directors are aware, there is no relevant audit information of which the charitable company's auditors are unaware. The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the charitable company's auditors are aware of that information.

Report of the Directors and Trustees Year Ended 31 July 2014 (continued)

Auditors

The auditors, Chantrey Vellacott DFK have indicated their willingness to stay in office.

The financial statements were approved by the Directors on 14 November 2014 and signed on their behalf by:



.....
R. Knight
Director and Trustee
Independent Auditor's Report
to the Members of

SOUTHERN UNIVERSITIES MANAGEMENT SERVICES

Independent Auditor's report**Year ended 31 July 2014**

We have audited the financial statements of Southern Universities Management Services for the year ended 31 July 2014 which comprise the Statement of Financial Activity, the Balance Sheet and the related notes numbered 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with Section 144 of the Charities Act 2011 and with regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Trustees and Auditors

As explained more fully in the Trustees' Responsibilities Statement set out on page 6, the trustees' (who are also the directors of Southern Universities Management Services for the purpose of company law and the trustees for the purposes of charity law) are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

The trustees have elected for the financial statements to be audited in accordance with the Charities Act 2011 rather than the Companies Act 2006. Accordingly we have been appointed as auditors under Section 144 of the Charities Act 2011 and report in accordance with regulations made under Section 154 of that Act

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 (APB'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 charitable company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees' and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report of the Directors 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.

Independent Auditor's Report (continued)

Opinion on the Financial Statements

In our opinion the financial statements:-

- give a true and fair view of the state of the charitable company's affairs as at 31 July 2014 and of its incoming resources and application of resources, including its income and expenditure, 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 requirements of the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Report of the Directors' is inconsistent in any material respect with the financial statements; or
- the charitable company has not kept adequate accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Chantrey Vellacott DFK
Chartered Accountants and Statutory Auditors

Prospect House
58 Queens Road
Reading
Berkshire
RG1 4RP

Date: 10 - 12 - 2014

Statement of Financial Activities
(Including Income and Expenditure Account)
for the year ended 31 July 2014

	Unrestricted Funds	Restricted Fund	Total 2014	Total 2013
	£	£	£	£
Incoming resources				
Incoming resources from charitable activities:				
Subscription income	1,204,117	-	1,204,117	1,134,800
Consulting income	184,922	-	184,922	120,470
Other income	155,984	-	155,984	92,190
Grants and donations	17,250	154,700	171,950	212,215
Investment income	6,496	-	6,496	13,489
Total incoming resources	<u>1,568,769</u>	<u>154,700</u>	<u>1,723,469</u>	<u>1,573,164</u>
Resources expended				
Charitable activities:				
Travel & meeting costs	72,696	4,814	77,510	74,959
Professional staff and consultants	1,039,625	106,598	1,146,223	1,124,682
Administration costs	311,556	69,942	381,498	337,686
Premises costs	69,790	13,500	83,290	62,427
Governance costs	82,794	10,727	93,521	84,424
Total resources expended	<u>1,576,461</u>	<u>205,581</u>	<u>1,782,042</u>	<u>1,684,178</u>
Net incoming resources/Net movement in funds in the year	(7,692)	(50,881)	(58,573)	(111,014)
Total funds brought forward at 1 August 2013	1,470,677	39,500	1,510,177	1,621,191
Total funds carried forward at 31 July 2014	<u>1,462,985</u>	<u>(11,381)</u>	<u>1,451,604</u>	<u>1,510,177</u>

The Statement of Financial Activities includes all gains and losses recognised in the year. All incoming resources and resources expended derive from continuing activities.

The notes on pages 11 to 23 form part of these financial statements.

Balance Sheet as at 31 July 2014

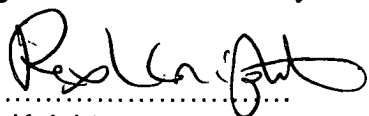
	Notes	2014	2013
		£	£
Fixed assets	6	1,373	2,122
Current assets:			
Debtors	7	1,511,306	1,402,488
Investment: short-term deposits	11	600,000	600,000
Creditors:			
Amounts falling due within one year	8	(661,075)	(494,433)
Net current assets		1,450,231	1,508,055
Net assets		<u>1,451,604</u>	<u>1,510,177</u>
Unrestricted general funds		1,462,985	1,470,677
Restricted funds		(11,381)	39,500
Total funds	9	<u>1,451,604</u>	<u>1,510,177</u>

The company is entitled to exemption from audit under section 477 of the Companies Act 2006 for the year ended 31 July 2014. The members have not required the company to obtain an audit of its financial statements for the year ended 31 July 2013 in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. The directors have elected for the financial statements to be audited in accordance with the Charities Act 2011 rather than the Companies Act 2006.

The financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements were approved by the directors on 14 November 2014 and signed on their behalf by:



R. Knight
Director/Trustee

The notes on pages 11 to 23 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 July 2014**1. Accounting Policies**

- a) The financial statements have been prepared under the historical cost conventions. The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), the Statement of Recommended Practice - Accounting and Reporting by Charities (SORP 2005) and the Companies Act 2006.
- b) If there is a restriction on the purpose to which a fund may be put, the fund is classified as a restricted income fund. The charitable company currently has one restricted income fund, from the grants received from HEFCE. This must be spent according to the requirements of the grants. The trustees are responsible for determining the purposes to which all other funds may be put.
- c) Incoming resources from charitable activities consists of members' subscriptions and fees charged to other institutions of higher education. This income is included on an accruals basis. Grant income and investment income is included when received.
- d) Resources expended are recognised on an accruals basis in the period in which the liability is incurred. All costs are allocated between the expenditure categories of the SoFA on a basis designed to reflect the use of the resource. Costs are allocated to the appropriate activity within consulting or procurement by way of individual cost centres. Costs relating to a particular activity are allocated directly; others are apportioned on an appropriate basis.
- e) Governance costs include costs associated with providing the governance infrastructure and generating required statutory information. The costs include audit, legal and accounting fees and an apportionment of salary costs to approximate time spent on strategic management and governance of the charitable company.
- f) Capital items with a cost exceeding £1,000 are capitalised and depreciated. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, which in all cases is estimated at 4 years.
- g) Irrecoverable VAT is charged against the category of resources expended for which it was incurred.
- h) The charitable company participates in the both the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UREPF). Both funds are defined benefit schemes which are contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. The charitable company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement benefits", accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to

the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period.

The charitable company also participates in the University of Reading Pension Scheme (URPS), a defined contribution scheme.

- i) Rentals paid under operating leases are charged to the Statement of Financial Activities as incurred.

2. Net Movement in Funds

	2014 £	2013 £
Net incoming resources are stated after charging:		
Depreciation	749	1,371
Trustee indemnity insurance*	500	500
Auditor's remuneration for audit and other services	4,250	3,840

* The cost of liability cover is not separately identified but has a declared value of £500 in the annual return to the Charity Commission following advice from the insurers.

3. Analysis of Restricted Funds' Charitable Expenditure

Grant funding in relation to procurement services has been expended as follows:

	2014 £ GeM	2014 £ PSS	2014 £ ITF	2014 £ Total	2013 £ Total
Restricted Funds					
Travel & meeting costs	620	-	4,194	4,814	7,313
Premises costs	13,500	-	-	13,500	13,500
Administration costs	60,327	-	9,615	69,942	92,754
Professional staff & consultants	-	22,558	84,040	106,598	107,818
Governance costs	6,786	-	3,941	10,727	9,885
Balance 31 July 2014	81,233	22,558	101,790	205,581	231,270

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

4. Staff Costs and Numbers

	2014 £	2013 £
Staff costs were as follows:		
Salaries and wages	962,009	968,434
Social Security costs	85,777	83,601
Pension costs	126,908	131,937
	<u>1,174,694</u>	<u>1,183,972</u>

The average number of full time equivalent persons employed during the year was 20 (2013: 22) and various associates were engaged to provide services.

The number of staff who received emoluments in the following ranges was:

	2014	2013
£60,001 to £70,000	-	1
£70,001 to £80,000	4	3
£80,001 to £90,000	1	1

5. Taxation

The charitable company is exempt from corporation tax on its charitable activities.

