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Company Number: 02732244  
Registered Charity Number: 1042175

# **Southern Universities Management Services**

## **DIRECTORS REPORT AND FINANCIAL STATEMENTS**

**for the year ended**

**31 July 2019**

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# **Southern Universities Management Services**

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# Southern Universities Management Services

## LEGAL AND ADMINISTRATIVE INFORMATION

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**Company Name:** Southern Universities Management Services

**Registered Company Number:** 02732244 (Registered in England and Wales)

**Registered Charity Number:** 1042175

**Registered Office and Operational Address:** University of Reading  
Reading Enterprise Centre  
Earley Gate  
Whiteknights Road  
Reading  
RG6 6BU

**Directors of the Charitable Company:**

B Casey	Oxford Brookes University
S Grant	University of Hertfordshire
L Jeffries	University of Reading
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
M Williams	University of Bath

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	CEO
J Arber	Managing Consultant and Group Head of Business Development
S Donoghue	Managing Consultant
S Hill (resigned 31/12/2018)	Interim Head of SUPC
R Johnson	Head of SUPC Category Management & Services
L Wilde (resigned 02/10/2019)	Head of Finance and Administration
C Tudor-Morgan (appointed 30/09/19)	Head of Finance and Operations

**Company Secretary:**

L Wilde (resigned 02/10/2019)	Head of Finance and Administration
C Tudor-Morgan	Head of Finance and Operations

**Auditors:**

James Cowper Kreston  
Reading Bridge House  
George Street  
Reading  
RG1 8LS

**Legal Advisors:**

Clarkslegal  
One Forbury Square  
Reading  
RG1 3EB

# Southern Universities Management Services

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2019

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The Directors present their annual report together with the audited financial statements of the charitable company for the year ended 31 July 2019. 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 31 August 2019. 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 2019 there were 26 Members and the total number of such guarantees was 26 (2018: 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 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 include member representatives both from the institutions that comprise the charitable company's membership and those that represent the institutions that subscribe to SUPC. As such they have a good understanding of how the charitable company is structured and operates and will have already worked with the various business units of SUMS in their capacity as member representative. As part of the induction process new directors participate in discussions with the 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 charitable company is organised into three divisions: SUMS Consulting, Southern Universities Purchasing Consortium (SUPC) and Procurement Shared Service (PSS). The company has recently undergone changes to its Articles of Association to create an equal balance of representation from the different business units of SUMS within its Management Committee. The Management Committee now comprises a minimum of six directors; three representatives appointed from the Members of the charitable company and three appointed to represent Southern Universities Purchasing Consortium (SUPC). The CEO carries out day-to-day management of the charitable company under the direction of the members of the Management Committee.

The company has sixteen full-time employees, five 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 2019 (continued)

SUPC provides services to higher education institutions and further education colleges 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 and further education colleges to help them secure value for money from their procurement activities. This includes the delivery of the Procurement Maturity Assessment 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 is to give an annual cost of living increase, and consider 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 and outside the sector 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, supplier 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 services provided and for rentals 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 quarterly by the Executive Group.

The current key risks are:

<b>Risk</b>	<b>Mitigation</b>
The potential impact of final salary pension scheme deficits	<ul style="list-style-type: none"><li>• deficit recovery plans in place at scheme level</li><li>• ensuring pension scheme provisions remain appropriate</li><li>• holding of an appropriate level of reserves.</li></ul>
The potential failure to meet planned financial targets	<ul style="list-style-type: none"><li>• investing in service development including the launch of new VFM and PMA+ products</li><li>• enhancing member relationship management</li><li>• strengthening of core staff capabilities, supplemented by a pool of associate consultants</li><li>• monitoring of financial performance against budgets and forecasts.</li></ul>
The implications of the Augar review and pension cost increases for Higher Education Institutions	<ul style="list-style-type: none"><li>• proactively pursuing opportunities to support efficiency reviews</li><li>• active engagement with members</li><li>• monitoring of proposed changes in government policy.</li></ul>

# Southern Universities Management Services

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2019 (continued)

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### 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.

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 the Higher Education sector.

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 university purchasing consortia.

The Procurement Shared Service (PSS) division has primarily focused on the delivery of a procurement maturity assessment programme and procurement consultancy support to English Higher Education institutions with the aim of supporting institutions to improve their efficiency and effectiveness, and the value for money they deliver.

