

**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 2011 – 31 July 2012**

**C O N T E N T S**

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**Report of the Directors and Trustees  
Year Ended 31 July 2012**

The Directors are pleased to present their Report and the audited Financial Statements for the year ended 31 July 2012. This report is also the trustees' report which is required to be prepared by Part 8 of the Charities Act 2011

**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 (retired August 2012)	University of Bath
I Creagh	Kings College, London
D Hall	University of Leicester
P Large (appointed October 2011)	Oxford Brookes University
B Morris (Chair)	University of Essex
J Turner (retired October 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 2012 (continued)**

Auditors: Chantrey Vellacott DFK  
*A trading style of CV Thames Valley Limited*  
Prospect House  
58 Queens Road  
Reading  
Berkshire  
RG1 4RP

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

**Structure, Governance and Management**Governing Document

The organisation is a charitable company limited by guarantee, incorporated on 17 July 1992 and registered as a charity on 18 November 1994. The charitable company was established under a Memorandum of Association which established the objects and powers of the charitable company and is governed under its Articles of Association. The current Memorandum and Articles of Association were adopted on 14 October 2011. Members of the charitable company guarantee to contribute an amount not exceeding £1 to the assets of the charitable company in the event of winding up. As at 31 July 2012 there were 29 members and the total number of such guarantees was 29 (2011: 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 & 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

**Report of the Directors and Trustees Year Ended 31 July 2012 (continued)**

Purchasing unit which administers Southern Universities Purchasing Consortium (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 meetings. Ms Patel is entitled to speak but not vote at meetings. The Management Committee meet four times a year.

The Managing Consultant & 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 four full-time employees, eight part-time employees and a pool of twenty eight 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 six full-time employees and three part-time employees. 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 regularly 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 nine 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 guidance on the advancement of education for the public benefit.

**Report of the Directors and Trustees Year Ended 31 July 2012 (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](http://www.sums.org.uk) and [www.supc.ac.uk](http://www.supc.ac.uk)), or upon request to the charitable company at its registered office. Copies of the operating units' detailed annual reports are distributed widely within the HE sector and beyond.

**Financial Review**

For the financial year 2011/12, incoming resources exceeded resources expended by £129,715 (2011: £339,543). 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. Unrestricted reserves at the end of the financial year were 2% above

**Report of the Directors and Trustees Year Ended 31 July 2012 (continued)**

this range at £1,562,636 (2011: £1,452,346). It has been established that due to recent changes to pension fund arrangements a cessation event on the University of Reading Employees Pension Fund is now inevitable. This will occur at some indeterminable point in the future and the potential liability arising from this is estimated by the scheme's actuaries to be in the region of £210,000. 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 29 members of the charitable company and 58 subscribers, comprising 42 full and 16 associate subscribers 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 has been provided during the last two years to fund a pilot study in relation to shared procurement services. This took the form of due diligence, consultation, development of a detailed plan of operation and a proof of concept stage. HEFCE were pleased to note upon completion of the first phase of the project, that the project delivered more in efficiencies than the total investment and released the final tranche of the grant funding in March 2012.

Last year a grant was provided during the year to fund the cost of tendering for a generic e-marketplace (GeM). In August 2011, HEFCE awarded further grant funding to cover the costs of implementing the system and developing supplier adoption for GeM. £170,000 was spent this year providing three supplier adoption officers and operating the system. The remainder of the funding will be utilised next year to cover the continuing costs of operating the system.

**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 0.33% to 1.04% (2011: 0.15% to 0.85%).

**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 2012 (continued)**

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

In August 2012, the charitable company was awarded £162,000 from the Leadership Foundation for Higher Education to fund procurement maturity assessments across the sector. Looking forward, investment in strategic planning and risk management capabilities will help ensure that SUMS can meet the challenges posed by the climate of rapid change in the higher education sector.

**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**

With effect from 1 January 2012 the Thames Valley office of the auditors, Target Chartered Accountants, was acquired by CV Thames Valley Limited, trading as Chantrey Vellacott DFK.

A resolution to appoint CV Thames Valley Limited as auditors will be proposed at the Annual General Meeting.

This report has been prepared in accordance with the Statement of Recommended Practice – Accounting and Reporting by Charities, and in accordance with the special provisions of Part VII of the Companies Act 2006 relating to small entities.