6. Fixed Assets

	2014 £ Fixtures & Fittings	2013 £ Fixtures & Fittings
Cost:		
At 1 August	49,511	47,237
Additions	-	2,274
At 31 July	<u>49,511</u>	<u>49,511</u>
Accumulated Depreciation:		
At 1 August	47,389	46,018
Charge for the period	749	1,371
At 31 July	<u>48,138</u>	<u>47,389</u>
Net book value at 31 July	<u>1,373</u>	<u>2,122</u>

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

7. Debtors

	2014 £	2013 £
Trade debtors	566,409	274,842
Other debtors	154,392	78,388
Money held on trust by the University of Reading	790,505	1,049,258
	<u>1,511,306</u>	<u>1,402,488</u>

8. Creditors: Amounts Falling due Within One Year

	2014 £	2013 £
Trade Creditors	38,098	21,003
Accruals and deferred income	75,852	139,445
Other creditors (VAT due to HMRC)	125,186	18,190
Funds received as agent	421,939	315,795
	<u>661,075</u>	<u>494,433</u>

9. Movement in Funds

	2014 £	2013 £
Unrestricted General Fund		
Balance at 1 August	1,470,677	1,562,636
Incoming resources	1,568,769	1,360,949
Outgoing resources	(1,576,461)	(1,452,908)
Balance 31 July	<u>1,462,985</u>	<u>1,470,677</u>

	2014 £ GeM	2014 £ PSS	2014 £ ITF	2014 £ Total	2013 £ Total
Restricted Funds					
Balance at 1 August	29,970	22,559	(13,029)	39,500	58,555
Incoming resources	62,500	-	92,200	154,700	212,215
Outgoing resources	(81,233)	(22,559)	(101,789)	(205,581)	(231,270)
Balance 31 July	<u>11,237</u>	<u>-</u>	<u>(22,618)</u>	<u>(11,381)</u>	<u>39,500</u>

The restricted funds relate to grant monies received from HEFCE and Innovation and Transformation (ITF) to fund studies in relation to shared procurement services and e-marketing. The restricted funds show an overdrawn balance which has arisen due to the timing of incoming resources.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

Analysis of net assets between funds

	2014 £ Fixed Assets	2014 £ Net CA	2014 £ Total	2013 £ Total
Unrestricted	1,373	1,461,612	1,462,985	1,470,677
Restricted	-	(11,381)	(11,381)	39,500
Total Net Assets	<u>1,373</u>	<u>1,450,231</u>	<u>1,451,604</u>	<u>1,510,177</u>

10. Operating Lease Commitments

The following operating lease payments are committed to be paid:

	2014 £	2013 £
Expiring:		
Within one year	-	60,413
Within two to two years	67,400	654
	<u>67,400</u>	<u>61,067</u>

11. Short term investment

The sum of £600,000 was deposited by the University of Reading with Royal London Cash Management, following instructions from Southern Universities Management Services. Interest generated and portfolio management costs incurred are recorded against income and expenditure.

	2014 £	2013 £
Cash deposit	600,000	600,000
Total cash deposit	<u>600,000</u>	<u>600,000</u>

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

12. Funds received as agent

The charitable company acts as an intermediary agent for volume rebates payable under contract by suppliers to subscribers to SUPC. SUPC collects the rebates and distributes them to subscribers in accordance with the terms of the contract. The charitable company has no legal ownership of these resources and no responsibility for their ultimate application. The amounts collected and due to be collected are therefore not recognised in the Statement of Financial Activities or the Balance Sheet.

	2014 £	2013 £
Opening balance 1 August	315,795	140,064
Received during the year	669,716	633,896
Paid out during the year	(563,572)	(458,165)
Total fund held as agent at 31 July	<u>421,939</u>	<u>315,795</u>

13. Related Party Transactions

No director of the charitable company or any persons connected with them have received any remuneration during the year. One director received reimbursement of travel expenses during the year of £178 (2013: £47).

Southern Universities Management Services has a service agreement with The University of Reading. During the year the charitable company received the following value of goods and services from The University of Reading:

	2014 £	2013 £
Room hire and catering	8,668	6,512
Telecommunications	3,936	4,340
Printing and postage services	1,154	1,024
Rent and maintenance	67,096	62,329
Computer services	399	751
Training / Other	490	73
Service charges/ professional fees	8,419	7,519
	<u>90,162</u>	<u>82,548</u>

The University of Reading is also a member of the charitable company and a subscriber to SUPC. Subscriptions and fees are paid by them which are consistent with all other members.