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](http://www.sums.org.uk) and [www.supc.ac.uk](http://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 2019 (continued)

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### STRATEGIC REPORT

#### Financial Review

For the financial year 2018/19, resources expended exceeded incoming resources by £228k (2018: £118k deficit). This is primarily due to the increase in USS pension provision from £149k in 2017/18 to £402k in 2018/19, an increase of £253k (170%).

#### Incoming Resources

Overall income for the year was £1,984k, with the majority (70%) being obtained from SUMS and SUPC subscription income. Overall income was 3.3% higher than prior year (2018: £1,920k).

#### Resources Expended

Overall expenditure for the year was £2,211k, an increase of £173k (9%) versus prior year expenditure of £2,038k. This increase is primarily due to the increase in USS pension provision from £149k in 2017/18 to £402k in 2018/19, an increase of £253k (170%).

As with prior years, a significant proportion of expenditure (54%) 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 £228k 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 defined benefit 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 18/19 financial year for free reserves – working capital – to be maintained in a range of 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 2017 to be £182k, which, as at 31 July 2019, is being held in a designated fund in accordance with the reserves policy.

Reserves at the end of the financial year were £1,045k (2018: £1,273k), an 18% decrease year on year. These reserves include designated reserves of £182k (2018: £282k), held in relation to UREPF pension scheme liability detailed in note 18. The pension scheme designated reserve will stay in place until a s75 secession event is triggered.

# **Southern Universities Management Services**

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2019 (continued)**

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### Principal Funding Sources

The majority of the charitable company's funding is from its membership subscriptions and subscribers. As at 31 July 2019 there were 26 Members of the charitable company (2018: 27) and 63 subscribers to SUPC: 47 full subscribers and 16 associates (2018: 61 subscribers; 43 full and 18 associates).

Additional funding comes from consulting work over and above core membership work, marketing rebates for contract support activities and 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, 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 2019 (continued)**

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### **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.

SUPC is now entering the second year of a three-year business plan aimed at delivering value for money to members through the provision of compliant frameworks and value adding services. These enhance the core offering and allow members to tailor their membership package to meet their specific requirements. In addition, following an in-depth options analysis and assessment, SUPC is in its first year of a strategic partnership with sister consortium, LUPC. The implementation of any such partnering arrangement does not impede SUPC nor LUPC from delivering exceptional value and service to members, and will not inhibit either organisation's development – the aim of the strategic review is offer greater value to members through aligned activity.

In conjunction with SUPC, the Procurement Shared Service business division is also entering the second year of a three-year business plan, which is very much focussed on growth. In addition to introducing a new and improved Procurement Maturity Assessment product, PSS has introduced a new Value for Money Procurement Assessment, which aligns to, and complements, the Procurement Maturity Assessment (PMA+). 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.

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 2019 (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

The auditors, James Cowper Kreston, have indicated their willingness to stay in office.

The financial statements were approved by the directors on 28/11/19 and signed on their behalf by:

  
J. Strachan  
Director

Date: 13 December 2019

# **Southern Universities Management Services**

## **INDEPENDENT AUDITOR'S REPORT**

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### **OPINION**

We have audited the financial statements of Southern Universities Management Services (the 'charitable company') for the year ended 31 July 2019 set out on pages 12 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2019 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 United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other 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 opinion.

### **CONCLUSIONS RELATING TO GOING CONCERN**

We have nothing to report in respect of the following matters in relation to 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**

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We have nothing to report in this regard.

### **OPINION 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 directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Directors' Report has been prepared in accordance with applicable legal requirements.

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

In the light of our 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 Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the Directors' Report and from the requirement to prepare a Strategic Report.

### **RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the Directors' responsibilities statement, the Directors (who are also the directors of the charitable company for the purposes of company law) 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**

