
Company Number: 02732244
Registered Charity Number: 1042175

Southern Universities Management Services

DIRECTORS REPORT AND FINANCIAL STATEMENTS

for the year ended

31 July 2018

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Southern Universities Management Services

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Southern Universities Management Services

LEGAL AND ADMINISTRATIVE INFORMATION

<u>Company Name:</u>	Southern Universities Management Services
<u>Registered Company Number:</u>	02732244 (Registered in England and Wales)
<u>Registered Charity Number:</u>	1042175
<u>Registered Office and Operational Address:</u>	University of Reading Reading Enterprise Centre Earley Gate Whiteknights Road Reading RG6 6BU
<u>Directors of the Charitable Company:</u>	
B Casey	Oxford Brookes University
S Grant	University of Hertfordshire
D Hopper	University of Leeds
R Knight (retired 31/12/2018)	University College London
W K T Liew	UWE Bristol
J Strachan	University of Hull

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 Hill (resigned 31/12/2018)	Interim Head of SUPC

Company Secretary:

L Wilde	Head of Finance and Administration
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Auditors:

BDO LLP
R+
2 Blagrove Street
Reading
RG1 1AZ

Legal Advisors:

Clarkslegal
One Forbury Square
Reading
RG1 3EB

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018

The directors present their annual report together with the audited financial statements of the charitable company for the year ended 31 July 2018. The Report of the Directors is the Directors Report as required by S.417 of the Companies Act 2006 and the Directors' 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 Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

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 18 November 2016. 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 2018 there were 27 Members and the total number of such guarantees was 27 (2017: 28).

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 by ordinary resolution. Directors may be elected for a second term not exceeding four years, but may not serve more than two terms of office unless they are appointed as Chair of the Management Committee during their second term 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 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 three divisions: SUMS Consulting, Southern Universities Purchasing Consortium (SUPC) and Procurement Shared Service (PSS). The company has has eighteen 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.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

SUPC provides services to higher education institutions 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.

PSS provides specialist procurement support to higher education institutions (HEI's) to help them secure best value from their procurement activities. This includes the delivery of Procurement Maturity Assessments (PMA's) to English HEI's.

Remuneration Policy for Key Management Personnel

The salary policy, which includes the framework for setting pay for all staff including key management personnel is reviewed by the Management Committee every two years. The basis of the annual salary review detailed within the policy is to set an annual cost of living increase, alongside consideration of any further increases related to performance and changes to each role across the year. The cost of living increase is set having regard to the award applied to the HE sector, whilst the review of performance and roles are undertaken against both the banding structure in place, with benchmarking against similar roles both within the sector and outside considered every 2-3 years.

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, banking services, pensions facilities, IT infrastructure and IT support to the charitable company. The charitable company makes payment to the University of Reading for the accounting, IT 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, documented in a Risk Register and categorised according to their severity based on their likelihood and impact. Actions and procedures have been established to identify and mitigate these risks. The Risk Register is reviewed by the Management Committee annually, with dynamic risks being reviewed at each meeting of the Management Committee and of the Executive Group.

The current key risk is the potential impact of final salary pension scheme deficits, being mitigated through:

- the deficit recovery plans in place at scheme level
- ensuring pension scheme provisions remain appropriate
- the holding of an appropriate level of reserves.

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. 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.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

The services provided promote the efficiency and effectiveness of educational charities. The directors have access to the Charity Commission's website which they review regularly, to help ensure that the aims of the charitable company meet the public benefit requirement. The directors confirm that they have complied with the duty in section 17(5) of the Charities Act 2011 to have due regard to the Charity Commission's general guidance on public benefit.

SUMS Consulting this year has focused on delivering consulting assignments, seminars and workshop events to help Members ensure their organisations are efficient and effective given the challenges faced by Higher Education.

SUPC continues to focus on providing collaborative procurement solutions to its members in central and southern England and also nationally through its relationship with the other regional HE consortia.

The Procurement Shared Service (PSS) division has primarily focused on the delivery to English Higher Education institutions of a procurement maturity assessment programme that helps increase the effectiveness and efficiency of procurement. In addition PSS has also provided specialist consultancy support to a number of HEIs in the areas of strategic procurement and sourcing.

The objectives, activities, output and achievements of SUMS and SUPC are set out in detail in two separate annual reviews 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 annual reviews are distributed widely within the HE sector and beyond.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

STRATEGIC REPORT

Financial Review

For the financial year 2017/18, resources expended exceeded incoming resources by £118k (2017: £66k deficit).

The amount that SUMS aims to recover from Members in subscriptions is based on a breakeven budget, although it is recognised that small surpluses/deficits will be realised. They are then considered within future budget plans to ensure that, in line with our reserves policy, they are balanced out over time.

Incoming Resources

Overall income for the year was £1,920k, with the majority (69%) being obtained from SUMS and SUPC subscription income. Overall income was 1.3% higher than prior year (2017: £1,895k).

Resources expended

Overall expenditure for the year was £2,038k, an increase of £77k (4%) versus prior year expenditure of £1,960k.

In line with prior years, a significant proportion of expenditure (71%) relates to professional staff and consultants' costs in place to deliver consultancy and support activities to our Members.

The impact of incoming resources being lower than expenditure for the year was a decrease of £118k 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 maintains 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
- The liability that is to arise from SUMS pension schemes, for which reserves are to be held within a designated fund
- An element of financial risk, to which the company is exposed
- Most potential unexpected costs.

