
Consolidated Financial Statements for the year ended 31 July 2019

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Summary

The University of Southampton and Subsidiary Undertakings had total comprehensive expenditure of £105.7 million in the year to 31 July 2019 compared to total comprehensive income in the previous year of £53.3 million. However, this is after the impact of a large exceptional total expense of £127.9 million in respect of both academic and staff pension schemes, while the previous year benefited from actuarial gains and other credits of £30.8 million. Following the completion of the 2017 Universities Superannuation Scheme (USS) valuation, the university recognised an exceptional expense of £93.2 million (prior year £8.3 million credit) which is charged in arriving at the deficit for the year and reflects our commitment to the USS deficit recovery plan. In addition, actuarial losses of £34.7 million were recognised on the university's staff pension scheme (PASNAS) compared to prior year actuarial gains of £22.5 million.

The underlying surplus to 31 July 2019 before actuarial losses from pension schemes and without the USS accrual was £22.2 million (3.8% of income) compared to £22.4 million in the previous year. The net cash inflow from operating activities in 2018/19 of £67.5 million (compared to £81.9 million in the previous year) is a strong performance and demonstrates the robust financial management of the University of Southampton and Subsidiary Undertakings.

The escalating cost and volatility of our pension schemes represents one of the highest risks for the long term sustainability for the University. The increase in the Universities Superannuation Scheme (USS) accrual due to the 2017 valuation deficit recovery plan of £93.2 million (set out in note 28) is likely to substantially reverse next year with the agreement of the 2018 valuation in September 2019.

We continue to invest significantly to ensure the highest quality in our teaching and research facilities. In October 2019, we opened the new Centenary building which was numbered 100 to celebrate 100 years of the University on the Highfield site. The building provides high quality, flexible teaching facilities including additional lecture theatres and was made available for the start of the academic year. The final phase of the Boldrewood redevelopment, the construction of Block D/G, was opened in September 2019. This is the home to the University's UKCRC National Infrastructure Laboratory with state of the art teaching and research facilities.

In April 2019, the Chair of Council announced the appointment of a new President and Vice Chancellor, Professor Mark E. Smith CBE, following the retirement of Sir Christopher Snowden. Professor Smith joined us on 1 October 2019 with a track record of success at Lancaster University and a deep understanding of the complex environment of Higher Education. Professor Mark Spearing was appointed President and Vice Chancellor (Interim) for the period March to September.

We continue to see the positive impact of our strategic and operational focus on quality: we retained our top 20 position in the Sunday Times Good University Guide 2020 with Physiotherapy ranked number one and eleven subjects in the top ten places. We were 20th in the Complete University Guide 2020 with Aural & Oral Sciences, Physiotherapy and Occupational Therapy as well as 15 additional subject areas in the top ten. We were placed 24th in the Guardian Good University Guide 2020 with eight of our subject areas in the top ten places. We also retained our place in the World's Top 100 in the QS World University Rankings 2020.

In July, we received the results of the 2019 National Student Survey (NSS), a key indicator of the experience that our final year students have had with us during their undergraduate studies. The focus and effort that we have put into improving the student experience has been positively reflected in a gain of 1.1% in our Overall Satisfaction score from 83.6% to 84.7%. This improvement compared with last year, and especially our improved position against many of our competitors, is further indication that our strategy is working. The hard work of colleagues, across the University, has led to improvements in rank position for six out of the nine NSS question groups.

Financial Review 2018/19

Income

Excluding the exceptional expenses in respect of pension schemes (£127.9 million), the University of Southampton and Subsidiary Undertakings produced an underlying surplus of £22.2 million (£22.4 million in 2017/18), which represents 3.8% of income (3.9% in 2017/18). Income increased by £1.6 million (0.3%) to £584.3 million, an increase in research grants and contracts income of £5.6 million and investment income of £4.9 million was offset by a decrease in tuition fees and education contracts of £8.5 million and a reduction in donations and endowments income of £1.6 million following the conclusion of the highly successful Cancer Immunology Campaign.

Strategic Report (continued)

Total income from tuition fees and education contracts has decreased by £8.5 million (3.3%) from £259.2 million in 2017/18 to £250.7 million in 2018/19. Student numbers decreased from 23,453 to 21,809 full time equivalent as at the 1 December census date as a consequence of our strategy to raise the quality of our student intake.

Research grants and contracts income increased by 4.8% to £122.2 million. We have maintained our Research Council and EU income despite challenging circumstances and seen a growth in income from Charities, Government Health & Hospitals and UK Industry & Commerce.

Other operating income increased to £118.3 million (£117.7 million in 2017/18). Income from residences, catering and conferences decreased slightly by £0.5 million to £41.9 million due to increased competition in the local area and a reduction in student numbers. Other income has increased by £3.1 million.

Investment income increased from £3.0 million to £7.9 million, with income from short-term deposits and investments increasing from £2.7 million to £7.7 million. This increase was primarily due to the full year effect of our treasury management strategy to hold short term investments which generated income of £5.3 million over the year.

Donations and endowment income decreased from £7.1 million to £5.6 million. In 2018, the Campaign for Cancer Immunology closed having exceeded our £25 million target to fund the first dedicated Centre for Cancer Immunology in the UK. Targets for 2018/19 were exceeded and included a £2m research gift to Archaeology and the development of the Cancer Immunology Talent Fund.

Expenditure

Whilst overall expenditure increased by £100.6 million from £554.1 million in 2017/18 to £654.7 million, the result excluding the pension provision of an increase of £93.2 million (2018: reduction of £8.4 million), is a reduction of expenditure of £1.0 million from £562.5 million in 2017/18 to £561.5 million. During the year, the University has continued to focus on effective management of costs as part of the strategy to deliver long-term sustainability.