**Report of the Directors and Trustees Year Ended 31 July 2012 (continued)**

The financial statements were approved by the Directors on 24 October 2012 and signed on their behalf by:

.....  
**B. Morris**  
**Director and Trustee**

**Independent Auditor's Report to the Members****Year ended 31 July 2012**

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We have audited the financial statements of Southern Universities Management Services for the year ended 31 July 2012 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's trustees, as a body, in accordance with Section 144 of the Charities Act 2011 and regulations made under Section 154 of that Act. Our audit work has been undertaken so that we might state to the charitable company's trustees 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 trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective Responsibilities of Trustees and Auditors**

As explained more fully in the Directors' Responsibilities Statement (set out on page 6), the directors (who are also the trustees of the charitable company for the purposes of charity law) are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view.

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors Report to identify material inconsistencies with the audited financial statements.

**Independent Auditor's Report (continued)**

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 31 July 2012 and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Matters on which we are required to report by exception**

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

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

**Chantrey Vellacott DFK**

*A trading style of CV Thames Valley Limited*

Statutory Auditor

Chartered Accountants

Reading

Dated:

**Statement of Financial Activities (Including Income and Expenditure Account)  
for the year ended 31 July 2012**

	Notes	Unrestricted Funds	Restricted Fund	Total 2012	Total 2011
		£	£	£	£
<b>Incoming resources</b>					
Incoming resources from charitable activities:					
Subscription income		1,261,050	14,400	1,275,450	1,364,175
Consulting income		68,583	14,850	83,433	80,500
Other income		29,953	-	29,953	9,715
Grants and donations		500	254,150	254,650	313,120
Investment income		15,356	-	15,356	11,527
<b>Total incoming resources</b>		<u>1,375,442</u>	<u>283,400</u>	<u>1,658,842</u>	<u>1,779,037</u>
<b>Resources expended</b>					
Charitable activities:					
Travel & meeting costs		57,462	10,641	68,103	54,671
Professional staff and consultants		941,458	115,801	1,057,259	1,058,071
Administration costs		149,672	106,677	256,349	205,710
Premises costs		38,880	14,075	52,955	27,443
Governance costs		77,680	16,781	94,461	93,599
<b>Total resources expended</b>	3	<u>1,265,152</u>	<u>263,975</u>	<u>1,529,127</u>	<u>1,439,494</u>
Net incoming resources	2	110,290	19,425	129,715	339,543
Total funds brought forward at 1 August 2011		1,452,346	39,130	1,491,476	1,151,933
<b>Total funds carried forward at 31 July 2012</b>		<u>1,562,636</u>	<u>58,555</u>	<u>1,621,191</u>	<u>1,491,476</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 12 to 22 form part of these financial statements.

## Balance Sheet as at 31 July 2012

	Notes	2012		2011	
		£	£	£	£
<b>Fixed assets</b>	6		1,219		1,390
<b>Current assets:</b>					
Debtors	7	1,300,711		1,021,436	
Investment: short-term deposits	11	600,000		600,000	
<b>Creditors:</b>					
Amounts falling due within one year	8	<u>(280,739)</u>		<u>(131,350)</u>	
<b>Net current assets</b>			1,619,972		1,490,086
<b>Net assets</b>			<u>1,621,191</u>		<u>1,491,476</u>
Unrestricted general funds			1,562,636		1,452,346
Restricted funds			58,555		39,130
<b>Total funds</b>	9		<u>1,621,191</u>		<u>1,491,476</u>

The company is entitled to exemption from audit under section 477 of the Companies Act 2006 for the year ended 31 July 2012. The members have not required the company to obtain an audit of its financial statements for the year ended 31 July 2012 in accordance with section 476 of the Companies Act 2006.

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

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

The financial statements were approved by the directors on 24 October 2012 and signed on their behalf by:

Director ..... **B. Morris**

Director ..... **P. E. Waters**

The notes on pages 12 to 22 form part of these financial statements.

**Notes to the Financial Statements for the year ended 31 July 2012****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), the Charities Act 2011 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 Universities Superannuation Scheme (USS), the University of Reading Employees' Pension Fund (UREPF) and the University of Reading Pension Scheme (URPS). The USS fund and the UREPF are defined benefit schemes which are contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. The charitable company is unable to identify its share of the underlying assets and liabilities of the schemes on a

consistent and reasonable basis and therefore, as required by FRS17 "Retirement benefits", accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period. The URPS is a defined contribution scheme and payments made by the charitable company into the scheme are charged against the appropriate expenditure categories in the SoFA.