The Management Committee set a target for the 17/18 financial year for free reserves – working capital – to be maintained in a range of 6 and 12 months of operating costs. A review of reserves policy against the guidance on reserves published by the Charity Commission was undertaken in 2018, and as a result, the Management Committee have set a new target range for the 18/19 financial year of between 6 and 9 months of operating costs.

Reserves Held

The University of Reading Employees' Pension Fund (UREPF) was closed to new entrants on 31 August 2011 and since then the number of active members of the scheme has been in decline. At the point the charitable company ceases to have any active members of the scheme a cessation event will be triggered. The potential liability arising from this was estimated by the scheme's actuaries as at 31 July 2015 to be £214k, which, as at 31 July 2018, is being held in a designated fund in accordance with the reserves policy.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

Reserves at the end of the financial year were £1,273k (2017: £1,391k), an 8.5% decrease year on year. These reserves include designated reserves of £282k (2017: £305k), of which £214k is in relation to SUMS pension scheme liabilities detailed in note 18, and £68k in relation to the surplus generated from the COUP event. COUP reserves are planned to be expended in 2018-19 on the development of the PMA programme to English HEI's. The pension scheme designated reserve will stay in place until a s75 secession event is triggered in relation to the UREPF scheme.

Principal Funding Sources

The majority of the charitable company's funding is from its membership subscriptions and subscribers. As at 31 July 2018 there were 27 Members of the charitable company (2017: 28) and 61 subscribers to SUPC: 43 full subscribers and 18 associates (2017: 62 subscribers, consisting of 44 full and 18 associates).

Additional funding is obtained for the performance of extra consulting work over and above core membership work, marketing rebates for contract support activities and also fees for events.

Investment Policy

SUMS key investment objective is to preserve the capital value of its investments with a low level of risk, whilst ensuring that an adequate level of assets are ready available to meet all expected cash flow requirements. In this regard, all investments are held within cash or near cash investments, and are spread across a number of counterparties who fulfil the criteria set out within the SUMS investment policy.

Going Concern

Having reviewed the strategic risks, the current financial position of SUMS and the financial projections which sit alongside the overarching strategy to 2020, the directors consider that adequate resources continue to be available to fund future plans for the foreseeable future. Accordingly, the directors are of the view that the Charity is a going concern.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

Future Plans

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

In this regard, SUPC has undertaken an extensive strategic review and has produced a new three-year business plan. This will see SUPC continuing to provide the core service of collaborative procurement activity, primarily through the provision of compliant frameworks, but also through the provision of value adding services. These enhance the core offering and allow members to tailor their membership package to meet their specific requirements. In addition, SUPC have undergone a collaborative review with London Universities Purchasing Consortium (LUPC), to assess options for a closer working relationship that could provide greater benefit to both consortia memberships. This has involved considerable consultation with staff, members and other key stakeholders as part of the review process. As a result of this review, SUPC and LUPC are currently investigating the potential for a strategic partnering arrangement between the two organisations. The implementation of any such partnering arrangement will not impede SUPC nor LUPC from delivering exceptional value and service to members over the next year, and will not inhibit either organisation's development.

In conjunction with SUPC, the Procurement Shared Service business division has also produced a new three-year strategic plan, which is very much growth focused. In addition to introducing a new and improved Procurement Maturity Assessment product, PSS is also looking to introduce a new Procurement Value For Money Assessment service offering, which aligns to and enhances the PMA product. PSS will also continue to provide specialist procurement resource to the sector to support specific projects or to provide specialist advice and assistance. The combination of these three service offerings provides PSS with a strong value proposition to build from.

Over the year ahead, SUMS Consulting will continue to offer Members access to a range of specialist HE expertise through the provision of consulting services, along with a range of member events and publications. SUMS will develop its expertise base to reflect the evolving requirements of the sector in areas such as digital transformation, efficiency and effectiveness, and student wellbeing. In addition, SUMS is looking to respond to Member and sector requirements by developing further 'off-the-shelf' services. These services will complement the already available post-implementation reviews and Competition and Markets Authority review services which are available to both Members and non-Members. SUMS will also seek to support the wider sector through the provision of consulting services to non-Members, as required.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2018 (continued)

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The directors are responsible for keeping proper and adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and 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.

In so far as the directors are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Auditors

BDO LLP were appointed auditor of the charitable company by the Board following their merger with Moore Stephens LLP.

The financial statements were approved by the directors on 26.4.19 and signed on their behalf by:


J. Strachan
Director

Date: 26.4.19

Southern Universities Management Services

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Southern Universities Management Services (the 'charitable company') for the year ended 31 July 2018 which comprise the Statement of Financial Activities, the Balance Sheet and the Cash Flow, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Southern Universities Management Services

INDEPENDENT AUDITOR'S REPORT (*continued*)

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the trustees were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the trustee's report.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Southern Universities Management Services

INDEPENDENT AUDITOR'S REPORT *(continued)*

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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 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.