Staff expenditure excluding the movement in the USS pension provision increased by 0.7% from £312.9 million in 2017/18 to £315.2 million. Severance and early retirement payments decreased by £2.2 million. Staff expenditure has increased despite the average headcount decreasing from 5,695 in 2017/18 to 5,603 in 2018/19.

The 2018 national pay award was 1.8% and around 40% of staff are entitled to annual pay scale increments of 3%.

Other operating expenditure decreased by £2.2 million (1.1%) to £194.7 million (2017/18 £196.9 million). In April 2018, the University joined the Alan Turing Institute, a network of university partners who work alongside industry, government and third sector partners to spearhead cutting-edge research. The University committed £1.0 million per year for five years and accounted for the full £5.0 million commitment in 2017/18 under other expenses. Excluding the contribution to the Alan Turing Institute, other operating expenditure increased by £2.8 million (1.5%). Non capitalised equipment spend has increased from £20.4 million in 2017/18 to £24.4 million in 2018/19. We have been pleased to invest this year in a number of projects aimed at improving the student experience including refurbishing the equipment in Chemistry laboratories, improving library facilities, sports facilities and expanding wireless networking in the halls of residence.

The University has impaired a building as a result of the agreed Capital Programme at a cost of £1.1 million in 2018/19. This building was demolished as part of the Centenary Building redevelopment and investment in our estate.

The depreciation charge has decreased slightly by £0.7 million (1.9%) to £34.3 million. The University continues to invest significantly to ensure the highest quality in our teaching and research facilities.

Interest payable and other finance costs have decreased slightly from £17.8 million in 2017/18 to £17.4 million which includes the annual interest payable on the bond of £6.8 million.

Balance Sheet

Despite the continuing challenges of our pension deficits, our total net assets remain strong at £451.6 million (£557.4 million in 2017/18). In April 2017, the University significantly improved its resources available for investment through the issue of a 40-year public bond which raised £300 million. The bond will mature in 2057 and is subject to a fixed interest rate of 2.25%.

The University has significant funds to ensure the highest quality in our teaching and research facilities. In the year to July 2019, we acquired or constructed capital assets with a value of £62.1 million. In October 2019 we opened our new Centenary building which is numbered 100 to celebrate 100 years of the University on the Highfield site. The building provides high quality, flexible teaching

facilities including additional lecture theatres on the Highfield Campus. The final phase of the Boldrewood redevelopment, the construction of Block D/G, which is home to the University's UKCRIC National Infrastructure Laboratory with state of the art teaching and research facilities opened in September 2019.

Our cash and cash equivalents decreased by £200.1 million whilst our investments increased by £197.6 million as we moved funds into longer term investments. The total of cash in hand and short-term deposits (less than three months) is £61.5 million which is sufficient to meet our treasury policy requirements of holding more than two months payroll costs (approximately £52 million) in funds that are available within three months. Our cash inflow from operating activities decreased to £67.5 million (2018: £81.9 million).

There are no capital repayments to be made over the term of the bond, with full repayment due in 2057. An investment plan has been prepared to repay the bond in full at its term. The finance lease commitment relating to Mayflower halls has decreased from £47.8 million to £47.5 million and our bank loans have decreased from £70.5 million to £67.7 million reflecting planned repayments. The financing arrangements are held with two commercial banks with final repayments due from 2020 to 2037. Further information on this and the rates payable are outlined in note 21 to the financial statements.

The pension liability of the University of Southampton Pension and Assurance Scheme (PASNAS) fund has increased to a deficit of £137.9 million (2017/18 £91.8 million). The main reason for the increase in the deficit is the decrease in discount rate from 2.8% per annum to 2.1% reflecting the changes in bond yields over the year and the changes in expectations for future inflation. These changes in assumptions have contributed to the £46.1 million negative impact on the scheme deficit. Further details are set out in note 28.

During 2019, the University undertook a statutory consultation with members with a view to increase both employer and member contributions to the scheme. Following this consultation, the increased cost of future service will be shared with members from 1 January 2020 with member contributions rising from 6.35% to 7.20% of pensionable pay. In May 2018, Council ratified a decision to close PASNAS to new members as at 31 December 2018. All new eligible staff have been enrolled into a new defined contribution arrangement from 1 January 2019.

As at 31 July 2019, the 2017 triennial valuation of the Universities Superannuation Scheme (USS) has been finalised identifying an increase in the scheme deficit to £7.5 billion from £5.3 billion in 2014. The deficit recovery contributions required from April 2020 to June 2034 are 5% of salary, up from 2.1% to March 2031 in the 2014 valuation. The discounted fair value of the deficit recovery contributions from the 2017 valuation has resulted in an increase in our USS deficit provision including interest of £94.3 million to a total of £141.0 million.

In September 2019, the USS 2018 valuation was finalised which, had it been in place at the end of July 2019, would have resulted in a revised provision of £77.8 million as opposed to £141.0 million. The impact of this change would have produced the following results: staff costs of £345.2 million, a deficit for the year after tax of £7.8 million, total comprehensive expenditure for the year of £42.5 million and total net assets of £514.8 million. The 2018 valuation sets employer contributions at 21.1% (£38.2 million per annum) from October 2019 to October 2021, rising to 23.7% (£44.6 million per annum) thereafter subject to the outcome of the 2020 valuation.

The University of Southampton Science Park supports the long-term strategy of the University by providing opportunities for our research to spin out into enterprise activities, for student work experience during studies and for student employment when they graduate. The Science Park also makes a significant contribution to the economic growth and social development in both our city and region. During the year, total occupancy levels increased to approximately 87%, up from 86% in July 2018. Turnover was £5.0 million (2017/18 £4.7 million) and there was a profit before covenant payments and taxation of £2.4 million (2017/18 £1.6 million). The annual revaluation of the park showed an increase of £1.2 million reflecting an increase in the future rental stream and an increased yield.