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A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 its members, as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Peal BSc (Hons) DCA DChA (Senior Statutory Auditor)

for and on behalf of

**James Cowper Kreston**

Chartered Accountants and Statutory Auditor

Reading Bridge House

George Street

Reading

Berkshire

RG1 8LS

# Southern Universities Management Services

## STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 JULY 2019

	Note	Unrestricted Funds £	Restricted Funds £	Total Funds 2019 £	Total Funds 2018 £
<b>Income:</b>					
<i>Income from Charitable activities</i>					
Subscription income		1,385,862	-	1,385,862	1,318,960
Consulting income		233,741	-	233,741	273,284
Event income		35,143	-	35,143	24,710
Grant income		-	868	868	5,120
Other income		5,816	-	5,816	-
Marketing premium retained		310,000	-	310,000	290,000
Investment income		12,135	-	12,135	7,739
<b>Total income</b>	<b>3</b>	<b>1,982,697</b>	<b>868</b>	<b>1,983,565</b>	<b>1,919,813</b>
<b>Expenditure on:</b>					
<i>Expenditure on charitable activities:</i>					
Travel and meeting costs		88,444	-	88,444	99,421
Professional staff and consultants		1,187,182	-	1,187,182	1,440,491
Pension provision		253,422	-	253,422	(16,936)
Administration costs		494,072	1,468	495,540	354,251
Premises		78,534	-	78,534	44,406
Governance		107,976	-	107,976	116,212
<b>Total expenditure</b>	<b>4</b>	<b>2,209,630</b>	<b>1,468</b>	<b>2,211,098</b>	<b>2,037,845</b>
<b>Net (expenditure)/income and net movement in funds for the year</b>		<b>(226,933)</b>	<b>(600)</b>	<b>(227,533)</b>	<b>(118,032)</b>
<b>Reconciliation of funds</b>					
Total funds brought forward		1,272,223	600	1,272,823	1,390,855
<b>Total funds carried forward</b>	<b>15</b>	<b>1,045,290</b>	<b>-</b>	<b>1,045,290</b>	<b>1,272,823</b>

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 31 form part of these financial statements.

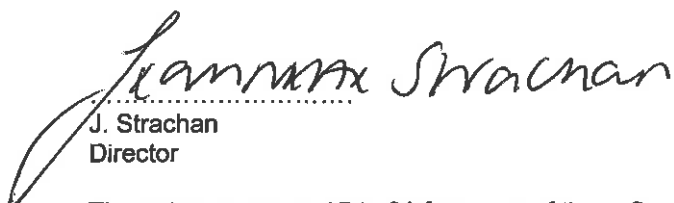
# Southern Universities Management Services

BALANCE SHEET AS AT 31 JULY 2019

	Note	2019 £	2018 £
<b>Fixed assets</b>			
Tangible assets	7	-	1,209
<b>Current assets</b>			
Debtors	8	917,428	1,004,521
Investments: short-term investments	9	953,000	601,655
Cash at bank and in hand		<u>330,332</u>	<u>469,700</u>
		2,200,760	2,075,876
<b>Creditors</b>			
Amounts falling due within one year	10	<u>(753,013)</u>	<u>(655,227)</u>
<b>Net current assets</b>		1,447,747	1,420,649
<b>Creditors</b>			
Amounts falling due after one year	11	(402,457)	(149,035)
<b>Total net assets</b>	16	<u>1,045,290</u>	<u>1,272,823</u>
<b>The funds of the charity:</b>			
<i>Unrestricted funds</i>			
General funds		863,290	990,232
Designated funds		182,000	281,991
<i>Restricted funds</i>			600
<b>Total charity funds</b>	16	<u>1,045,290</u>	<u>1,272,823</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 28/11/19, and are signed on their behalf by:

  
J. Strachan  
Director

The notes on pages 15 to 31 form part of these financial statements

# Southern Universities Management Services

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2019

	Note	2019 £	2018 £
<b>Operating Activities</b>			
Cash used in operations	19	195,831	(75,121)
<b>Investing Activities</b>			
Interest received		12,135	7,739
<b>Net cash used in Investing Activities</b>		12,135	7,739
<b>Financing Activities</b>			
Movements in investments		(351,345)	(1,655)
Movements in monies held by University of Reading		4,011	(40,736)
<b>Net cash used in Financing Activities</b>		(347,334)	(42,391)
Change in cash and cash equivalents in the year		(139,368)	(109,773)
Cash and cash equivalents at beginning of the year		469,700	579,473
Cash and cash equivalents at end of the year		330,332	469,700

The notes on pages 15 to 31 form part of these financial statements

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019

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### 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, Reading Enterprise Centre, Earley Gate, Whiteknights Road, Reading, RG6 6BU.

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 compromise 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 SUMS, SUPC, PSS or Marketing and Communications (M&C) by way of individual cost centres. Income relating to a particular activity is allocated directly with the exception of investment income which is allocated 60:40 (SUMS:SUPC).