BDO LLP

Heather Wheelhouse, *Senior Statutory Auditor*

For and on behalf of BDO LLP, Statutory Auditor

BDO LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

R+
2 Blagrove Street
Reading
Berkshire
RG1 1AZ

30 April 2019.

Southern Universities Management Services

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 JULY 2018

	Note	Unrestricted Funds £	Restricted Funds £	Total Funds 2018 £	Restated Total Funds 2017 £
Income:					
<i>Income from Charitable activities</i>					
Subscription income		1,318,960	-	1,318,960	1,297,764
Consulting income		273,284	-	273,284	259,904
Event income		24,710	-	24,710	21,503
Grant income		-	5,120	5,120	23,320
Marketing premium retained		290,000	-	290,000	284,000
Investment income		7,739	-	7,739	8,081
Total income	3	1,914,693	5,120	1,919,813	1,894,572
Expenditure on:					
<i>Expenditure on charitable activities:</i>					
Travel and meeting costs		99,381	40	99,421	89,268
Professional staff and consultants		1,435,407	5,084	1,440,491	1,400,321
Pension provision release		(16,936)	-	(16,936)	(34,544)
Administration costs		353,379	872	354,251	341,799
Premises		44,406	-	44,406	54,898
Governance		116,212	-	116,212	108,711
Total expenditure	4	2,031,849	5,996	2,037,845	1,960,453
Net (expenditure)/income and net movement in funds for the year		(117,156)	(876)	(118,032)	(65,881)
Reconciliation of funds					
Total funds brought forward		1,389,379	1,476	1,390,855	1,456,736
Total funds carried forward	15	1,272,223	600	1,272,823	1,390,855

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 15 to 32 form part of these financial statements.

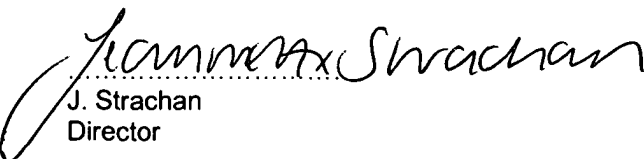
Southern Universities Management Services

BALANCE SHEET AS AT 31 JULY 2018

	Note	2018 £	£	Restated 2017 £	£
Fixed assets					
Tangible assets	7		1,209		2,414
Current assets					
Debtors	8	1,004,521		934,403	
Investments: short-term investments	9	601,655		600,000	
Cash at bank and in hand		469,700		579,473	
		<u>2,075,876</u>		<u>2,113,876</u>	
Creditors					
Amounts falling due within one year	10	<u>(655,227)</u>		<u>(559,464)</u>	
Net current assets			1,420,649		1,554,412
Creditors					
Amounts falling due after one year	11		(149,035)		(165,971)
Total net assets	16		<u>1,272,823</u>		<u>1,390,855</u>
The funds of the charity:					
<i>Unrestricted funds</i>					
General funds			990,232		1,084,519
Designated funds			281,991		304,860
<i>Restricted funds</i>			600		1,476
Total charity funds	16		<u>1,272,823</u>		<u>1,390,855</u>

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime. The directors have elected for the financial statements to be audited in accordance with the Companies Act 2006.

These financial statements were approved by the directors and authorised for issue on 26.4.19, and are signed on their behalf by:


J. Strachan
Director

The notes on pages 15 to 32 form part of these financial statements

Southern Universities Management Services

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2018

	Note	2018 £	2017 £
Operating Activities			
Cash used in operations	19	(75,121)	(160,765)
Investing Activities			
Interest received		<u>7,739</u>	<u>8,081</u>
Net cash used in Investing Activities		<u>7,739</u>	<u>8,081</u>
Financing Activities			
Movements in investments		(1,655)	(600,000)
Movements in monies held by University of Reading		<u>(40,736)</u>	<u>1,313,042</u>
Net cash used in Financing Activities		<u>(42,391)</u>	<u>713,042</u>
 Change in cash and cash equivalents in the year		<u>(109,773)</u>	<u>560,358</u>
 Cash and cash equivalents at beginning of the year		<u>579,473</u>	<u>19,115</u>
 Cash and cash equivalents at end of the year		<u><u>469,700</u></u>	<u><u>579,473</u></u>

The notes on pages 15 to 32 form part of these financial statements

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018

1. General information & Principle Accounting Policies

Southern Universities Management Services ("the charitable company") is a public benefit entity limited by guarantee domiciled and incorporated in England and Wales (registered company number 02732244). The address of the charitable company's registered office and principle place of business is University of Reading Science & Technology Centre, Earley Gate, Whiteknights Road, Reading, RG6 6BZ.

A summary of the more important accounting policies, including those affecting the most significant items in these financial statements, is set out below:

a) Basis of accounting

The accounts have been prepared under the Companies Act 2006 and in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with FRS 102 (effective 1 January 2015) – (Charities SORP (FRS 102)). The accounts are drawn up on the historical cost basis of accounting.

Monetary amounts in these accounts are rounded to the nearest £ except where otherwise indicated.

b) Going concern

After making enquiries, the directors have a reasonable expectation that the charitable company has adequate resources to continue its activities for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements as outlined in the statement of directors' responsibilities. The trustees confirm that there is no material uncertainty as to the future of the charitable company.

c) Funds

If there is a restriction on the purpose to which a fund may be put, the fund is classified as a restricted income fund. In instances where restrictions on the use of grants are set, the grant is spent according to these requirements. Designated funds comprise unrestricted funds, where are earmarked for particular purposes by the directors.

d) Income

Income attributable to the financial year is recognised as follows:

- subscription fees are accounted for in the year in which the membership benefit is provided
- consultancy income is accounted for on an accruals basis, in the period in which the work is undertaken
- event income is accounted for as at the date the event occurred
- grant income is accounted at the point the charity is entitled to the income and performance related conditions are met
- marketing premium income is accounted for in the period it is earned
- investment income is accounted for in the period it is earned.