In June 2018 Professor Rebecca Taylor was appointed as the new Chief Executive Officer of the University of Southampton Malaysia (UoSM). Professor Taylor also serves as Pro Vice-Chancellor (ASEAN) for the University, taking a leading role in engaging partner organisations and representing the University in the ASEAN region. Now in its seventh year of operation, UoSM offers split campus (UK and Malaysia) degree programmes as well as postgraduate research opportunities in engineering within the EduCity development in Iskandar, Malaysia, the nation's economic zone located in Johor just minutes from Singapore.

Strategic Report (continued)

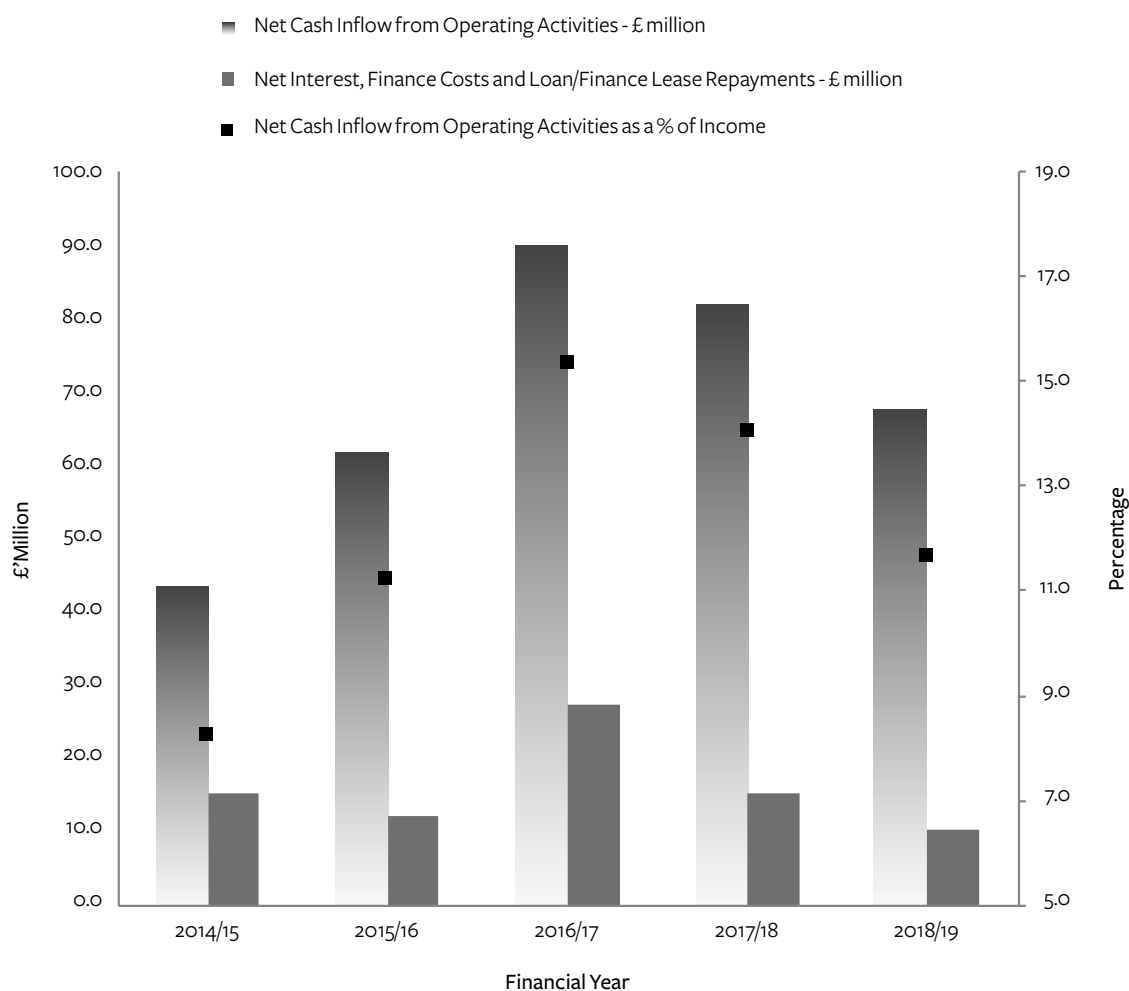
Financial Data

Financial performance is monitored throughout the year to ensure that it is in line with agreed budgets and the overall strategy.

Financial Measure on a consolidated basis	2018/19 Target	2018/19 Achievement	
Operating cash flow	£56.0m	£67.5m	Outperformed
Staff Costs as a % of Income (excluding movements in the USS deficit funding accrual)	Less than 55.1%	53.9%	Outperformed

