

SOUTHERN UNIVERSITIES MANAGEMENT SERVICES
(A company limited by guarantee)

Registered in England and Wales No 2732244

Registered Charity No 1042175

**Directors' Report and
Financial Statements**

1 August 2010 – 31 July 2011

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**Report of the Directors and Trustees
Year Ended 31 July 2011**

The Directors are pleased to present their Report and the audited Financial Statements for the year ended 31 July 2011. This report is also the trustees' report which is required to be prepared by Part VI of the Charities Act 1993, as amended by the Charities Act 2006.

Reference and Administrative Information

<u>Company Name:</u>	Southern Universities Management Services
<u>Registered Company Number:</u>	2732244 (Registered in England and Wales)
<u>Registered Charity Number:</u>	1042175
<u>Registered Office and Operational Address:</u>	University of Reading Science & Technology Centre Earley Gate Whiteknights Road Reading RG6 6BZ

Directors of the Charitable Company:

D Aderyn	University of Bath
I Creagh	Kings College, London
D Hall	University of Leicester
B Morris (Chair)	Institute of Education
N Paul (retired February 2011)	University of Edinburgh
J Turner (appointed July 2011)	University of Portsmouth
P Waters	University of Hertfordshire

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

Senior Management Team:

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

Company Secretary:

K Petersen	Company Secretary and Practice Manager
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Report of the Directors and Trustees Year Ended 31 July 2011 (continued)

Auditors: Target Consulting Limited
6th Floor
Reading Bridge House
Reading Bridge
Reading
RG1 8LS

Legal Advisors: Clarkslegal
One Forbury Square
The Forbury
Reading
RG1 3EB

Structure, Governance and ManagementGoverning 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 6 December 2005. 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 2011 there were 31 members and the total number of such guarantees was 31 (2010: 31).

Appointment of Directors

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

Director Induction and Training

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

Organisational Structure

The Management Committee consists of six directors comprising five representatives appointed by members of the charitable company and one appointed to represent the Purchasing unit which administers Southern Universities Purchasing Consortium

Report of the Directors and Trustees Year Ended 31 July 2011 (continued)

(SUPC). The Management Committee reasonably consider that no one amongst their number has sufficient expertise in human resources and have appointed Ms N Patel from Birkbeck College to attend the Management Committee. Ms Patel is entitled to speak but not vote at meetings. The Management Committee meet four times a year.

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

The charitable company is organised into two units, the consulting unit (SUMS Consulting) and the purchasing unit ("Southern Universities Purchasing Consortium" or "SUPC"). SUMS Consulting has three full-time employees, seven part-time employees and a pool of twenty three 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 seven full-time employees, one part-time employee and one associate consultant. SUPC provides administration, management and consultancy services to institutions of higher education that are its subscribers. Its principal activity is the co-ordination of purchasing activity between its beneficiaries in order to share expertise and to achieve efficiency in purchasing.

Related Parties

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

Risk Management

Major risks to which the charitable company is exposed are reviewed annually and documented in a Risk Register. Risks are categorised according to their severity based on their likelihood and impact. The Register is reviewed by the Management Committee annually. Actions and procedures have been established to manage and monitor the risks identified and to mitigate or reduce any impact they may have in the future. Most of the risks identified are low or negligible with eight that require monitoring on an ongoing basis.

Objectives and Activities, Achievements and Performance

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

Report of the Directors and Trustees Year Ended 31 July 2011 (continued)

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

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

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

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

SUPC has focused on developing collaborative procurement and framework agreements, including an e-procurement initiative, to continue to enhance beneficiaries' purchasing practices.

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

Financial Review

For the financial year 2010/11, incoming resources exceeded resources expended by £339,543 (2010: £163,019). This was the result of strong financial management with costs being contained within budget.

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. Reserves are intended to:

- 1) Provide protection for most fluctuations in income and expenditure
- 2) Fund future investment needs and non-recurrent premises costs

Overall, a range of six to twelve months of expenditure has been adopted as a Reserves target. Reserves at the end of the financial year were 3.6% above this range at £1,491,476 (2010: £1,151,933). It has been established (September 2011)

Report of the Directors and Trustees Year Ended 31 July 2011 (continued)

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

Principal Funding Sources

The majority of the charitable company's funding is from its membership subscriptions and subscribers. At balance date there are 31 members of the charitable company and 55 subscribers, comprising 42 full subscribers and 13 associates, that fund the operation of SUPC.

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

The charitable company has reached agreement with the Higher Education Funding Council for England (HEFCE) regarding several grants to fund activities in relation to procurement services.

Funding of £250,000 is being provided to fund a pilot study in relation to shared procurement services. Funding of £165,310 has been received to date (£49,330 in 2010; £115,980 in 2011) to cover due diligence, consultation, development of a detailed plan of operation and the proof of concept stage. Further funding of £9,690 is due at the end of the proof of concept stage, followed by a final payment of £75,000 upon completion.