Income is allocated to the appropriate activity within consulting or procurement by way of individual cost centres. Income relating to a particular activity is allocated directly with the exception of investment income which is allocated 61:39 (SUMS:SUPC).

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 *(continued)*

1. General information & Principle Accounting Policies *(continued)*

e) Funds received as agent

The charitable company receives rebate income from the suppliers of the SUPC member universities under the purchasing consortium agreements. The income recognised in the accounts is the amount retained by SUMS to further their charitable objectives. All other funds received and dispersed to the member universities are not recognised as income and expenditure in accordance with the Charities SORP 'Accounting for Funds received as Agent'.

f) Expenditure

Expenditure is 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.

g) Governance costs

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.

h) Tangible fixed assets

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.

i) VAT

Irrecoverable VAT is charged against administration costs.

j) Investments

The charitable company has elected to hold funds in a deposit account with banking institutions. The funds are on a deposit and interest has been recognised on an accruals basis.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 *(continued)*

1. General information & Principle Accounting Policies *(continued)*

k) Retirement benefits

The charitable company participates in the both the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UREPF). The USS scheme is a hybrid pension scheme providing defined benefits (for all members), as well as defined contribution benefits. The UREPF scheme is a defined benefit scheme. The assets of the schemes are held in separate director-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 FRS 102 Section 28, 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. For defined contribution schemes the amount charged to expenditure is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

l) Operating leases

Rentals paid under operating leases are charged to the SoFA on a straight-line basis over the lease term.

m) Financial Instruments

The charitable company has applied the provisions of Section 11 'Basic Financial Instruments' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the charitable company becomes a party to the contractual provisions of the instrument, and are offset only when the group has a legal enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise and settle the liability simultaneously.

Financial assets

Trade and other debtors (including accrued income) which are receivable within one year and which do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

Where the arrangements with a debtor constitutes a financing transaction, the debtor is initially measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument and subsequently measured at amortised cost.

A provision for impairment of trade debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised according to the original terms of the contract. Impairment losses are recognised in the SoFA for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, and are recognised immediately in the SoFA.

1. General information & Principle Accounting Policies *(continued)*

m) Financial Instruments *(continued)*

Financial liabilities

Financial instruments are classified as liabilities according to the substance of the contractual agreements entered into. Trade and other creditors (including accruals) payable within one year that do not constitute a financing transaction are initially measured at the transaction price and subsequently measured at amortised cost, being transaction price less any amounts settled.

Where the arrangements with a creditor constitutes a financing transaction, the creditor is initially measured at the present value of future payments discounted at a market rate of interest for a similar instruments and subsequently measured at amortised cost.

Derecognising financial assets and liabilities

A financial asset is derecognised only when the contractual rights to cash flows expire or are settled, or subsequently all the risks and rewards of ownership are transferred to another party, or is some significant risks or rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party. A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

n) Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The charitable company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The only accounting estimates which the directors believe that the charitable company has is the reliance on the underlying assumptions which have been used by the actuary in the valuation of the pension scheme deficit.

o) Taxation

The charitable company is a registered charity, and as such is entitled to tax exemptions on income and gains, properly applied for its charitable purposes.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

2. Net income/(expenditure) for the year is stated after charging:

	2018 £	2017 £
Depreciation of tangible assets	1,208	1,208
Operating lease costs	42,277	65,066
Trustee liability insurance*	500	500
Auditor's remuneration for:		
- External Audit	9,500	4,100
- Accounts preparation	-	750
- Taxation - compliance services to the charitable company	-	750

* 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. Income by activity

2018	SUMS £	SUPC £	PSS £	Total 2018 £
<i>Incoming resources from charitable activities</i>				
Subscription income	769,410	549,550	-	1,318,960
Consulting income	205,964	506	66,814	273,284
Event income	-	24,710	-	24,710
Other income	-	290,000	-	290,000
Grants & donations	-	1,800	3,320	5,120
<i>Investment income</i>	4,638	3,101	-	7,739
TOTAL INCOME	980,012	869,667	70,134	1,919,813

2017	SUMS £	SUPC £	PSS £	Total 2017 £
<i>Incoming resources from charitable activities</i>				
Subscription income	748,064	549,700	-	1,297,764
Consulting income	148,193	506	111,204	259,904
Event income	-	19,128	2,375	21,503
Other income	-	284,000	-	284,000
Grants & donations	-	-	23,320	23,320
<i>Investment income</i>	5,109	2,972	-	8,081
TOTAL INCOME	901,366	856,307	136,899	1,894,572

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

4. Expenditure

Analysis of unrestricted expenditure

	Staff costs £	Other £	Depreciation £	Total 2018 £	Total 2017 £
<i>Expenditure on charitable activities</i>					
Travel and meeting costs	-	99,381	-	99,381	88,868
Professional staff & consultants	1,112,309	323,098	-	1,435,407	1,384,377
Pension provision	-	(16,936)	-	(16,936)	(34,544)
Administration costs	158,043	194,128	1,208	353,379	336,299
Premises	-	44,406	-	44,406	54,898
Governance	97,185	19,027	-	116,212	108,711
	1,367,537	663,104	1,208	2,031,849	1,938,609