Net Cash Inflow from Operating Activities 2014/15 – 2018/19

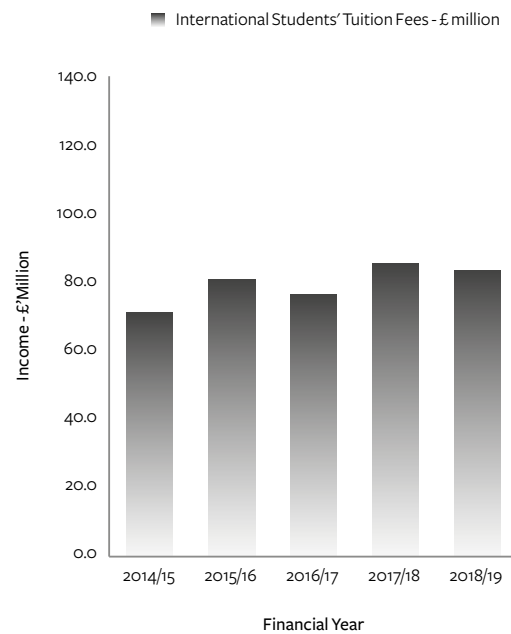
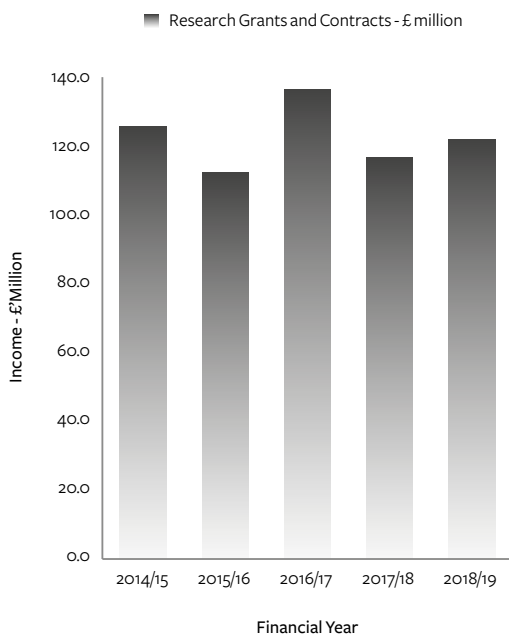
The net cash inflow from operating activities is the amount of cash generated by the University and Subsidiary Undertakings before external financing costs and investment. The net cash inflow from operating activities in 2018/19 was £67.5 million. The University and Subsidiary Undertakings has a focus on strong financial management to increase financial performance in line with our quality and sustainability strategy in preparation for the future financial challenges of the sector.



Research Grants and Contracts and International Students’ Tuition Fees 2014/15 – 2018/19

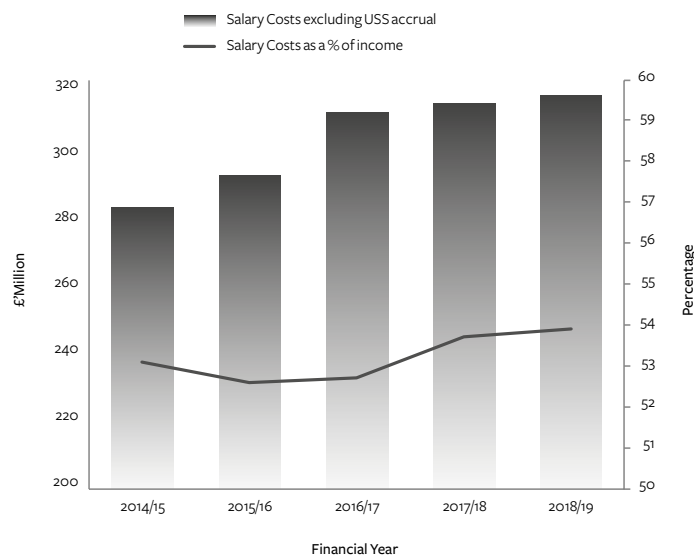
Research grants and contracts earnings and international students’ tuition fees are two key sources of income. Research grants and contracts income was £122.2 million in 2018/19 compared with £116.6 million in 2017/18, an increase of 4.8%. We have maintained our Research Council and EU income despite challenging circumstances and seen a growth in income in Medicine from Charities and Government Health & Hospitals. The 2016/17 result included a £26.0 million capital grant from EPSRC and in 2014/15 income of £11.3 million was claimed from research and development expenditure tax credits.

International students’ tuition fee income decreased by £2.3 million to £84.8 million in 2018/19. Over the five year period, international students’ tuition fee income has increased by 17.1%.



Salary Costs as Proportion of Income 2014/15 – 2018/19

Salary costs as a proportion of income was 69.9% in 2018/19. Excluding the USS accrual, staff costs as a proportion of income were 53.9%. Underlying staff costs have increased by less than 1% to £315.2 million in 2018/19. Focus on controlling staff costs is a major part of the University strategy and during the year the University has been reviewing its headcount in targeted areas and has spent £1.3 million on severance and early retirement payments (£3.5 million 2017/18) in line with our quality and sustainability strategy.



Strategic Report (continued)

Our mission and strategy

The University of Southampton has a clear mission: to change the world for the better. We do that through our remarkable world-class research, education and innovation, and by attracting exceptional students from across the globe, and empowering and developing them to realise their full potential through their journeys of discovery and learning with us.

Our newly-appointed President and Vice-Chancellor, Professor Mark E. Smith CBE, is currently reviewing our strategy in consultation with our community and a further refreshing of our strategy is likely in early calendar 2020. But our core strategy remains – to strengthen our domestic and international reputation through the quality and excellence of everything we do, and through offering an exceptional student experience, whilst ensuring the University's long-term financial sustainability. By achieving this we will ensure our place in the UK's Top Ten, and the World's Top 100, ranked universities.

Central to the success of our strategy and underpinning all of our activities are four core principles:

Collegiality: one team working, planning and delivering together, toward our shared vision.

Quality: always striving to achieve the highest quality in everything we do.

Internationalisation: delivering across global markets and building strong partnerships with other leading organisations.

Sustainability: ensuring our actions lead to financial, social and environmental sustainability.

We will develop graduates who are confident global citizens, equipped to make a positive contribution to the world. Our knowledge and technologies, developed through our research and applied through our enterprise, will have real economic and social benefit for the world. People will choose Southampton because of its reputation for quality and to play a part in changing the world. Our staff will say it is a great place to work, where they are encouraged to be creative and are part of a team that achieves more together.

Our student satisfaction will be among the highest in the country, as reflected in the National Student Survey. Our graduate prospects will be among the best. Our entry tariff will reflect our reputation as a leading university, with completion rates and good degrees reflecting our commitment to fully developing the potential of our students. Our world-leading research will underpin an excellent Research Excellence Framework position.

We will achieve all of this while improving our sustainability and generating a surplus that allows us continually to invest in our University.

To enhance our ability to change the world we will ensure our research is of the highest quality, that it underpins our education activities and that we generate the level of funding that maximises the volume of research that we can sustainably undertake.

