
Company Number: 02732244
Registered Charity Number: 1042175

Southern Universities Management Services

DIRECTORS REPORT AND FINANCIAL STATEMENTS

for the year ended

31 July 2017

Southern Universities Management Services

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Southern Universities Management Services

LEGAL AND ADMINISTRATIVE INFORMATION

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
Science & Technology Centre
Earley Gate
Whiteknights Road
Reading
RG6 6BZ

Directors of the Charitable Company:

S Grant	University of Hertfordshire
R Knight	University College London
H Lloyd Wildman (resigned 17/11/2016)	UWE Bristol
J Strachan	University of Hull
B Casey (appointed 01/08/2016)	Oxford Brookes University
D Hopper (appointed 18/11/2016)	University of Leeds
W K T Liew (appointed 17/02/2017)	UWE Bristol

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

Senior Management Team:

M-B Hyde	Managing Consultant and CEO
S Wright (left 31/07/2017)	Head of SUPC

Company Secretary:

L Wilde	Head of Finance and Administration
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Auditors:

Moore Stephens LLP
Prospect House
58 Queens Road
Reading
RG1 4RP

Legal Advisors:

Clarkslegal
One Forbury Square
Reading
RG1 3EB

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2017

The directors present their annual report together with the audited financial statements of the charitable company for the year ended 31 July 2017. 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 2017 there were 28 Members and the total number of such guarantees was 28 (2016: 30).

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

SUPC has eleven full-time employees, one part-time employee and a pool of associate consultants. 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.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2017 *(continued)*

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 two key risks are as follows:

- The impact of Britain's exit from the EU upon SUMS Members: EU student numbers, research funding and exchange rates. In this regard SUMS are providing its members with access to consultancy support aimed at helping mitigate against this risk
- The potential uncertainty resulting from the LUPC/SUPC collaborative review, being mitigated through a robust consultation process and in depth communications with key stakeholders.

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.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2017 (*continued*)

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 has continued to focus on developing collaborative procurement and framework agreements. The Procurement Shared Service 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.

The objectives, activities, output and achievements of the two operating units 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 operating units' detailed 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 2017 (continued)

STRATEGIC REPORT

Financial Review

For the financial year 2016/17, resources expended exceeded incoming resources by £34k (2016: £168k surplus).

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 £1,927k, a decrease of £309k (14%) versus prior year income of £2,236k. This was primarily due to:

- a decrease in event income of £239k, as prior year income included the income generated from the COUP event, which is held every four years;
- a decrease in consulting income of £74k across both the SUMS Consulting and Procurement Shared Service divisions.

Resources expended

Overall expenditure for the year was £1,960k, a decrease of £108k (5%) versus prior year expenditure of £2,068k.

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 £34k 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 have agreed that target free reserves – working capital – to be maintained in a range of 6 and 12 months of operating costs.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2017 *(continued)*

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 2017, is being held in a designated fund in accordance with the reserves policy.

Reserves at the end of the financial year were £1,430k (2016: £1,463k), a 2.3% decrease year on year. These reserves include designated reserves of £305k (2016: £305k), of which £214k is in relation to SUMS pension scheme liabilities detailed in note 18, and £91k in relation to the surplus generated from the COUP event.

Principal Funding Sources

The majority of the charitable company's funding is from its membership subscriptions and subscribers. As at 31 July 2017 there were 28 Members of the charitable company and 62 subscribers to SUPC: 44 full subscribers 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 2017 (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 will be undergoing 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. There will be considerable consultation with members and other key stakeholders as part of the review process; any proposals to come out of the consultation will be evidence-based and include a full evaluation of the opportunities and issues associated with the range of potential options. As SUPC embarks on this consultation process, the organisation will engage with sector bodies to gather input and diverse viewpoints. The review 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.

Alongside this SUPC will, whilst adopting a category management approach, continue to develop more collaborative framework agreements for the Higher Education Sector. The Procurement Shared Service that includes the Procurement Maturity Assessment Programme will continue, with opportunities to deliver improvements to the programme being assessed.

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.

Southern Universities Management Services

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JULY 2017 (*continued*)

In so far as the directors are aware:

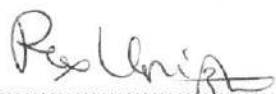
- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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, Moore Stephens, have indicated their willingness to stay in office.

The financial statements were approved by the directors on 11 January 2018 and signed on their behalf by:



R. Knight
Director

Date: 11/1/18

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 2017 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 Year End 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.

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.

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.

Southern Universities Management Services

INDEPENDENT AUDITOR'S REPORT (continued)

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.