Analysis of total expenditure by activity

Activity based 2018	SUMS £	SUPC £	PSS £	Total 2018 £
<i>Expenditure on charitable activities</i>				
Travel & meeting costs	69,230	25,932	4,259	99,421
Professional staff & consultants	847,514	488,978	103,999	1,440,491
Pension provision	(11,529)	(5,407)	-	(16,936)
Administration costs	107,877	242,572	3,802	354,251
Premises	18,890	25,516	-	44,406
Governance	55,408	60,804	-	116,212
TOTAL EXPENDITURE	1,087,390	838,395	112,060	2,037,845

Activity based 2017	SUMS £	SUPC £	PSS £	Total 2017 £
<i>Expenditure on charitable activities</i>				
Travel & meeting costs	63,161	20,091	6,016	89,268
Professional staff & consultants	800,772	522,407	95,161	1,418,340
Pension provision	(22,116)	(12,428)	-	(34,544)
Administration costs	69,373	230,038	25,995	325,406
Premises	21,380	33,518	-	54,898
Governance	58,123	48,962	-	107,085
TOTAL EXPENDITURE	990,693	842,588	127,172	1,960,453

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

5. Analysis of restricted fund income and expenditure

There were two grants received, the first from the Higher Education Funding Council for England of £3,320 to support a framework supplier offering services to higher education providers over 33 months to run the Destination of Leavers from Higher Education early survey. The second grant was from The University of Reading for £1,800, to cover the salary costs of a 6-week internship placement for a University of Reading student at SUMS.

	2018	2017
		£
Incoming resources		
Grant income	5,120	23,320
Repayment of surplus grant	-	-
Total incoming resources	<u>5,120</u>	<u>23,320</u>
Outgoing resources		
Travel & meeting costs	40	400
Professional staff & consultants	5,084	15,944
Administration costs	872	5,500
Governance costs		
Total outgoing resources	<u>5,996</u>	<u>21,844</u>
Net movement in funds in the year	<u>(876)</u>	<u>1,476</u>

6. Staff costs and numbers

	2018	2017
	£	£
Staff costs were as follows:		
Salaries and wages	1,114,430	1,118,507
Employer's national insurance costs	120,918	127,351
Employer's pension costs	138,145	131,877
Ex-gratia payment	-	64,275
	<u>1,373,493</u>	<u>1,442,010</u>

The average number of staff employed during the year was 22 (2017: 22) and various associates were engaged to provide services. The average number of full-time equivalents of persons employed during the year was 20 (2017: 20).

The total of employee benefits (salary and employers pension contribution) paid to the senior management team, as disclosed on page 1, in the year totalled £205,530 (2017: £267,364).

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

	2018	2017
£60,001 to £70,000	1	1
£70,001 to £80,000	3	2
£80,001 to £90,000	2	2
£90,001 to £100,000	1	1
£110,001 to £120,000	1	-
£140,000 to £150,000	-	1

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

7. Fixed assets

	IT Equipment	Fixtures & Fittings	Total
	£	£	£
Cost:			
At 1 August 2017	1,814	4,833	6,647
Disposals	(1,014)	-	(1,014)
At 31 July 2018	<u>800</u>	<u>4,833</u>	<u>5,633</u>
Accumulated Depreciation:			
At 1 August 2017	1,814	2,416	4,230
Charge for the year	-	1,208	1,208
Disposals	(1,014)	-	(1,014)
At 31 July 2018	<u>800</u>	<u>3,624</u>	<u>4,424</u>
Net book value at 31 July 2018	<u>-</u>	<u>1,209</u>	<u>1,209</u>
Net book value at 31 July 2017	<u>-</u>	<u>2,414</u>	<u>2,414</u>

8. Debtors

	2018	2017
	£	£
Trade debtors	306,733	364,803
Other debtors	105,013	17,561
Money held on trust by the University of Reading	592,775	552,039
	<u>1,004,521</u>	<u>934,403</u>

9. Short term investment

An investment fund with Lloyds bank within which £601,655 is deposited was opened on 13 December 2018. Interest generated was recorded against income and expenditure.

	2018	2017
	£	£
Cash deposit	<u>601,655</u>	<u>600,000</u>

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

10. Creditors: amounts falling due within one year

	2018 £	Restated 2017 £
Trade creditors	38,392	43,871
Accruals	105,379	49,645
Deferred income	90,214	93,454
Other creditors (VAT due to HMRC)	38,422	68,206
Funds received as agent	382,820	304,288
	<u>655,227</u>	<u>559,464</u>

11. Creditors: amounts falling due after one year

	2018 £	2017 £
Provision b/fwd	165,971	200,515
Employer contributions relating to the recovery plan	(12,817)	(13,733)
Unwinding of the discount rate	5,477	6,600
Impact of the change in assumptions	<u>(9,596)</u>	<u>(27,411)</u>
Net movement	(16,936)	(34,544)
Provision c/fwd	<u>149,035</u>	<u>165,971</u>

The above provision relates to the requirement under the new charity SORP that charities must recognise as a liability the present value of future contributions relating to the funding of a pension deficit.

The opening provision was calculated based on the USS recovery plan approved by the USS Trustees in June 2015 following the March 2014 actuarial valuation which showed a deficit of £5.3bn. This recovery plan is intended to eliminate the deficit by 31 March 2031.