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 *(continued)*

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### 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 SUMS, SUPC, PSS or M&C 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 deposit accounts with banking institutions. The funds are on deposit and interest has been recognised on an accruals basis.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 *(continued)*

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

#### k) Retirement benefits

The charitable company participates in 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 trustee-administered funds.

Because of the mutual nature of the USS scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. SUMS is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", SUMS therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. SUMS has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, and so recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

Because of the nature of the UREPF scheme, 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 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 charitable company also participated in the University of Reading Pension Scheme (URPS) until 31 March 2019, and from 1 April 2019 a new scheme: the SUMS Pension Scheme, both defined contribution schemes. 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.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 *(continued)*

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

#### m) Financial Instruments *(continued)*

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.

#### *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 2019 (continued)

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

	2019 £	2018 £
Depreciation of tangible assets	1,209	1,208
Operating lease costs	75,893	42,277
Trustee liability insurance*	500	500
Auditor's remuneration for:		
- External audit	7,500	9,500
- Taxation - compliance services to the charitable company	-	-

\* The cost of liability cover is not separately identified but has a declared value of £500 following advice from the insurers.

### 3. Income by activity

2019	SUMS £	SUPC £	PSS £	M&C £	Total 2019 £
<i>Incoming resources from charitable activities</i>					
Subscription income	784,162	601,700	-	-	1,385,862
Consulting income	166,541	-	67,200	-	233,741
Event income	-	-	-	35,143	35,143
Grant income	-	-	-	868	868
Other income	-	1,533	-	4,283	5,816
Marketing premium retained	-	310,000	-	-	310,000
<i>Investment income</i>	7,358	4,777	-	-	12,135
<b>TOTAL INCOME</b>	<b>958,061</b>	<b>918,010</b>	<b>67,200</b>	<b>40,294</b>	<b>1,983,565</b>

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
Grant income	-	1,800	3,320	5,120
Marketing premium retained	-	290,000	-	290,000
<i>Investment income</i>	4,638	3,101	-	7,739
<b>TOTAL INCOME</b>	<b>980,012</b>	<b>869,667</b>	<b>70,134</b>	<b>1,919,813</b>

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (continued)

### 4. Expenditure

#### Analysis of unrestricted expenditure

	Staff costs £	Other £	Depreciation £	Total 2019 £	Total 2018 £
<i>Expenditure on charitable activities</i>					
Travel and meeting costs	-	88,444	-	88,444	99,381
Professional staff & consultants	915,224	271,958	-	1,187,182	1,435,407
Pension provision	-	253,422	-	253,422	(16,936)
Administration costs	274,892	217,972	1,208	494,072	353,379
Premises	-	78,534	-	78,534	44,406
Governance	83,319	24,657	-	107,976	116,212
	1,273,435	934,987	1,208	2,209,630	2,031,849

#### Analysis of total expenditure by activity

Activity based 2019	SUMS £	SUPC £	PSS £	M&C £	Total 2019 £
<i>Expenditure on charitable activities</i>					
Travel & meeting costs	57,442	21,369	4,252	5,381	88,444
Professional staff & consultants	708,234	369,486	109,462	-	1,187,182
Pension provision	168,948	63,356	-	21,118	253,422
Administration costs	125,405	212,457	53,632	104,046	495,540
Premises	22,775	45,552	-	10,207	78,534
Governance	55,450	52,526	-	-	107,976
TOTAL EXPENDITURE	1,138,254	764,746	167,346	140,752	2,211,098

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

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (continued)

### 5. Analysis of restricted fund income and expenditure

One grant was received from The University of Reading to cover the salary costs of an internship placement for a University of Reading student at SUMS.

	2019	2018
		£
<b>Incoming resources</b>		
Grant income	868	5,120
<b>Total incoming resources</b>	868	5,120
<b>Outgoing resources</b>		
Travel & meeting costs	-	40
Professional staff & consultants	-	5,084
Administration costs	1,468	872
<b>Total outgoing resources</b>	1,468	5,996
<b>Net movement in funds in the year</b>	(600)	(876)

### 6. Staff costs and numbers

	2019	2018
	£	£
Staff costs were as follows:		
Salaries and wages	1,023,447	1,114,430
Employer's national insurance costs	110,411	120,918
Employer's pension costs	141,045	138,145
Ex-gratia payment	-	-
	<u>1,274,903</u>	<u>1,373,493</u>

The average number of staff employed during the year was 20 (2018: 22) and various associates were engaged to provide services. The average number of full-time equivalents of persons employed during the year was 18 (2018: 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 £448,494 (2018: £419,112).