We have nothing to report in this regard.

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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7 and 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.

Southern Universities Management Services

INDEPENDENT AUDITOR'S REPORT *(continued)*

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.

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.

Moore Stephens LLP

Mike McAllister, *Senior Statutory Auditor*

For and on behalf of Moore Stephens LLP, Statutory Auditor

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

58 Queens Road
Reading
Berkshire
RG1 4RP

22-02-2018

Southern Universities Management Services

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 JULY 2017

	Note	Unrestricted Funds £	Restricted Funds £	Total Funds 2017 £	Restated Total Funds 2016 £
Income:					
<i>Income from Charitable activities</i>					
Subscription income		1,330,100	-	1,330,100	1,343,450
Consulting income		259,904	-	259,904	334,346
Event income		21,503	-	21,503	260,551
Grant income		-	23,320	23,320	-
Marketing premium retained		284,000	-	284,000	283,856
Investment income		8,081	-	8,081	13,442
Total income	3	1,903,588	23,320	1,926,908	2,235,645
Expenditure on:					
<i>Expenditure on charitable activities:</i>					
Travel and meeting costs		88,868	400	89,268	84,572
Professional staff and consultants		1,384,377	15,944	1,400,321	1,351,460
Pension provision release		(34,544)	-	(34,544)	(7,320)
Administration costs		336,299	5,500	341,799	460,101
Premises		54,898	-	54,898	71,534
Governance		108,711	-	108,711	107,614
Total expenditure	4	1,938,609	21,844	1,960,453	2,067,961
Net (expenditure)/income and net movement in funds for the year		(35,021)	1,476	(33,545)	167,684
Reconciliation of funds					
Total funds brought forward		1,463,299	-	1,463,299	1,295,615
Total funds carried forward	15	1,428,278	1,476	1,429,754	1,463,299

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

In 2016 there was no restricted fund income or expenditure.

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

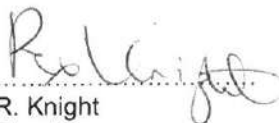
Southern Universities Management Services

BALANCE SHEET AS AT 31 JULY 2017

	Note	2017 £	£	Restated 2016 £	£
Fixed assets					
Tangible assets	7		2,414		3,622
Current assets					
Debtors	8	934,403		2,291,192	
Investments: short-term investments	9	600,000		-	
Cash at bank and in hand		579,473		19,115	
		<u>2,113,876</u>		<u>2,310,307</u>	
Creditors					
Amounts falling due within one year	10	<u>(520,565)</u>		<u>(650,115)</u>	
Net current assets			1,593,311		1,660,192
Creditors					
Amounts falling due after one year	11		(165,971)		(200,515)
Total net assets	16		<u>1,429,754</u>		<u>1,463,299</u>
The funds of the charity:					
<i>Unrestricted funds</i>					
General funds			1,123,418		1,158,439
Designated funds			304,860		304,860
<i>Restricted funds</i>			1,476		-
Total charity funds	16		<u>1,429,754</u>		<u>1,463,299</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 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 11 January 2018, and are signed on their behalf by:


R. Knight
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 2017

	Note	2017 £	Restated 2016 £
Operating Activities			
Cash used in operations	19	(160,765)	(9,704)
Investing Activities			
Interest received		8,081	11,290
Purchase of property, plant and equipment		-	(4,833)
Net cash used in Investing Activities		<u>8,081</u>	<u>6,457</u>
Financing Activities			
Movements in investments		(600,000)	600,000
Movements in monies held by University of Reading		<u>1,313,042</u>	<u>(577,638)</u>
Net cash used in Financing Activities		<u>713,042</u>	<u>22,362</u>
Change in cash and cash equivalents in the year		<u>560,358</u>	<u>19,115</u>
Cash and cash equivalents at beginning of the year		<u>19,115</u>	<u>-</u>
Cash and cash equivalents at end of the year		<u><u>579,473</u></u>	<u><u>19,115</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 2017

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. 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) First time adoption of FRS 102

These financial statements are the first financial statements of Southern Universities Management Services prepared in accordance with Financial Reporting Standard 102 ("SORP (FRS 102)"). The charitable company financial statements for the year ending 31 July 2016 were prepared in accordance with applicable law and previous UK GAAP.

Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the directors have amended certain accounting policies to comply with FRS 102. Comparative figures have been restated to reflect the adjustments made. Adjustments are recognised directly in funds within the cumulative profit and loss account at the transition date, as detailed in note 20.

b) Basis of accounting

The accounts have been prepared under the Companies Act 2006 and in accordance with the Charities Statement of Recommended Practice and 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.

c) 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.

d) 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.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

1. General information & Principle Accounting Policies (continued)

e) Income

Income attributable to the financial year is recognised as follows:

- subscription income is accounted for in the year to which the subscription fee applies
- consultancy income is accounted for on an accruals basis, in the period in which the work was 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 60:40 (SUMS:SUPC).

f) 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'.

g) 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.

h) 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.

i) 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.

j) VAT

Irrecoverable VAT is charged against administration costs.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*continued*)

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

k) Investments

The charitable company has elected to hold funds in a deposit account with banking institutions. The funds are on a deposit for 6 months and interest has been recognised on an accruals basis.

l) Retirement benefits

The charitable company participates in both the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UREPF). Both funds are defined benefit schemes which are contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate 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.

m) Operating leases

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

n) 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.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*continued*)

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

n) Financial Instruments (*continued*)

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.

o) 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.

p) 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 2017 (continued)

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

	2017 £	2016 £
Depreciation of tangible assets	1,208	1,775
Operating lease costs	65,066	70,807
Trustee liability insurance*	500	500
Auditor's remuneration for:		
- External Audit	4,100	3,950
- 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

2017	SUMS £	SUPC £	PSS £	Total 2017 £
<i>Incoming resources from charitable activities</i>				
Subscription income	780,400	549,700	-	1,330,100
Consulting income	148,193	507	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	933,702	856,307	136,899	1,926,908

2016	SUMS £	SUPC £	PSS £	Total 2016 £
<i>Incoming resources from charitable activities</i>				
Subscription income	821,500	521,950	-	1,343,450
Consulting income	186,320	-	148,026	334,346
Event income	-	260,551	-	260,551
Other income	-	283,856	-	283,856
Grants & donations	-	-	-	-
<i>Investment income</i>	9,107	4,335	-	13,442
TOTAL INCOME	1,016,927	1,070,692	148,026	2,235,645

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

4. Expenditure

Analysis of unrestricted expenditure

	Staff costs £	Other £	Depreciation £	Total 2017 £	Restated Total 2016 £
<i>Expenditure on charitable activities</i>					
Travel and meeting costs	-	88,868	-	88,868	84,572
Professional staff & consultants	1,164,717	219,660	-	1,384,377	1,351,460
Pension provision	-	(34,544)	-	(34,544)	(7,320)
Administration costs	176,613	158,478	1,208	336,299	460,101
Premises	-	54,898	-	54,898	71,534
Governance	100,680	8,031	-	108,711	107,614
	<u>1,442,010</u>	<u>495,391</u>	<u>1,208</u>	<u>1,938,609</u>	<u>2,067,961</u>

Analysis of total expenditure by activity

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	<u>990,693</u>	<u>842,588</u>	<u>127,172</u>	<u>1,960,453</u>

Activity based 2016	SUMS £	SUPC £	PSS £	Restated Total 2016 £
<i>Expenditure on charitable activities</i>				
Travel & meeting costs	58,170	24,341	2,061	84,572
Professional staff & consultants	741,535	473,765	135,595	1,350,895
Pension provision	(4,392)	(2,928)	-	(7,320)
Administration costs	129,878	306,632	24,156	460,666
Premises	27,075	44,459	-	71,534
Governance	54,983	52,631	-	107,614
TOTAL EXPENDITURE	<u>1,007,249</u>	<u>898,900</u>	<u>161,812</u>	<u>2,067,961</u>

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

5. Analysis of restricted fund income and expenditure

There was one grant received from the Higher Education Funding Council for England of £26,640 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.

	2017 £	2016 £
Incoming resources		
Grant income	23,320	-
Repayment of surplus grant	-	-
Total incoming resources	<u>23,320</u>	<u>-</u>
Outgoing resources		
Travel & meeting costs	400	-
Professional staff & consultants	15,944	-
Administration costs	5,500	-
Governance costs	-	-
Total outgoing resources	<u>21,844</u>	<u>-</u>
Net movement in funds in the year	<u>1,476</u>	<u>-</u>

6. Staff costs and numbers

	2017 £	2016 £
Staff costs were as follows:		
Salaries and wages	1,118,507	1,177,993
Employer's national insurance costs	127,351	115,523
Employer's pension costs	131,877	137,324
Ex-gratia payment	64,275	-
	<u>1,442,010</u>	<u>1,430,840</u>

The average number of staff employed during the year was 22 (2016: 24) and various associates were engaged to provide services. The average number of full-time equivalents of persons employed during the year was 20 (2016: 21).

A payment of £64,275 was made during the year as a settlement payment. Such payments are recognised in the period they arise.