12. Deferred income

Deferred income comprises advance membership, consultancy and PMA income.

	£
Balance as at 1 August 2017	93,454
Amount released to income earned from charitable activities	(93,454)
Amount deferred in year	<u>90,214</u>
Balance as at 31 July 2018	<u>90,214</u>

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

13. 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, retains an agreed proportion and then distributes the balance to subscribers. The charitable company has no legal ownership of the distributable 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.

	2018 £	2017 £
Opening balance 1 August	304,288	427,619
Received during the year	783,656	622,069
Rebate income retained	(290,000)	(284,000)
Paid out during the year	(415,124)	(461,400)
Total fund held as agent at 31 July	<u>382,820</u>	<u>304,288</u>

14. Operating leases

The total of future minimum lease payments under non-cancellable operating leases for the following periods are:

	2018 £	2017 £
Under 1 year	78,497	14,264
Later than 1 year and not later than 5 years	107,284	23,829
Later than 5 years	-	-

Lease payments of £42,277 (2017: £65,066) were recognised as an expense in the accounts.

15. Movement in funds

Unrestricted funds	2018 General £	2018 Designated £	2018 Total £
Balance at 1 August 2017	1,084,519	304,860	1,389,379
Incoming resources	1,914,693	-	1,914,693
Outgoing resources	(2,008,980)	(22,869)	(2,031,849)
Balance 31 July 2018	<u>990,232</u>	<u>281,991</u>	<u>1,272,223</u>

The designated funds held as at 31 July 2018 include pension provisions for the UREPF of £214,000, alongside £67,991 in relation to the surplus generated from the COUP event.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

15. Movement in funds (continued)

Unrestricted funds	2017	2017	Restated 2017
	General	Designated	Total
	£	£	£
Balance at 1 August 2016	1,151,876	304,860	1,456,736
Incoming resources	1,871,252	-	1,871,252
Outgoing resources	(1,938,609)	-	(1,938,609)
Balance 31 July 2017	1,084,519	304,860	1,389,379

Restricted funds	2018	2017
	£	£
Balance at 1 August	1,476	-
Incoming resources	5,120	23,320
Outgoing resources	(5,996)	(21,844)
Balance 31 July	600	1,476

16. Analysis of net assets between funds

2018

	Fixed assets	Net current assets	Creditors: Amounts due after one year	Total
	£	£	£	£
Unrestricted	1,209	1,420,049	(149,035)	1,272,223
Restricted	-	600	-	600
Total Net Assets	1,209	1,420,649	(149,035)	1,272,823

2017

	Fixed assets	Net current assets	Creditors: Amounts due after one year	Restated Total
	£	£	£	£
Unrestricted	2,414	1,552,936	(165,971)	1,389,379
Restricted	-	1,476	-	1,476
Total Net Assets	2,414	1,554,412	(165,971)	1,390,855

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

17. Related party transactions

No director of the charitable company or any persons connected with them have received any remuneration during the year. Two (2017: two) directors received reimbursement of travel expenses during the year of £1,103 (2017: £665).

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:

	2018 £	2017 £
Room hire and catering	4,495	4,338
IT and telecommunications	10,090	3,286
Printing and postage services	1,252	1,523
Rent and maintenance	27,448	46,428
Professional fees	33,380	8,335
	<u>76,665</u>	<u>63,910</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. The subscription fees and other income received from the University of Reading are set out below:

	2018 £	2017 £
SUMS membership fee	32,600	32,000
SUPC membership fee	10,750	10,550
Consulting income	4,000	-
Grant income	1,800	-
	<u>49,150</u>	<u>42,550</u>

The grant received from the University of covered the salary costs for a 6-week internship placement of a University of Reading student at SUMS.

At the 31 July 2018 The University of Reading held investment funds of £592,775 (2017: £552,039) on trust for the charitable company.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 *(continued)*

18. Pensions

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme. 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 (currently five) are independent directors appointed by the board. Under the Scheme's Trust Deed and Rules, the employer contribution rate is determined by the Trustee, acting on actuarial advice.

The last finalised triennial actuarial valuation of the scheme was at 31 March 2014. USS is currently undertaking its triennial actuarial valuation of the scheme as at 31 March 2017. This is the fifth 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. Unfortunately, due to ongoing discussions between UUK, UCU and USS, the statutory obligation to complete the Valuation by 30 June 2018 has not been met and the Regulator has been informed. This statement contains figures based on the last completed valuation, which was 31 March 2014.

The Annual Actuarial Update as at 31 March 2017 (as well as historical Annual Actuarial Updates) are available on www.uss.co.uk.

The last completed Valuation (31 March 2014) 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 reduction in gilt yields, the assumed rate of inflation 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 0.2% (decreasing to 0.1% over 20 years) 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 of the 31 March Triennial Valuation, it was assumed that the Investment Return would be 5.2% in year one and decreasing linearly to 4.7%p.a. over 20 years while salary increases would be CPI in year one, CPI +1% in year two and RPI+2% thereafter per annum (with short-term general pay growth at 1% per annum).

The 31 March 2014 valuation had revealed a deficit in the Scheme of £5.3bn (2011: £2.9bn). In order to mitigate the deficit, Scheme Changes were approved by the Trustees.