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

	2019	2018
£60,001 to £70,000	-	1
£70,001 to £80,000	1	3
£80,001 to £90,000	3	2
£90,001 to £100,000	-	1
£100,001 to £110,000	1	-
£110,001 to £120,000	-	1
£120,001 to £130,000	1	-

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (continued)

### 7. Fixed assets

	IT Equipment	Fixtures & Fittings	Total
	£	£	£
Cost:			
At 1 August 2018	800	4,833	5,633
Disposals	-	-	-
At 31 July 2019	800	4,833	5,633
Accumulated Depreciation:			
At 1 August 2018	800	3,624	4,424
Charge for the year	-	1,209	1,209
Disposals	-	-	-
At 31 July 2019	800	4,833	5,633
Net book value at 31 July 2019	-	-	-
Net book value at 31 July 2018	-	1,209	1,209

### 8. Debtors

	2019	2018
	£	£
Trade debtors	284,714	306,733
Other debtors	43,950	105,013
Money held on trust by the University of Reading	588,764	592,775
	917,428	1,004,521

### 9. Short term investment

Investment funds were held with both Lloyds Bank and Nationwide Building Society totalling £953,000. Interest generated was recorded against income and expenditure.

	2019	2018
	£	£
Cash deposits	953,000	601,655

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (continued)

### 10. Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	71,405	38,392
Accruals	37,418	105,379
Deferred income	118,709	90,214
Other creditors (VAT due to HMRC)	70,412	38,422
Funds received as agent	455,069	382,820
	<u>753,013</u>	<u>655,227</u>

### 11. Creditors: amounts falling due after one year

	2019 £	2018 £
Provision b/fwd	149,035	165,971
Employer contributions relating to the recovery plan	(8,968)	(12,817)
Unwinding of the discount rate	4,918	5,477
Impact of the change in assumptions	<u>257,472</u>	<u>(9,596)</u>
Net movement	253,422	(16,936)
Provision c/fwd	<u>402,457</u>	<u>149,035</u>

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

### 12. Deferred income

Deferred income comprises advance membership, consultancy, PMA and grant income.

	£
Balance as at 1 August 2018	90,214
Amount released to income earned from charitable activities	(90,214)
Amount deferred in year	<u>118,709</u>
Balance as at 31 July 2019	<u>118,709</u>

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*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.

	2019 £	2018 £
Opening balance 1 August	382,820	304,288
Received during the year	1,072,732	783,656
Rebate income retained	(310,000)	(290,000)
Paid out during the year	(690,483)	(415,124)
Total fund held as agent at 31 July	455,069	382,820

### 14. Operating leases

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

	2019 £	2018 £
Under 1 year	75,457	78,497
Later than 1 year and not later than 5 years	31,827	107,284
Later than 5 years	-	-

Lease payments of £75,893 (2018: £42,277) were recognised as an expense in the accounts.

### 15. Movement in funds

Unrestricted funds	2019 General £	2019 Designated £	2019 Total £
Balance at 1 August 2018	990,232	281,991	1,272,223
Incoming resources	1,982,697	-	1,982,697
Outgoing resources	(2,109,639)	(99,991)	(2,209,630)
Balance 31 July 2019	863,290	182,000	1,045,290

The designated funds held as at 31 July 2019 include pension provisions for the UREPF of £182,000.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

### 15. Movement in funds (*continued*)

Unrestricted funds	2018	2018	2018
	General	Designated	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	990,232	281,991	1,272,223

Restricted funds	2019	2018
	£	£
Balance at 1 August	600	1,476
Incoming resources	868	5,120
Outgoing resources	(1,468)	(5,996)
Balance 31 July	-	600

### 16. Analysis of net assets between funds

#### 2019

	Fixed assets	Net current assets	Creditors: Amounts due after one year	Total
	£	£	£	£
Unrestricted	-	1,447,747	(402,457)	1,045,290
Restricted	-	-	-	-
Total net assets	-	1,447,747	(402,457)	1,045,290

#### 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

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

### 17. Related party transactions

No director of the charitable company or any persons connected with them have received any remuneration during the year. Three (2018: two) directors received reimbursement of travel expenses during the year of £1,109 (2018: £1,103).