The total of employee benefits (salary and employers pension contribution) paid to the senior management team, as disclosed on page 3, in the year totalled £267,364 (2016: £207,392).

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

	2017	2016
£60,001 to £70,000	1	2
£70,001 to £80,000	2	1
£80,001 to £90,000	2	3
£90,001 to £100,000	1	1
£140,000 to £150,000	1	-

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

7. Fixed assets

	IT Equipment	Fixtures & Fittings	Total
	£	£	£
Cost:			
At 1 August 2016	2,422	34,721	37,143
Disposals	(608)	(29,888)	(30,496)
At 31 July 2017	<u>1,814</u>	<u>4,833</u>	<u>6,647</u>
Accumulated Depreciation:			
At 1 August 2016	2,422	31,099	33,521
Charge for the year	-	1,208	1,208
Disposals	(608)	(29,888)	(30,496)
At 31 July 2017	<u>1,814</u>	<u>2,419</u>	<u>4,233</u>
Net book value at 31 July 2017	<u>-</u>	<u>2,414</u>	<u>2,414</u>
Net book value at 31 July 2016	<u>-</u>	<u>3,622</u>	<u>3,622</u>

8. Debtors

	2017	2016
	£	£
Trade debtors	364,803	350,354
Other debtors	17,561	75,757
Money held on trust by the University of Reading	552,039	1,865,081
	<u>934,403</u>	<u>2,291,192</u>

9. Short term investment

An investment fund with Lloyds bank within which £600,000 is deposited was opened on 13 June 2017. Interest generated and portfolio management costs incurred were recorded against income and expenditure.

	2017	2016
	£	£
Cash deposit	<u>600,000</u>	<u>-</u>

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

10. Creditors: amounts falling due within one year

	2017	Restated 2016
	£	£
Trade creditors	43,871	31,935
Accruals	49,645	69,947
Deferred income	54,555	69,800
Other creditors (VAT due to HMRC)	68,206	50,814
Funds received as agent	304,288	427,619
	<u>520,565</u>	<u>650,115</u>

11. Creditors: amounts falling due after one year

	2017	2016
	£	£
Provision b/fwd	200,515	207,835
Employer contributions relating to the recovery plan	(13,733)	(9,311)
Unwinding of the discount rate	6,600	6,859
Impact of the change in assumptions	<u>(27,411)</u>	<u>(4,868)</u>
Net movement	(34,544)	(7,320)
Provision c/fwd	<u>165,971</u>	<u>200,515</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 and ITF income.

	£
Balance as at 1 August 2016	69,800
Amount released to income earned from charitable activities	(67,200)
Amount deferred in year	<u>51,955</u>
Balance as at 31 July 2017	<u>54,555</u>

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (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.

	2017 £	2016 £
Opening balance 1 August	427,619	457,791
Received during the year	622,069	860,092
Rebate income retained	(284,000)	(283,856)
Paid out during the year	(461,400)	(606,408)
Total fund held as agent at 31 July	<u>304,288</u>	<u>427,619</u>

14. Operating leases

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

	2017 £	2016 £
Under 1 year	14,264	49,307
Later than 1 year and not later than 5 years	23,829	1,297
Later than 5 years	-	-

Lease payments of £65,066 (2016: £70,807) were recognised as an expense in the accounts.

15. Movement in funds

Unrestricted funds	2017 General £	2017 Designated £	2017 Total £
Balance at 1 August 2016	1,158,439	304,860	1,463,299
Incoming resources	1,903,588	-	1,903,588
Outgoing resources	(1,938,609)	-	(1,938,609)
Balance 31 July 2017	<u>1,123,418</u>	<u>304,860</u>	<u>1,428,278</u>

The designated funds held as at 31 July 2017 include pension provisions for the UREPF of £214,000, alongside £90,860 in relation to the surplus generated from the COUP event.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

15. Movement in funds (continued)

Unrestricted funds	2016		Restated 2016
	General	Designated	Total
	£	£	£
Balance at 1 August 2015	1,081,615	214,000	1,295,615
Incoming resources	2,235,645	-	2,235,645
Outgoing resources	(2,067,961)	-	(2,067,961)
Transfer to designated funds	(90,860)	90,860	-
Balance 31 July 2016	1,158,439	304,860	1,463,299

Restricted funds	2017	2016
	£	£
Balance at 1 August	-	-
Incoming resources	23,320	-
Outgoing resources	(21,844)	-
Balance 31 July	1,476	-

16. Analysis of net assets between funds

2017

	Fixed assets	Net current assets	Creditors: Amounts due after one year	Total
	£	£	£	£
Unrestricted	2,414	1,591,835	(165,971)	1,428,278
Restricted	-	1,476	-	1,476
Total Net Assets	2,414	1,593,311	(165,971)	1,429,754

2016

	Fixed assets	Net current assets	Creditors: Amounts due after one year	Restated Total
	£	£	£	£
Unrestricted	3,622	1,660,192	(200,515)	1,463,299
Restricted	-	-	-	-
Total Net Assets	3,622	1,660,192	(200,515)	1,463,299

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*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 (2016: two) directors received reimbursement of travel expenses during the year of £665 (2016: £126).