At the 31 July 2014, The University of Reading held investment funds of £790,505 (2013: £1,049,258) on trust for the charitable company.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

14. Pensions (from USS)**Universities Superannuation Scheme**

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

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; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the 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 2013 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 (ie 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 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, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. 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 the Scheme was 93% funded; on a buy-out basis (ie 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 the FRS17 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 31 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 was estimated to be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete, the trustee cannot provide the final figure. However, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the scheme's liabilities. This increase has been partially offset by a higher than expected investment return.

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 but 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

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

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 2011 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 valuation effective date of 31 March 2011 there have been a number of changes to the benefits provided by the scheme although which became effective from October 2011. These include:

New Entrants

Other than in specific, limited circumstances, new entrants are now provided benefits 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% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

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%.

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.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

The trustee's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long term view of scheme funding, backed as its by a robust higher education sector.

The fund invested in a wide range of assets classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and is targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

At 31 March 2014, USS had over 162,000 active members and the institution had 15 active members participating in the scheme. The contribution rate payable by the charitable company was 16% of pensionable salaries.

University of Reading Employees' Pension Fund

The charitable company participates in the University of Reading Employees' Pension Fund (UREPF), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustees and are managed by Blackrock Investment Management (UK) Limited and Sarasin and Partners. The University of Reading has the power to appoint and remove trustees. UREPF has approximately 800 active members and the charitable company has 4 active members participating in the scheme.

Because of the multi-employer nature of the scheme, the charitable company 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. The charitable company prepares its financial statements in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008) which differs in its treatment of industry wide schemes from FRS17. To ensure consistency across the reporting of pension contributions the charitable company has adopted the treatment prescribed by FRS17. 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.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

The latest actuarial valuation of the scheme was at 31 July 2011. This was the second valuation for UREPF 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 agreed funding objective is to reach (within a ten year period), and then maintain, assets equal to the technical provisions, assessed on an ongoing basis allowing for future salary increases for active members.

The valuation was carried out using the projected unit method. To calculate the technical provisions, it was assumed that the investment return pre-retirement would be 6.9% per annum, investment return post-retirement would be 5.4% per annum, salary increases would be 5.25% per annum, RPI price inflation would be 3.75% per annum and pensions would increase by 3.75% per annum.

At the valuation date, the value of the assets of the scheme was £106.2 million and the value of the scheme's technical provisions was £117.3 million indicating a shortfall of £11.1 million. The assets therefore were sufficient to cover 93% of the technical provisions.

At 31 July 2013 as reflected in the valuation dated 9 September 2013 the fair value of the plan assets was £128.8 million and the scheme liabilities were £130.5 million.

The actuary also estimated the wind-up funding level of the fund at the valuation date of 31 July 2011 as 70%. The estimated shortfall of meeting benefits in full on the valuation date was £28.6 million.

In light of the valuation The University of Reading and the trustees have agreed on a recovery plan. The University has agreed to make shortfall contributions of £2.33m for the year ending 31 July 2014, £2.42m for the year ending 31 July 2015 and subsequently increasing each year to £3.02m for the year ending 31 July 2021. If the assumptions made for assessing the recovery plan are borne out in practice these contributions would eliminate the shortfall by 31 July 2021.

The next formal triennial actuarial valuation is due as at 31 July 2014.

This scheme was closed to new entrants on 31 July 2011. Accrual of final salary benefits will cease on 31 July 2011 and from 1 August 2011 benefit accrual will be on a Career Average type basis. There is no change to employer contribution rate at present – this will be determined following the outcome of July 2011 valuation. However, the closure of the scheme means that a Section 75 debt will arise at some indeterminable point in the future when SUMS ceases to have any active members in the scheme. The actuary's estimate of this debt as at 31 July 2011 is £210,000. The contribution rate payable by the charitable company was 24.1% of pensionable salaries for UREPF.

A new scheme, the University of Reading Pension Scheme (URPS), was set up to replace UREPF from 1 August 2011. This is a defined contribution scheme.

Notes to the Financial Statements for the year ended 31 July 2014 (continued)

Pension costs

	Employer contribution 2014 £	Active members No.
USS	112,781	15
UREPF	5,606	1
URPS	8,521	4
	<hr/> 126,908 <hr/>	<hr/> 20 <hr/>