To compete with the very best we will embed an international dimension in all aspects of our strategy. Internationalisation will permeate our academic endeavours, our community and our operations, enhancing the quality and impact of our education and research.

Building momentum with our strategy

With a continuing, essential focus on quality and sustainability, we will transform our staff and student experience through:

Delivery of a high-quality, world-class campus experience for our students, staff and visitors.

Transformed IT infrastructure to create an innovative digital teaching and learning environment, supported by smarter, simpler systems and processes.

A new globally accessible website that showcases our strengths and enables us to engage with and attract more easily high quality prospective students, research funders, donors and partners.

Continued effort to make our University run more effectively following the 2018 faculties restructure, as we deliver against our Research, Education and International strategies and shape the professional services in support of our strategy.

Ensuring a staff and student culture rooted in inclusivity, celebrating diversity, free from discrimination, and based on the values of dignity, courtesy and respect.

Major Financial Risks

During the year, the University has been focused on effective management of costs as part of the strategy to deliver long-term sustainability.

University Council and Audit Committee review the University risk register at regular intervals. Both consider that it is consistent with their knowledge of the University's activities and addresses the key aspects of the University's Strategic Plan.

A comprehensive financial risk assessment was considered by Council in setting the 2019/20 University budget. The major risk areas are summarised below:

Area:	Risk:	Mitigating action:
Student income	Actual student income for 2019/20 may fall below the business plan target, therefore reducing forecast income streams.	Recruiting student numbers to planned levels will be a core part of the University's Confirmation and Clearing strategy.
	Planned student numbers may not be achievable without reducing the quality of our student intake.	Clear principles will be defined to guide faculties in managing the balance between student numbers and the quality of our student intake.
	The business plans do not take account of any changes in regulations, demand or the availability of funding as a result of the UK leaving the EU.	There is still considerable uncertainty regarding the UK's future relationship with the EU and a continuing risk of a 'no deal' exit.
	The maximum fee for Home/EU undergraduate students is currently being held at £9,250. The Augar Review of Post 18 Education & Funding recommends a reduction in Home/EU fees to £7,500 from 21/22 at the earliest to be compensated for by an increase in Teaching Grant funding. There is a risk that Teaching Grant funding will not adequately replace lost fee income.	Delivery of the budgeted savings will put the University in the strongest possible position to be able to cope with inflationary erosion. Forecasts assume that the maximum fee will remain at £9,250 throughout.
Research grants and contracts income	The University may fail to achieve the planned levels of external research funding.	Maximising research income is a key performance indicator. The Ten Year Plan related Research Strategy will support delivery.
	The business plans do not take account of any changes in regulations, demand or the availability of funding as a result of leaving the EU.	The Government has guaranteed funding for Horizon 2020 research projects, in the event of a 'no deal' for the remainder of the programmes. The University will continue to engage with the Government to press for commitment to UK science & research and for clarity regarding participation in Horizon 2020 post Brexit.
Staff costs	There is a risk that national pay awards will increase above the assumptions included in the business plan.	The Universities & Colleges Employer Association (UCEA) have made a final offer in May 2019 of a 1.8% uplift from August 2019 with lower pay scales receiving higher increases of up to 3.65%.
Pension costs	The escalating cost and volatility of our pension schemes remains one of our highest risks to long term sustainability.	Pension accounting adjustments are excluded from the Barclays loan covenant calculations so the USS deficit recovery accrual will not result in a breach.

Strategic Report (continued)

Area:	Risk:	Mitigating action:
	USS pension costs will rise in October 2021 to 11% member and 23.7% employer contributions subject to the completion of a 2020 valuation.	We will closely monitor developments and market conditions which will affect the 2020 USS valuation. We will model the impact of potential higher contributions through our planning process.
	The PASNAS scheme consultation was undertaken resulting in a 2.55% increase in contributions including an employer's increase of 1.7%.	The PASNAS scheme was closed to new members from 1 January 2019 and a new defined contribution scheme provided for new eligible staff. The increased cost of future service accrual has been shared with members.
Sustainability	Strong cash flow is required to generate sufficient funding for future capital investment.	The £300 million bond proceeds, existing cash reserves and the level of ongoing operating cash generation should be sufficient to fund the capital investment programme.

Future Plans

Professor Mark E Smith joined us on 1 October 2019 bringing a track record of success at Lancaster University and a deep understanding of the complex environment of Higher Education. Professor Smith is currently reviewing our strategy in consultation with our community with an aim to complete by early 2020.

We will maintain our strong focus on sustainability through the management of costs, enhanced productivity, capital and IT investment and the generation of operating cash flows that are sufficient to support future capital investment. Through a focus on our sustainability, we will ensure we can generate the funds we need to continue to invest in our ambition to change the world for the better through our teaching, research and enterprise.

Conclusion

The University of Southampton and Subsidiary Undertakings had another successful year with total income at £584.3 million, £1.6 million higher than the previous year, despite a significant reduction in student numbers from 23,453 to 21,809, as our strategy to raise the quality of our undergraduate student intake continues to evolve. Growth came from research grants and contracts, which increased by 4.8% to £122.2 million, and from an increase in investment income. The University and Subsidiary Undertakings again outperformed both of its key financial measures and achieved an underlying operational surplus of £22.2 million, representing 3.8% of income.

However, the comprehensive deficit for the year was £105.7 million, which includes a £93.2 million increase in our provision to cover the revised deficit recovery scheme for the USS pension scheme following its 2017 triennial valuation and a £34.7 million

actuarial loss with the PASNAS defined benefit pension scheme.

The escalating cost and volatility of these pension schemes have become one of highest risks for the long-term financial sustainability for the University and its Peers.

The net cash inflow from operating activities continued to be strong at £67.5 million, which allowed us to invest over £62.1 million in new buildings and equipment. This included the completion of the new Centenary building, which will provide high quality, flexible teaching facilities including additional lecture theatre, and the Block D/G of the Boldrewood development, which will be the home to the University's UKCRIC National Infrastructure Laboratory.