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

## 2. Net Movement in Funds

	2012 £	2011 £
Net incoming resources are stated after charging:		
Depreciation	971	913
Trustee indemnity insurance*	500	500
Auditor's remuneration for audit and other services	3,400	2,300

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

## 3. Analysis of Restricted Funds' Charitable Expenditure

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

	2012 £ Shared Services	2012 £ GeM Supplier Adoption	2012 £ Total Restricted Funds	2011 £ Total Restricted Funds
Charitable activities:				
Travel & meeting costs	5,708	4,933	10,641	16,340
Professional staff and consultants	65,904	49,897	115,801	211,972
Administration costs	12,252	94,425	106,677	38,532
Premises costs	1,575	12,500	14,075	1,500
Governance costs	8,600	8,181	16,781	38,632
<b>Total resources expended</b>	<b>94,039</b>	<b>169,936</b>	<b>263,975</b>	<b>306,975</b>

## Notes to the Financial Statements for the year ended 31 July 2012 (continued)

## 4. Staff Costs and Numbers

	2012 £	2011 £
Staff costs were as follows:		
Salaries and wages	891,398	790,777
Social Security costs	81,033	74,111
Pension costs	121,643	103,580
	<u>1,094,074</u>	<u>968,468</u>

The average number of full time equivalent persons employed during the year was 16 (2011: 15) and various associates were engaged to provide services.

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

	2012	2011
£70,001 to £80,000	1	1
£80,001 to £90,000	1	1

## 5. Taxation

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

## 6. Fixed Assets

	2012 £ Fixtures & Fittings	2011 £ Fixtures & Fittings
Cost:		
At 1 August 2011	46,437	46,437
Additions	800	-
At 31 July 2012	<u>47,237</u>	<u>46,437</u>
Accumulated Depreciation:		
At 1 August 2011	45,047	44,134
Charge for the period	971	913
At 31 July 2012	<u>46,018</u>	<u>45,047</u>
Net book value at 31 July 2012	<u>1,219</u>	<u>1,390</u>

## Notes to the Financial Statements for the year ended 31 July 2012 (continued)

## 7. Debtors

	2012 £	2011 £
Trade debtors	62,860	96,842
Other debtors	1,273	30,186
Money held on trust by the University of Reading	1,236,578	894,408
	<u>1,300,711</u>	<u>1,021,436</u>

## 8. Creditors: Amounts Falling due Within One Year

	2012 £	2011 £
Trade Creditors	63,554	39,363
Accruals and deferred income	187,060	91,987
Other creditors	30,125	-
	<u>280,739</u>	<u>131,350</u>

## 9. Movement in Funds

	2012 £	2011 £
<b>Unrestricted General Fund</b>		
Balance at 1 August 2011	1,452,346	1,142,708
Incoming resources	1,375,442	1,442,157
Outgoing resources	(1,265,152)	(1,132,519)
Balance 31 July 2012	<u>1,562,636</u>	<u>1,452,346</u>

	2012 £	2012 £	2012 £	2011 £
<b>Restricted Funds</b>	<b>Shared Services</b>	<b>GeM Supplier Adoption</b>	<b>Total</b>	<b>Total</b>
Balance at 1 August 2011	56,998	(17,868)	39,130	9,225
Incoming resources	113,940	169,460	283,400	336,880
Outgoing resources	(94,037)	(169,938)	(263,975)	306,975
Balance 31 July 2012	<u>76,901</u>	<u>(18,346)</u>	<u>58,555</u>	<u>39,130</u>

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)**

The restricted funds relate to the grant monies received from HEFCE to fund studies in shared procurement services and e-marketing. The deficit shown in relation to the supplier adoption programme for the generic e-marketplace will be funded by the remaining portion of the grant, due to be released next year.