From 31 March 2016, the Final Salary section closed to future accrual and all active members accrued benefits in the Career Revalued Section up to a salary cap of £55,000, known as the Retirement Income Builder. Members who earn over this salary cap have their contributions over the £55,000 paid into a Defined Contribution Section, known as the Investment Builder. The Investment Builder came into effect from 1 October 2016.

In addition to these measures, Member Contributions rose to 8% (FS: 7.5%; CRB: 6.5%) from 1 April 2016.

18. Pensions *(continued)*

At the valuation date, the value of the assets of the scheme was £49.6bn (2011: £32.4bn) and the value of the scheme's technical provisions liabilities was £46.9bn (2011: £35.3bn) indicating a shortfall of £5.3bn (2011: £2.9bn). The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

As at the Annual Actuarial Update 31 March 2016, the value of the assets of the scheme was £49.8bn (2015: £49.1bn) and the value of the scheme's technical provisions liabilities was £59.8bn (2015: £57.3bn) indicating a shortfall of £8.2bn (2014: £5.3bn). The assets therefore were sufficient to cover 83% of the benefits which had accrued to members after allowing for expected future increases in earnings. The Scheme Actuary attributed the majority of the increase to the deficit to the change in underlying financial conditions, such as the change in GILT yields, although some of the change was offset by a higher than predicted return on the Scheme's investments.

Under the Pension Protection Fund regulations introduced by the Pensions Act 2004, as at the valuation date of 31 March 2014, the Scheme was 82% (2011: 93%) funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 54% (2011: 57%) of the amount necessary to secure all the USS benefits with an insurance company.

As part of this valuation, the Trustee determined, after consultation with the employers, a recovery plan which is expected to pay off the shortfall by 31 March 2031. The next formal triennial actuarial valuation is as at 31 March 2017. 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 2017 was estimated (in the recovery plan) to be £5bn, equivalent to a funding level of 91%. In light of actual experience up to 31 March 2016, it is unlikely that this estimate will be accurate and the deficit on this date will be higher.

As noted previously, as part of the agreement of the valuation effective date of 31 March 2014 there have been a number of changes to the benefits provided by the scheme although which became effective from 1 April 2016. These include:

New Entrants

All new entrants are now provided benefits on a Career Revalued Benefits (CRB) only.

Final Salary Section

The FS Section of the Scheme closed to future accrual as at 31 March 2016. All members in that section will move to the CRB Section. This section is known as the Retirement Income Builder.

Defined Contribution (DC) Section – Investment Builder

A DC Section, known as the Investment Builder, was set up to take member contributions over the salary cap from 1 October 2016. All members are given the opportunity to contribute additional contributions to this Section as AVCs. If this option is taken up, the Employer will also contribute 1% only of their salary to the Investment Builder (DC section). This option is known as the Match. As at 31 March 2018, only 21.6% of eligible members of USS have taken the Match.

Under the current arrangements for the cost sharing under the 31 March 2017, the Match will automatically cease from 1 April 2019.

Accrual Rate

The Retirement Income Builder (CRB Section) rate of Accrual changed from 80ths to 75ths from 1 April 2016.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 *(continued)*

18. Pensions *(continued)*

Salary Cap

The Retirement Income Builder (CRB Section) accrual only occurs for salaries up to a cap of £55,000 (uplifted in future years with inflation). Accrual over the salary cap will contribute to the Investment Builder (DC section).

Members with earnings over the cap of £55,000 have the choice to enact a voluntary cap of £55,000 or more. They will pay contributions on this voluntary salary cap and accrue benefits up to this limit only. Members may choose to pay an additional 2.5% on their full salary in order to maintain Death In Service life cover on their full salary. If this option is not exercised, then their Death In Service benefits are based on their Voluntary Salary Cap.

Regardless, of whether the member elects to pay an additional 2.5% or not, the Employer must pay 2.1% of their full salary in order to cover the deficit repair contributions.

Member contributions increased

Contributions were uplifted to 8% for all members with effect from 1 April 2016. Previously the contribution rates were 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively. 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'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 it is 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 2018, USS had 198,652 active members and the institution had 10 active members participating in the scheme. The contribution rate payable by the charitable company was 18% of pensionable salaries. This increased from 16% from 1 April 2016.

As part of the negotiations for the ongoing Valuation as at 31 March 2017, it has been determined by the Actuary that the total contributions will need to be increased to 37.4%. As per the Scheme Rules, this is split between the Members and the Employers. As such, from 1 April 2019, the Match will automatically end, which will decrease the required combined contributions to 36.6%. A consultation will take place over the autumn term with regards to increasing member contributions.

18. Pensions *(continued)*

University of Reading Employees' Pension Fund (UREPF)

The charitable company participates in the University of Reading Employees' Pension Fund (UREPF), a defined benefit scheme. 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. In the Fund year 2018/2019, the Trustees are making changes to the Investment Strategy and the decision has been taken to disinvest the assets held with Sarasin and invest them into L&G Investment Management. Other assets are being drawn from BlackRock and invested with Invesco LTD and L&G Investment Management. The Investment Strategy review is currently underway.

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 102 "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 University of Reading has the power to appoint and remove trustees. As at 31 July 2018, UREPF has 287 active members and the charitable company has 1 active member participating in the scheme.

The last actuarial valuation of the scheme was at 31 July 2014. This was the third 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 scheme is currently undertaking its fourth valuation as at 31 July 2017.