The continued strategic and operational focus on quality also achieved significant dividends during the year. We retained our place in the World's Top 100 in the QS World University Rankings 2020 and maintained our top 20 position in the Sunday Times Good University Guide 2020, with 11 subject areas ranked in the top ten. Finally, the National Student Survey showed a further 1% increase in the overall satisfaction of our students to 84.7% and an improved position in six out of the nine NSS question groups. These achievements are a true testament to both the skill and hard work of all our staff in delivery of the strategy in the current changing education environment.

Finally, we welcome the arrival of our new President and Vice Chancellor, Professor Mark E Smith and look forward to his contribution to both the operational performance and strategic development of the University.

David Price
University Treasurer

Introduction

The University is a corporation formed by Royal Charter and holds charitable status. Our aims, powers and the governance framework within which we operate are set out in our Charter, Statutes and Ordinances.

Governance of the University is overseen by the Council and the Senate. These bodies are responsible for approving our mission and strategy, monitoring our performance, scrutinising our finances and directing our academic functions. In fulfilling this role, Council has had due regard to the Charity Commission's guidance on public benefit. This section outlines the ways in which the University has delivered its charitable purposes for the benefit of the public.

A founding member of the Russell Group of research intensive universities, the University of Southampton has a reputation for excellence in research and education, which is reflected in our consistently high international league table rankings.

In April 2019 the University was pleased to announce the appointment of Ruby Wax OBE as its new Chancellor. Ms Wax, an influential campaigner around mental health issues, will play a leading ambassadorial role for the University through activities linked to the institution's strategy. Ms Wax commenced her duties as Chancellor from 1 May 2019. She succeeded Dame Helen Alexander who served the University from 2011 until her death from cancer in 2017.

The University makes a strong contribution to public benefit through its education, research and enterprise activities. Again this year we've been listed as one of the top 100 universities in the world in the QS world rankings and one of the top 20 universities in the UK in the latest edition of the Complete University Guide.

Our graduates continue to be highly sought after by employers, with our employment and further study outcomes amongst the best in the UK. We are currently second in the Russell Group for the number of graduates in employment. In support of this, we have continued to attract top employers to engage with our students. "The Graduate Market in 2019" report cited Southampton, once again, as one of the top 20 UK universities for attracting the largest number of top graduate recruiters.

We continue to invest in top-class facilities for our students and research teams. This year we are celebrating the 100th anniversary of academic life on our main Highfield Campus and to mark this we are naming our impressive new learning and teaching

centre 'the Centenary Building'. This new building, which opens to students this autumn, provides a flexible and functional learning environment with modern facilities, enhancing both the student experience and the campus landscape. The development around the building includes attractive outside spaces and significant improvements to the pedestrian experience in that part of campus.

Also this year, construction has been completed on the University's UK Collaboratorium for Research in Infrastructure & Cities (UKCRIC) National Infrastructure Laboratory at our Boldrewood Innovation Campus. This nationally important centre features state-of-the-art teaching and research facilities for geomechanics, heavy structures, solid mechanics and infrastructure engineering. It will be used to develop new understandings of the behaviour of large structures and structural components, with an emphasis on infrastructure, rail and maritime engineering. It is the final building to be completed in our redevelopment of the Boldrewood Innovation Campus.

We continue to maintain our strong international outlook. In March we launched the India Centre for Inclusive Growth and Sustainable Development with a vision to create a globally recognised think-tank centre for innovation, knowledge transfer and capacity building. In June, the Indian High Commissioner was on campus for the planting of a tree marking the 150th anniversary of the birth of Mahatma Gandhi this year.

Research Impact

Our research teams have contributed to public benefit through their activities. Southampton engineers, working with colleagues in Medicine, have established a new Sub-Saharan Africa Blast Injury Research Network to improve the effectiveness of research into injuries caused by legacy landmines and explosive remnants of war. The network hosted its first Blast Injury Workshop in South Africa in March.

In partnership with University Hospital Southampton NHS Foundation Trust, the University has been awarded £2.8 million funding for cutting-edge research laboratories to tackle antibiotic resistant infections at the point of care.

Southampton archaeologists were part of a team to find new evidence of megalith quarrying 5,000 years ago, following excavations at two sites in Wales. This provided further confirmation that the Stonehenge bluestones were moved in prehistory by people, rather than by geological forces such as ice-sheets.

Public Benefit (continued)

Mathematicians, clinicians and image specialists from Southampton, have developed a new computational way of analysing X-ray images of lungs. They've devised a method for numerically describing the 3-D structure of the lung, which could lead to a breakthrough in the diagnosis and assessment of lung diseases.

Student education, student support and widening participation

Education

The University of Southampton offers a world-class education in a modern learning environment led by world-class research. Compared to most universities of our type, we offer more choice and flexibility in study options and support our students as they prepare for employment and life after university. Our programmes are designed to challenge our students to develop the critical thinking and independent learning they require in their future careers.

Student Support

The University delivers a proactive and preventative model to support student mental health and wellbeing. This is achieved through the delivery of 24/7 student support services where colleagues from across the University work together to provide proactive and reactive support to our student community. Students are able to speak to a member of staff at any time of day, as well as access triage and support services such as our daily drop in. In 2018/19 our 24/7, 365, Student Life team supported 2,384 students; and our student support drop-in was able to resolve 85% of support needs at first contact. Following a successful pilot, the University has been able to actively monitor student engagement in their studies and identify where students may be disengaging. Through this pilot with two Faculties we have identified 1,290 incidences of student disengagement, with 69% of all students re-engaging in their studies after intervention. This monitoring will be implemented University-wide in 2019.

Widening Participation

We have a strong track record in supporting access and achievement by students from under-represented groups.