A grant of £147,400 has been provided during the year to fund the cost of tendering for a generic e-marketplace. In addition, HEFCE has agreed to provide grant funding to a maximum of £79,200 to cover the cost of employing an e-marketplace supplier adoption officer for two years, £36,000 of which has been received in 2011. HEFCE has confirmed that further funding will be made available next year to cover the costs of implementing and operating the system in the first two years.

Investment Policy

Surplus funds are managed by The University of Reading which provides the charitable company's banking services and pays interest on funds held. The charitable company does not operate a bank account. Interest is earned at the rate achieved through the University's investment pool and is credited to the charitable company on a monthly basis. The rate of interest earned for the financial year has ranged from 0.15% to 0.85% (2010: 0.07% to 5.19%).

Plans for Future Periods

The charitable company plans to continue similar activities into future periods, tailoring the content of these activities to encompass specific member needs and focusing on

Report of the Directors and Trustees Year Ended 31 July 2011 (continued)

the issues, challenges and opportunities emerging for the Higher Education sector as a whole.

The coming year will see the completion of the shared procurement services study and further development of the e-marketplace offering, with funding for both initiatives continuing to be provided by HEFCE as described above.

Responsibilities of the Directors

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

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

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

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

Auditors

The auditors, Target Consulting Limited have indicated their willingness to stay in office.

The financial statements were approved by the Directors on 14 October 2011 and signed on their behalf by:

.....
B. Morris
Director and Trustee

**Independent Auditor's Report
to the Members of****SOUTHERN UNIVERSITIES MANAGEMENT SERVICES****Year ended 31 July 2011**

We have audited the financial statements of Southern Universities Management Services for the year ended 31 July 2011 which comprise the Statement of Financial Activity, the Balance Sheet and the related notes numbered 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's members, as a body, in accordance with Section 43 of the Charities Act 1993 and with regulations made under Section 44 of that Act. Our audit work has been undertaken so that we might state to the charity'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 charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Trustees and Auditors

The trustees' (who are also the directors of Southern Universities Management Services for the purpose of company law) responsibilities for preparing the Directors' Report and Financial Statements which comprise the Statement of Financial Activity, the Balance Sheet and the related notes numbered 1 to 11 in accordance with applicable law, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities.

The trustees have elected for the financial statements to be audited in accordance with the Charities Act 1993 rather than the Companies Act 2006. Accordingly we have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 2006. We also report to you if, in our opinion, the Directors' Report is not consistent with those financial statements, the charity has not kept adequate financial records, if the charity's financial statements are not in agreement with the accounting records and returns or if we have not received all of the information and explanations we require for our audit.

We read other information contained in the Directors' Report and Financial Statements, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditor’s Report (continued)

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland), issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the charity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company’s affairs as at 31 July 2011 and of its incoming resources and application of resources, including its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

.....

Target Consulting Limited
Chartered Accountants and Statutory Auditors

Reading Bridge House
Reading Bridge
Reading
RG1 8LS

Date:

**Statement of Financial Activities (Including Income and Expenditure Account)
for the year ended 31 July 2011**

	Notes	Unrestricted Funds	Restricted Fund	Total 2011	Total 2010
		£	£	£	£
Incoming resources					
Incoming resources from charitable activities:					
Subscription income		1,326,675	37,500	1,364,175	1,296,050
Consulting income		80,500	-	80,500	42,300
Other income		9,715	-	9,715	53,077
Grants and donations		13,740	299,380	313,120	49,330
Investment income		11,527	-	11,527	17,808
Total incoming resources		<u>1,442,157</u>	<u>336,880</u>	<u>1,779,037</u>	<u>1,458,565</u>
Resources expended					
Charitable activities:					
Travel & meeting costs		38,331	16,340	54,671	53,066
Professional staff and consultants		846,099	211,972	1,058,071	870,310
Administration costs		167,179	38,532	205,710	253,272
Premises costs		25,943	1,500	27,443	37,828
Governance costs		54,967	38,631	93,599	82,450
Total resources expended		<u>1,132,519</u>	<u>306,975</u>	<u>1,439,494</u>	<u>1,295,546</u>
Net incoming resources	2	309,638	29,905	339,543	163,019
Total funds brought forward at 1 August 2010		1,142,708	9,225	1,151,933	988,914
Total funds carried forward at 31 July 2011		<u>1,452,346</u>	<u>39,130</u>	<u>1,491,476</u>	<u>1,151,933</u>

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

The notes on pages 11 to 20 form part of these financial statements.