**Analysis of net assets between funds**

	<b>2012</b> £	<b>2012</b> £	<b>2012</b> £	<b>2011</b> £
	<b>Fixed Assets</b>	<b>Net CA</b>	<b>Total</b>	<b>Total</b>
Unrestricted	1,219	1,561,417	1,562,636	1,452,346
Restricted	-	58,555	58,555	39,130
<b>Total Net Assets</b>	<u>1,219</u>	<u>1,619,972</u>	<u>1,621,191</u>	<u>1,491,476</u>

**10. Operating Lease Commitments**

The following operating lease payments are committed to be paid:

	<b>2012</b> £	<b>2011</b> £
Expiring:		
Within one year	188	-
Within two to five years	53,679	52,373
	<u>53,867</u>	<u>52,373</u>

**11. Short term investment**

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

	<b>2012</b> £	<b>2011</b> £
Cash deposit	600,000	600,000
<b>Total cash deposit</b>	<u>600,000</u>	<u>600,000</u>

## Notes to the Financial Statements for the year ended 31 July 2012 (continued)

## 12. Funds received as agent

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

	2012 £	2011 £
Opening balance	46,620	19,415
Received during the year	140,064	152,149
Paid out during the year	(46,620)	(124,944)
Total funds held as agent at 31 July	<u>140,064</u>	<u>46,620</u>

## 13. Related Party Transactions

No director of the charitable company nor any persons connected with them have received any remuneration during the year. One director received reimbursement of £272 in respect of travel expenses during the year (2011: nil).

During the year the charitable company has received subscriptions and fees of £37,700 (2011: £37,700) from The University of Reading who is a member of the charitable company and a subscriber to SUPC. At 31 July 2012 The University of Reading was holding investment funds of £1,376,642 (2011: £894,408) 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.

	2012 £	2011 £
Room hire and catering	8,442	5,985
Telecommunications	3,494	3,065
Printing and postage services	1,721	3,415
Rent and maintenance	56,405	27,272
Computer services	1,078	244
Training / Other	290	593
Service charges/ professional fees	7,201	8,404
	<u>78,631</u>	<u>48,978</u>

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)****14. Pensions**

SUMS participates in three pension schemes. Two are defined benefit schemes and one is a defined contribution scheme.

**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 145,000 active members and the charitable company has 14 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 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The 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 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% 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

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)**

liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme, although these became effective from October 2011. These include:

**New entrants**

Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final salary (FS) basis.

**Normal pension age**

The Normal pension age was increased for future service and new entrants, to age 65.

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)**

## Flexible retirement

Flexible retirement options were introduced.

## Member contributions increased

Contributions were uplifted to 7.5% and 6.5% for FS Section members and CRB Section members respectively.

## Cost sharing

If the total contribution level exceeds 23.5% of salaries per annum, employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

## Pension increase cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% the USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011, allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a buy-out basis at that date was approximately 56%.

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.

**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

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)**

has the power to appoint and remove trustees. UREPF has approximately 800 active members and the charitable company has 4 active members participating in the scheme.

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

The latest actuarial valuation of the scheme was at 31 July 2011. This was the second valuation for UREPF 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 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 last valuation was at 31 July 2008. Since the last valuation, the following significant events have occurred:

The fund closed to new entrants from 1 August 2011.

Accrual of final salary benefits ceased on 31 July 2011. Benefits post 31 July 2011 will accrue on a Career Average Revalued Earnings (CARE) basis.

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 6.1% per annum, investment return post-retirement would be 4.4% per annum, salary increases would be 4.5% per annum, RPI price inflation would be 3.5% per annum and pensions would increase by 2.9% per annum.

At the valuation date, the value of the assets of the scheme was £106.2 million and the value of the scheme's technical provisions was £117.3 million indicating a shortfall of £11.1 million. The assets therefore were sufficient to cover 91% of the technical provisions.

The actuary also estimated the wind-up funding level of the fund at the valuation date as 70%. The estimated shortfall of meeting benefits in full on the valuation date was £44.8 million.

**Notes to the Financial Statements for the year ended 31 July 2012 (continued)**

In light of the valuation The University of Reading and the trustees have agreed to retain the recovery plan payments set up as part of the 2008 valuation. 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 £2m for the year ending 31 July 2012, £2.25m for the year ending 31 July 2013 and subsequently increasing each year to £3.02m for the year ending 31 July 2021. If the assumptions made for assessing the recovery plan are borne out in practice these contributions would eliminate the shortfall by 31 July 2021.

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

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 2012 is £210,000.

**University of Reading Pension Scheme**

A new scheme was set up to replace UREPF for new entrants from 1 August 2011. This is a defined contribution scheme. The scheme administrator for this scheme is BlackRock. The charitable company contributes 5% of gross pay, rising to 7% after completion of 5 years membership. Contributions paid by the charitable company during the year were £789.

The total pension cost for the charitable company was £121,643 (2011: £103,580). The contribution rate payable by the charitable company was 16% of pensionable salaries for USS, 24.1% for UREPF and 5% for URPS.