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:

	2019 £	2018 £
Room hire and catering	1,241	4,495
IT and telecommunications	6,184	10,090
Printing and postage services	875	1,252
Rent and maintenance	78,208	27,448
Professional fees	30,619	33,380
	<u>117,127</u>	<u>76,665</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:

	2019 £	2018 £
SUMS membership fee	33,600	32,600
SUPC membership fee	11,100	10,750
Consulting income	30,350	4,000
Grant income	868	1,800
	<u>75,918</u>	<u>49,150</u>

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

At the 31 July 2019 The University of Reading held investment funds of £588,765 (2018: £592,775) on trust for the charitable company.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

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### 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 2017. USS is currently undertaking its triennial actuarial valuation of the scheme as at 31 March 2018. This is the sixth 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 disagreements between UUK, UCU and USS, the statutory obligation to complete the 2017 Valuation by 30 June 2018 was not met and so the Regulator became involved. As part of this, it was agreed to finalise the 2017 Valuation and undertake a new Valuation as at 31 March 2018. This would allow the issues raised by the joint Expert Panel (an independent panel which reviewed the valuation methodology and assumptions) to be assessed.

The latest Annual Actuarial Update as at 31 March 2017 (as well as historical Annual Actuarial Updates) are available on [www.uss.co.uk](http://www.uss.co.uk). Due to the 31 March 2018 valuation, an Annual Actuarial Update has not been published since this date.

The last completed Valuation (31 March 2017) 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 0.3% (31 March 2014: 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.

To calculate the technical provisions of the 31 March Triennial Valuation, it was assumed that the Investment Return would be CPI-0.53% reducing linearly to CPI-1.53% in years 1 to 10, CPI +2.56% reducing linearly to CPI+1.7% in years 11 to 20 and finally CPI +1.7% for years 21 and over (2014: 5.2% in year one and decreasing linearly to 4.7% p.a. over 20 years). Salary increases over the total period would be CPI +2%.

The 31 March 2017 valuation had revealed a deficit in the Scheme of £7.5bn (2014: £5.3bn) which was a funding level of 89% (2014: 89%). In order to mitigate the deficit, Scheme Changes were suggested by the Trustees, such as reducing the Salary Threshold to £0 and so all accrual would be in the Investment Builder. However, the proposed changes triggered strike action by UCU members, which led to the delay in agreeing the valuation. The originally proposed changes have been disregarded and the negotiations are currently mainly regarding increased contributions over the next few years for members and employers.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

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### 18. Pensions (*continued*)

Member Contributions (EE) rose to 8.8% (previously 8%) from 1 April 2019. Employer contributions (ER) also rose on this date, from 18% to 19.5%. Contributions are expected to increase again on 1 October 2019 (EE: 10.4%; ER: 22.5%) and again on 1 April 2020 (EE: 11.7%; ER: 24.9%). The October and April increases are still subject to negotiation, and a member consultation for a reduced amount of contributions is expected in autumn 2019.

At the valuation date, the value of the assets of the scheme was £60.0bn (2014: £49.6bn) and the value of the scheme's technical provisions liabilities was £67.5bn (2014: £46.9bn) indicating a shortfall of £7.5bn (2014: £5.3bn). The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Under the Pension Protection Fund regulations introduced by the Pensions Act 2004, as at the valuation date of 31 March 2017, the Scheme was 89% (2014: 89%) funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 48% (2014: 54%) 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 30 June 2034. This recovery plan agreed that Employers should make deficit contributions of 5.0% of total salaries in addition to the future serve contributions.

### ***Scheme Changes within the Year***

As part of the 2017 valuation, some changes to the Scheme were put in place. These were:

#### ***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 automatically ceased receiving Employer contributions (1% of member's salary) from 1 April 2019, although members are still able to pay an additional 1% of their pay under the salary sacrifice arrangement.

#### ***Salary Cap (inflationary increases)***

The Retirement Income Builder (CRB Section) accrual only occurs for salaries up to a cap. This cap started at £55,000 in 2016 and has been uplifted each year with inflation. The salary threshold is £58,589.70 for 2019/2020. Accrual over the salary cap will contribute to the Investment Builder (DC section).

#### ***Member contributions increased***

Contributions were uplifted to 8% for all members with effect from 1 April 2016. From 1 April 2019, the member contributions were increased again to 8.8%. Further member contribution increases were outlined previously.