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:

	2017 £	2016 £
Room hire and catering	4,338	9,047
IT and telecommunications	3,286	4,531
Printing and postage services	1,523	924
Rent and maintenance	46,428	72,453
Professional fees	8,335	9,894
	<u>63,910</u>	<u>96,849</u>

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

At the 31 July 2017 The University of Reading held investment funds of £552,039 (2016: £1,865,081) on trust for the charitable company.

One director of the charitable company is also a director of Procurement England Ltd (PEL), through which SUPC and three other English purchasing consortia provide a collaborative procurement and contract management service for higher and further education institutions in England. In 2016/17 the charitable company has made a contribution to the development of an HE contracts system of £6,436 (2015/16: £5,950), which is in use by all PEL members.

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.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*continued*)

18. Pensions (*continued*)

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 fourth 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. The Annual Actuarial Update as at 31 March 2016 (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.

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.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*continued*)

18. Pensions (*continued*)

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 £7.5bn, 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 options 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. A study in Dec 2016 found that only 49% of all eligible staff have taken advantage of the Match.

Accrual Rate

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

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.

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 *(continued)*

18. Pensions *(continued)*

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 2017, USS had 190,546 active members and the institution had 11 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.

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. The University of Reading has the power to appoint and remove trustees. As at 31 July 2017, UREPF has 316 active members and the charitable company has 1 active member participating in the scheme.

Because of the multi-employer nature of the scheme, the charitable company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. The charitable company prepares its financial statements in accordance with the

Southern Universities Management Services

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (*continued*)

18. Pensions (*continued*)

Financial Reporting Standard for Smaller Entities (effective April 2008) which differs in its treatment of industry wide schemes from FRS102. To ensure consistency across the reporting of pension contributions the charitable company has adopted the treatment prescribed by FRS17. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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 2016, the Assets of the Fund was £167.8m (2015: £152.0m) and the Liabilities were £188.2m (2015: 164.1m). This indicated a shortfall of £20.4m (2015: £12.1m). The Fund's Funding Level was therefore 89% (2015: 93%).

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.

The next formal triennial actuarial valuation is due as at 31 July 2017.

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.

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

18. Pensions (continued)

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 2017, URPS has 1,031 active members and the charitable company has 9 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	2017		2016	
	Employer contribution	Active members	Employer contribution	Active members
USS	114,093	11	119,378	14
UREPF	6,764	1	7,188	1
URPS	11,564	8	11,982	9
	132,421	20	138,548	24

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 JULY 2017 (continued)

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

	2017 £	Restated 2016 £
Net (expenditure)/income	(33,545)	167,684
Adjustments for:		
Depreciation of tangible fixed assets	1,208	1,775
Investment Income	(8,081)	(11,290)
Movement on debtors	(282,486)	68,367
Movement on creditors	162,139	(236,240)
Cash used in operations	<u>(160,765)</u>	<u>(9,704)</u>

20. First time adoption of FRS 102

	31 Jul 16 £	01 Aug 15 £
Reconciliation of Total Funds		
Funds as reported under previous UK GAAP	1,688,057	1,527,149
Recognition of holiday pay accrual	(24,243)	(23,699)
Pension fund provision	(200,515)	(207,835)
Funds recognised under FRS 102	<u>1,463,299</u>	<u>1,295,615</u>

Reconciliation of Statement of Financial Activities

Net income under previous UK GAAP	160,908
Movement in holiday pay accrual	(544)
Movement on pension fund provision	7,320
Net income under FRS 102	<u>167,684</u>

Notes:

1. During the year ended 31 July 2016 amounts due in respect of holiday pay accrued but not taken were not recognised under previous UK GAAP, in accordance with FRS 102 the cost of any unused entitlement is recognised in period in which the employees services are received.

2. At the date of transition, 1 August 2015, in applying the requirement to recognise liabilities arising from multi-employer pension schemes, a liability representing the present value of future contributions relating to the funding of a pension deficit has been recognised.