Balance Sheet as at 31 July 2011

	Notes	2011		2010	
		£	£	£	£
Fixed assets	5		1,390		2,303
Current assets:					
Debtors	6	1,021,436		1,216,493	
Investment: short-term deposits	10	600,000			
Creditors:					
Amounts falling due within one year	7	<u>(131,350)</u>		<u>(66,863)</u>	
Net current assets			1,490,086		1,149,630
Net assets			<u>1,491,476</u>		<u>1,151,933</u>
Unrestricted general funds			1,452,346		1,142,708
Restricted funds			39,130		9,225
Total funds	8		<u>1,491,476</u>		<u>1,151,933</u>

The company is entitled to exemption from audit under section 477 of the Companies Act 2006 for the year ended 31 July 2011. The members have not required the company to obtain an audit of its financial statements for the year ended 31 July 2011 in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts. The directors have elected for the financial statements to be audited in accordance with the Charities Act 1993 rather than the Companies Act 2006.

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

The financial statements were approved by the directors on 14 October 2011 and signed on their behalf by:

Director

Director

The notes on pages 11 to 20 form part of these financial statements.

Notes to the Financial Statements for the year ended 31 July 2011**1. Accounting Policies**

- a) The financial statements have been prepared under the historical cost conventions. The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), the Statement of Recommended Practice - Accounting and Reporting by Charities (SORP 2005) and the Companies Act 2006 except where indicated in note 11 below.
- b) If there is a restriction on the purpose to which a fund may be put, the fund is classified as a restricted income fund. The charitable company currently has one restricted income fund, from the grants received from HEFCE. This must be spent according to the requirements of the grants. The trustees are responsible for determining the purposes to which all other funds may be put.
- c) Incoming resources from charitable activities consists of members' subscriptions and fees charged to other institutions of higher education. This income is included on an accruals basis. Grant income and investment income is included when received.
- d) Resources expended are recognised on an accruals basis in the period in which the liability is incurred. All costs are allocated between the expenditure categories of the SoFA on a basis designed to reflect the use of the resource. Costs are allocated to the appropriate activity within consulting or procurement by way of individual cost centres. Costs relating to a particular activity are allocated directly; others are apportioned on an appropriate basis.
- e) Governance costs include costs associated with providing the governance infrastructure and generating required statutory information. The costs include audit, legal and accounting fees and an apportionment of salary costs to approximate time spent on strategic management and governance of the charitable company.
- f) Capital items with a cost exceeding £500 are capitalised and depreciated. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, which in all cases is estimated at 4 years.
- g) Irrecoverable VAT is charged against the category of resources expended for which it was incurred.
- h) The charitable company participates in the both the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UREPF). Both funds are defined benefit schemes which are contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. The charitable company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement benefits", accounts for the schemes as if

they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period.

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

2. Net Movement in Funds

	2011 £	2010 £
Net incoming resources are stated after charging:		
Depreciation	913	1,450
Trustee indemnity insurance*	500	500
Auditor's remuneration for audit and other services	2,300	2,200

* 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. Staff Costs and Numbers

	2011 £	2010 £
Staff costs were as follows:		
Salaries and wages	790,777	793,121
Social Security costs	74,111	72,048
Pension costs	103,580	109,998
	<u>968,468</u>	<u>975,167</u>

The average number of full time equivalent persons employed during the year was 15 (2010: 14) and various associates were engaged to provide services.

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

	2011	2010
£70,001 to £80,000	1	2
£80,001 to £90,000	1	1

4. Taxation

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

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

5. Fixed Assets

	2011 £ Fixtures & Fittings	2010 £ Fixtures & Fittings
Cost:		
At 1 August 2010	46,437	43,948
Additions	-	2,489
At 31 July 2011	<u>46,437</u>	<u>46,437</u>
Accumulated Depreciation:		
At 1 August 2010	44,134	42,684
Charge for the period	913	1,450
At 31 July 2011	<u>45,047</u>	<u>44,134</u>
Net book value at 31 July 2011	<u>1,390</u>	<u>2,303</u>

6. Debtors

	2011 £	2010 £
Trade debtors	96,842	37,387
Other debtors	30,186	10,813
Money held on trust by the University of Reading	894,408	1,168,293
	<u>1,021,436</u>	<u>1,216,493</u>

7. Creditors: Amounts Falling due Within One Year

	2011 £	2010 £
Trade Creditors	39,363	21,796
Accruals and deferred income	91,987	45,067
	<u>131,350</u>	<u>66,863</u>

8. Movement in Funds

	2011 £	2010 £
Unrestricted General Fund		
Balance at 1 August 2010	1,142,708	988,914
Incoming resources	1,442,157	1,449,340
Outgoing resources	(1,132,519)	(1,295,546)
Balance 31 July 2011	<u>1,452,346</u>	<u>1,142,708</u>

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

Restricted Funds	2011 £ Shared Services	2011 £ E- market place	2011 £ Supplier Adoption	2011 £ Total	2010 £ Total
Balance at 1 August 2010	9,225	-	-	9,225	-
Incoming resources	153,480	147,400	36,000	336,880	49,330
Outgoing resources	105,707	176,578	24,690	306,975	40,105
Balance 31 July 2011	<u>56,998</u>	<u>(29,178)</u>	<u>11,310</u>	<u>39,130</u>	<u>9,225</u>

The restricted funds relate to grant monies received from HEFCE to fund studies in relation to shared procurement services and e-marketing.