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.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

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### 18. Pensions (*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 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 19.5% from 1 April 2019, which increased from 18% from 1 April 2016.

#### 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, L&G Investment Managers and Invesco. In the Fund years 2017/2018 and 2018/2019, the Trustees made changes to the Investment Strategy in order to take steps to protect the surplus and to provide an income for the cashflow negative status of the Fund. The assets held with Sarasin were disinvested and invested into L&G Investment Management. These are currently held in an Absolute Return Bond Fund, but are in a queue for High Leave to Value (HLV) property fund. This will provide an income to the Fund now that it is cashflow negative. Other assets are being drawn from BlackRock and invested equally between Invesco LTD and L&G Investment Management in their Diversified Growth funds. In addition, the provision towards the Index Linked Gilts has been increased and the Active Credit portfolio has been migrated to Buy and Maintain Credit. BlackRock remained the Investment Manager for these changes.

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 2017. 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 will undertake its fifth valuation as at 31 July 2020.

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 2017 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 3.75% (2014: 5.30%) per annum, investment return post-retirement would be 2.25% (2014: 3.6%) per annum, salary increases would be 4.15% (2014: 4.30%) per annum, RPI price inflation would be 3.15%/3.35% (pre/post retirement respectively) (2014: 3.30%) per annum and CPI price inflation would be 2.35% / 2.55% (pre/post retirement respectively) (2014: 2.50%) per annum.

At the valuation date, 31 July 2017, the value of the assets of the Fund was £185.9m (2014: 136.7m) and the value of the scheme's technical provisions liabilities was £169.7m (2014: £141.1m) indicating a surplus of £16.2m (2014: -£4.4m). The Scheme's Funding Level was therefore 110% (2014: 97%).

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 (*continued*)

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### 18. Pensions (*continued*)

The actuary also estimated the wind-up funding level of the fund at the valuation date of 31 July 2017 as 76% (2014: 74%). The estimated shortfall of meeting benefits in full on the latest valuation date was £59.3m (2014: £48.9m). As at the Annual Actuarial Update of 31 July 2018, the Assets of the Fund was £197.5 (2017: £185.9m) and the Liabilities were £174.9m (2017: 169.7m). This indicated a surplus of £22.6m (2017: 16.2m). The Fund's Funding Level was therefore 113% (2017: 110%).

In light of the valuation as at 31 July 2017 and the resultant surplus, there was no requirement for a recovery plan to be set. As such, the Deficit Repair contributions agreed under the previous Valuation ceased in November 2018. The University now only pays the future service costs and a £500,000 p.a. contribution towards the administrative costs.

The next formal triennial actuarial valuation will be held on 31 July 2020. Preparations for the Valuation are currently underway.

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 2017, 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 2017 was £182,000 (2014: £214,000).

The contribution rate (ignoring Salary Sacrifice) currently 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 participated in the University of Reading Pension Scheme (URPS), a defined contribution scheme until 31 March 2019. From 1 April 2019, the SUMS Pension Scheme (SUMPS) was set up. The Scheme was set up due to the Master Trust Regulation introduced in the Pension Schemes Act 2017.

The Scheme's administration and investment of assets is provided by Aviva. The Scheme is a Qualifying Scheme for auto-enrolment purposes. The latest Re-enrolment date for SUMS members was 1 July 2016 (members were re-enrolled on 1 July 2019).

The contribution rate (ignoring Salary Sacrifice) payable by the charitable company is 5% of pensionable salaries for URPS members who have been active scheme members for less than 5 years and 7% for members who have been active scheme members for 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.

# Southern Universities Management Services

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2019 *(continued)*

### 18. Pensions *(continued)*

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

Pension costs	2019		2018	
	Employer contribution	Active members	Employer contribution	Active members
USS	118,500	12	109,861	11
UREPF	10,073	1	15,783	1
URPS	7,963	0	12,501	10
SUMPS	4,509	9	-	-
	<u>141,045</u>	<u>22</u>	<u>138,145</u>	<u>22</u>

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

	2019 £	2018 £
<b>Net (expenditure)/income</b>	(227,533)	(118,032)
<b>Adjustments for:</b>		
Depreciation of tangible fixed assets	1,209	1,208
Investment Income	(12,135)	(7,739)
Movement on debtors	83,082	(29,385)
Movement on creditors	351,208	78,827
<b>Cash used in operations</b>	<u>195,831</u>	<u>(75,121)</u>