The agreed funding objective is to reach, and then maintain, assets equal to the technical provisions, assessed on an ongoing basis allowing for future salary increases for active members.

The 2014 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 5.3% (2011: 6.1%) per annum, investment return post-retirement would be 3.6% (2011: 5.4%) per annum, salary increases would be 4.30% (2011: 4.50%) per annum, RPI price inflation would be 3.30% (2011: 3.50%) per annum and CPI price inflation would be 2.5% (2011: 2.9%) per annum.

At the valuation date, 31 July 2014, the value of the assets of the Fund was £136.7m (2011: £106.2 m) and the value of the scheme's technical provisions liabilities was £141.1m (2011: £117.3m) indicating a shortfall of £4.4m (2011: £11.1m). The Scheme's Funding Level was therefore 97% (2011: 91%).

The actuary also estimated the wind-up funding level of the fund at the valuation date of 31 July 2014 as 74% (2011: 70%). The estimated shortfall of meeting benefits in full on the latest valuation date was £48.9m (2011: £44.8m). As at the Annual Actuarial Update of 31 July 2017, the Assets of the Fund was £183.5 (2016: £167.8m) and the Liabilities were £182.4m (2016: 188.2m). This indicated a surplus of £1.1m (2016: shortfall of £20.4m). The Fund's Funding Level was therefore 101% (2016: 89%).

In light of the valuation as at 31 July 2014 the University of Reading and the Trustees agreed on a recovery plan. The University agreed to make shortfall contributions of £2.33m for the year ending 31 July 2014, £1.94m for the year ending 31 July 2015, £2.04m for the year ending 31 July 2016, £1.94m for the year ending 31 July 2017, £1.94m for the year ending 31 July 2018, £1.94m for the year ending 31 July 2019. If the assumptions made for assessing the recovery plan are borne out in practice these contributions would eliminate the shortfall by 31 July 2021.

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

18. Pensions (continued)

The next formal triennial actuarial valuation was as at 31 July 2017. Negotiations between the University and the Trustees are currently underway. It is expected that these will be concluded before the statutory deadline of 31 October 2018.

This scheme was closed to new entrants on 31 July 2011. Accrual of final salary benefits ceased on 31 July 2011 and from 1 August 2011 benefit accrual has been on a Career Average type basis. As at 31 July 2014, the Contribution rate to employees remained the same. 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 2014 was £214,000 (2011:£210,000).

A new scheme was set up to replace UREPF for new entrants from 1 August 2011. This is a defined contribution scheme.

The contribution rate (ignoring Salary Sacrifice) payable by the charitable company was 23.80% (2011: 18.20%) of pensionable salaries for UREPF. Pension Contributions are usually deducted via salary sacrifice. Members contribute 6.25%.

University of Reading Pension Scheme

The charitable company participates in the University of Reading Pension Scheme (URPS), a defined contribution scheme. This scheme started on 1 August 2011.

The Scheme's administration and investment of assets was provided by Friends Life. The Scheme is a Qualifying Scheme for auto-enrolment purposes. The latest Re-enrolment date was 1 July 2016.

As at 31 July 2018, URPS has 1,134 active members and the charitable company has 10 active members participating in the scheme.

The contribution rate (ignoring Salary Sacrifice) payable by the charitable company is 5% of pensionable salaries for URPS members who have been employed less than 5 years and 7% for members who have been employed 5 years and over. Members must contribute a minimum 4% of their pensionable salaries to the Scheme. Pension Contributions are usually deducted via salary sacrifice.

The University of Reading has the power to appoint and remove trustees.

The pension costs incurred in relation to the respective schemes are set out below:

Pension costs	2018		2017	
	Employer contribution	Active members	Employer contribution	Active members
USS	109,861	11	114,093	11
UREPF	15,783	1	6,764	1
URPS	12,501	10	11,564	8
	132,421	22	132,421	20

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2018 (continued)

19. Reconciliation of net income/(expenditure) to net cash flow from operating activities

	2018 £	Restated 2017 £
Net (expenditure)/income	(118,032)	(65,881)
Adjustments for:		
Depreciation of tangible fixed assets	1,208	1,208
Investment Income	(7,739)	(8,081)
Movement on debtors	(29,385)	(282,486)
Movement on creditors	78,827	194,475
Cash used in operations	<u>(75,121)</u>	<u>(160,765)</u>

20. Change in accounting policy

The policy in relation to the accounting of subscription income has been changed in order to provide a more appropriate basis for accounting for the component elements of subscription fees. This enables the element of subscription income that relates to services provided after the end of the year to be deferred to the period in which the membership benefit has been received by the member.

The policy previously stated that subscription fees are accounted for in the year to which the subscription fee applies. The replacement policy now states that subscription fees are accounted for in the year in which the membership benefit is provided.

Impact in change in accounting policy	31 Jul 18 £	31 Jul 17 £	1 Aug 16 £
Net assets reported under previous accounting policy	1,320,312	1,429,754	1,463,299
Subscription income deferral	(47,489)	(38,899)	(6,563)
Revised net assets under new accounting policy	<u>1,272,823</u>	<u>1,390,855</u>	<u>1,456,736</u>

Reconciliation of Statement of Financial Activities

Net expenditure under previous accounting policy	(109,442)	(33,545)
Movement in subscription income	(8,590)	(32,336)
Net expenditure under new accounting policy	<u>(118,032)</u>	<u>(65,881)</u>