We are committed to widening access to higher education and ensuring that all students with the potential to succeed, regardless of their background, are encouraged to apply to study with us. Through using additional information gained through contextual data, our admissions teams are able to recognise a student's achievements and identify their potential to succeed in the context of their background and experience.

We work closely with schools, colleges, community groups and other third sector organisations to encourage prospective students to consider higher education. Young people and mature learners are able to make more informed choices about higher education through programmes developed by our Student Recruitment and Outreach team. Working with over 17,000 young people and adults in primary schools, secondary schools, sixth form colleges and community settings across the region, we deliver a wide range of workshops and activities to support learners.

Through our Learn with US outreach programme we take a long-term and targeted approach to raising the aspirations of the young people we engage with. This programme is linked to our Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups. This includes students from areas where there is low participation in higher education, or who are the first generation of immediate family to apply to higher education, or who live, or have grown up in local authority care.

The impact of our commitment to widening access and student success has been evidenced in our performance indicators for UK students. We have performed consistently well in recruiting state school students. In 2017/18, 86.2% of our undergraduates were from a state school and 11.2% were from low participation neighbourhoods. In the last decade, we have also significantly increased our proportion of first-year undergraduate black and minority ethnic students from 10.2% in 2008/09 to 21.6% in 2017/18.

Public and community engagement and culture

As the second biggest employer in the region, and home to more than 21,000 students from more than 120 countries, the University touches every area of Southampton city's life - including working with business partners and incubating city entrepreneurs, enriching the city's arts and culture offerings, providing employment opportunities to more than 6,000 people, funding a core element of the city's public transport infrastructure, and playing a key education and research role in the city's health and healthcare. As a global powerhouse of knowledge and discovery, the University provides a window to the world, and opportunities for investment, for one of the UK's most famous maritime cities. The far-reaching impact of the University of Southampton on the city's commercial, cultural and civic life is a key element of Southampton's continuing rise in the PwC Good Growth Index - placed 3rd in 2018.

Public Benefit (continued)

The fast-growing and vibrant city of which we are such a driving force provides an attractive proposition for a large number of our students following graduation. Many of our alumni remain in the region providing a skilled workforce and contributing professionally to the city, region and country.

Our excellent sports and arts venues are open to members of the local community and schools, as well as our staff and students. The arts venues include the John Hansard Gallery, Turner Sims concert hall, Nuffield Theatre and Winchester Gallery and together they represent a significant investment by the University in the community.

In May 2019, the John Hansard Gallery celebrated its first year in its purpose-built new home at Studio 144 in Southampton. This outstanding contemporary venue has tripled the gallery's size, and its location opposite the Guildhall in the city centre enables the University to realise its public-facing, community engagement and artist-focused ambitions.

Our University has a long and distinctive history as a supporter and provider of world-class arts and culture for the benefit of all. The new gallery space is allowing us to play an even greater role in Southampton's cultural life. Studio 144 has proved a high-profile addition to the city's growing Cultural Quarter and a keystone in its cultural offer, positioning the Gallery, University and Southampton, as a dynamic and inspiring arts destination in the UK.

Our sports facilities are increasingly popular with local residents and schools and this year we have invested £750,000 in refurbishing the changing rooms at our Jubilee Sports Centre. Swimming lessons are available to those aged four and above and we have firm relationships with seven nearby schools, hosting over 10 school visits each week. This year 508 children took part in our Jubilee Swimming Academy lessons. Around 352 children regularly take part in weekly football activities at our Wide Lane venue.

Our Library is open for use by members of the public for reference, without charge; and we offer borrowing rights to a number of community groups. The Hartley Library houses a large and valuable collection of archives, including the Wellington Papers and the Broadlands Archives, which are much used by scholars.

Outreach and public engagement

The University continued to expand its outreach and public engagement activities in 2018/19.

Our Lifelab project is an award-winning and novel educational intervention that uses science enquiry to empower secondary school pupils and teachers to understand the consequences of lifestyle choices on their own health. The programme incorporates 'Meet the Scientist', which aims to bridge the gap between pupils and researchers through opportunities to meet and talk – exploring or challenging views of scientists. During 2018/19 2,038 school pupils passed through the Lifelab programme.

The University participated in the Human Worlds Festival in November 2018 with a week of events on campus and elsewhere in Southampton. The Festival culminated in a Hands on Humanities Day at Avenue Campus which was attended by 400 visitors of all ages.

Our Science & Engineering Day in March 2019 saw over 5,000 people of all ages attend from the local community, the region and nationally. More than 850 staff and student volunteers made the event possible. The event involved local community groups, organisations and other research institutions.

Our Public Engagement Hubs, which bring members of the University together with the wider Southampton community around a shared interest, held a range of activities this year. Our Health & Wellbeing PE Hub ran a Healthy Communities seminar in November 2018, attended by 75 people, and a pilot 'Human Books' event in January 2019, which took the form of an evening of conversations about individuals' experiences of mental health and wellbeing across diverse circumstances and contexts. We also contributed to a Healthy Foods Festival in May 2019 in West Quay shopping centre, engaging over 100 people with quizzes, information and food tasters.

Our Nature and Biodiversity PE Hub ran several Bioblitz events across the year and were also involved in the Southampton Lantern Parade Festival, the Hullabaloo Festival on the Isle of Wight and the Nature Festival in Hampshire.

A number of events relating to various 2018/19 Development Fund projects have taken place, including 'Sonifying the Cosmos'; a Friendly Society Recreation Day in collaboration with Bournemouth Sinfonietta Choir; an exhibition in Morocco – 'Impacts of air pollution and sea level rise on Natural World

Public Benefit (continued)

Heritage Sites' which led to two national TV interviews; and an exhibition at Biobliotheca Alexandrina's Science Festival 'Diving into the Past' presenting Egyptian underwater cultural heritage to the public.