Analysis of net assets between funds

	2011 £ Fixed Assets	2011 £ Net CA	2011 £ Total	2010 £ Total
Unrestricted	1,390	1,450,956	1,452,346	1,142,708
Restricted	-	39,130	39,130	9,225
Total Net Assets	<u>1,390</u>	<u>1,490,086</u>	<u>1,491,476</u>	<u>1,151,933</u>

9. Operating Lease Commitments

The following operating lease payments are committed to be paid:

	2011 £	2010 £
Expiring:		
Within one year	-	25,499
Within two to five years	52,373	188
	<u>52,373</u>	<u>25,687</u>

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

10. Short term investment

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

	2011	2010
	£	£
Cash deposit	600,000	0
Total cash deposit	<u>600,000</u>	<u>0</u>

11 Related Party Transactions

No director of the charitable company nor any persons connected with them have received any remuneration during the year. No directors received reimbursement of travel expenses during the year (2010: nil).

During the year the charitable company has received subscriptions and fees of £37,700 (2010: £38,165) from The University of Reading who is a member of the charitable company and a subscriber to SUPC. At 31 July 2011 The University of Reading was holding investment funds of £894,408 (2010: £1,168,293) on trust for the charitable company.

During the year the charitable company received the following value of goods and services from The University of Reading.

	2011	2010
	£	£
Room hire and catering	5,985	3,416
Telecommunications	3,065	2,980
Printing and postage services	3,415	3,356
Rent and maintenance	27,272	41,094
Computer services	244	684
Training / Other	593	1,048
Service charges/ professional fees	8,404	6,750
	<u>48,978</u>	<u>59,328</u>

Notes to the Financial Statements for the year ended 31 July 2011 (continued)**12 Pensions****Universities Superannuation Scheme**

The charitable company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 142,000 active members and the charitable company has 11 active members participating in the scheme.

Because of the mutual nature of the scheme, the charitable company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. The charitable company prepares its financial statements in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008) which differs in its treatment of industry wide schemes from FRS17. On the advice of the Trustee Company and the Accounting Standards Board, 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 latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The charitable company contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the charitable company contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the "Official Pensions Index" from the Retail Prices Index to the Consumer Prices Index. The actuary has taken this all into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.3% pa to 2.9% pa. The actuary has estimated that the funding level as at 31 March under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Over the past 12 months, the funding level has improved from 91% (as at 31 March 2010) to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

inflation assumption which in turn impacts on the salary and pension increase assumptions).

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS17 basis, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

Surpluses or deficits which arise at future valuations may impact on the charitable company's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

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 next formal triennial actuarial valuation is due as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

University of Reading Employees' Pension Fund

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

Because of the multi-employer nature of the scheme, the charitable company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. The charitable company prepares its financial statements in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008) which differs in its treatment of industry wide schemes from FRS17. To ensure consistency across the reporting of pension contributions the charitable company has adopted the treatment prescribed by FRS17. As a result, the amount charged

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

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

The latest actuarial valuation of the scheme was at 31 July 2008. This was the first valuation for UREPF under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

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

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

At the valuation date, the value of the assets of the scheme was £80.4 million and the value of the scheme's technical provisions was £97.3 million indicating a shortfall of £16.9 million. The assets therefore were sufficient to cover 83% of the technical provisions.

The actuary also estimated the wind-up funding level of the fund at the valuation date as 74%. The estimated shortfall of meeting benefits in full on the valuation date was £28.6 million.

In light of the valuation The University of Reading and the trustees have agreed on a recovery plan. The University and the charitable company agreed to contribute 24.1% of members' pensionable salaries from 31 July 2009, an increase from 20.6%. In addition the University agreed to make shortfall contributions of £1m for the year ending 31 July 2009, £1.5m for the year ending 31 July 2010 and subsequently increasing each year to £3.02m for the year ending 31 July 2021. If the assumptions made for assessing the recovery plan are borne out in practice these contributions would eliminate the 31 July 2008 shortfall of £16.9m against technical provisions by August 2017.

The next formal triennial actuarial valuation is due as at 31 July 2011.

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

Notes to the Financial Statements for the year ended 31 July 2011 (continued)

The total pension cost for both funds for the charitable company was £103,580 (2010: £109,998). The contribution rate payable by the charitable company was 16% of pensionable salaries for USS and 24.1% for UREPF.