A Pint of Science 2019, organised and delivered by researchers from a wide range of science related disciplines, brought over 50 talks to pub venues around the city in May 2019. In 2018/19, 811 tickets were sold, making Southampton one of the top Pint of Science cities for engaging people this year.

The on-going relationship with Winchester Science Centre provides a pipeline for University researchers to interact with the 120,000+ annual visitors to the centre, either directly through workshops or indirectly through co-designed exhibits.

Social impact

The University contributes to health and wellbeing in the region and more widely through our research and education programmes. We train doctors, nurses, midwives, other allied health professionals, health visitors and school nurses – many of whom live and work in the region.

We have a close relationship with hospitals in the region and University medical staff work alongside colleagues at University Hospital Southampton NHS Foundation Trust in translational research, offering patients novel and effective treatment options in many specialist areas.

In November 2018 the University reaffirmed its commitment to arts, culture and creativity through a new Arts and Culture Strategy (2018-22) and a Memorandum of Understanding (2018-2021) signed with Arts Council England. The two long-standing partners will embark on a new phase with a strategy to further champion the provision of arts and other creativity-focused activities throughout Southampton and the wider region. In its arts and culture strategy, the University has made a commitment to animate the city with inspiring arts and culture activity. This, in conjunction with Arts Council's current strategy – Great Art and Culture for Everyone will embed creativity as an essential part of everyday life for everyone in the city and the surrounding area, particularly children and young people. Linked to this, the University is leading on 'Connecting Culture', a city-wide consortium and research project exploring how Southampton's Cultural Quarter, as a creative hub enriches the lives of children and young people, supported by a National Lottery grant.

Economic Impact

An economic impact assessment of the University published in June 2018 shows that it benefits the regional Hampshire economy to the tune of £1.3 billion annually and the city of Southampton specifically by £0.9 billion. On a national scale it contributes £2.5 billion to the economy.

The findings, by independent economic consultancy, BiGGAR Economics, are based on information from the 2015/16 financial year. Their report reflects the economic impact of the University on three specific areas: the city of Southampton; the region, as represented by the geographic areas of the Solent and Enterprise M3 Local Enterprise Partnerships; and the UK nationally.

The findings highlight the wider impact of the University through its supply chains and networks; for example, it reveals that whilst the University directly employs around 6,000 staff it supports the employment of over 14,000 in the city. The study indicates that the University had a total impact in 2015/16 of:

£0.9 billion Gross Value Added (GVA) and 14,000 jobs in Southampton;
£1.3 billion Gross Value Added (GVA) and 19,800 jobs in the region;
£2.5 billion Gross Value Added (GVA) and 32,900 jobs nationally.

Principles

The University of Southampton has a clear mission: to change the world for the better. We do that through our remarkable world-class research, education and innovation, and by attracting exceptional students from across the globe, and empowering and developing them to realise their full potential through their journeys of discovery and learning with us.

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. In light of the obligation to report on measures to ensure that all parts of our business and supply chain are slavery free, we continue to review our workplace policies and procedures to assess their effectiveness in identifying and tackling modern slavery issues.

Our workplace policies and procedures will demonstrate our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains.

Creating a sustainable organisation

Sustainability is a central principle in the University's strategy. This was recognised in April when we were ranked 12th globally in the Times Higher Education (THE) University Impact Rankings for our committed work towards the Sustainable Development Goals.

We proactively deliver programmes across our campuses and halls of residence to reduce our environmental impact, through measuring and monitoring our electricity, gas and water use: setting a 20% reduction target to be achieved by 2020; setting sustainability criteria improvements within our professional services such as procurement, catering, libraries and building projects; continuously striving to increase our recycling rate to over 60% on campuses and 65% at halls of residence; and by maintaining our many outdoor green spaces, which contribute to the enjoyment, health and wellbeing of our University community, as well as contributing to local biodiversity.

As part of our awareness-raising and engagement on various aspects of everyday life relating to sustainability, we have held citizen science events on air quality and health, bioblitz and waste wars. We also produced and distributed educational recycling bags for students living in privately rented HMO households in Southampton.

Our Environmental Management System certified to the ISO 14001:2015 standard has continued to develop our environmental agenda for continuously improving the University's environmental performance. This international standard requires us to evidence that we are legally compliant with all relevant environmental legislation. We demonstrate controlled operational management of our highest environmental risks, and our strategic commitment to sustainability is evidenced by our Vice-Chancellor signing the Environmental Policy statement, with objectives set to achieve sustainability improvements throughout professional services, academia and student engagement.

Student engagement is a key objective within our Environmental Management System, and as a result we have hosted a series of events with various student societies, modules and courses.

In March, we held our 13th annual Waste Wars event. The 39 student participators analysed 215kgs of waste from across our estate, finding a very positive reduction in contamination rates within recycling bags. An overall increase in recycling rates to just under 50% of the total weight was recorded from this snapshot audit.

In April we worked with the SUSU Sustainability Officer to plant 10 oak saplings at our Wide Lane Sports Campus, as part of a carbon offsetting programme developed by our Sports & Wellbeing division.

In May we were awarded £500 funding from Kew Gardens to purchase time-lapse cameras and wildflower seed to record and monitor wildlife and nature growth across our estate, and create nature trails for Google Explorer with a 360 degree camera.

In June, we partnered with our Biohub student internship team to host Southampton's 24hr Bioblitz event. This public engagement event ran from 7pm on Friday 7 June through to 7pm on Saturday 8 June 2019. A mini nature festival, it included an evening seminar series, late-night cinema experience (replacing scheduled bat walks, cancelled due to wet weather), a dawn chorus guided walk. For the main Bioblitz audit on Highfield Campus and Southampton Common, 24 teams of natural history explorers and volunteers recorded over 340 observations, with over 195 different species identified.

Other ways in which we increase awareness is through the integration of sustainability into our taught curriculum, to ensure we provide our students with an opportunity to engage in important issues, equipping them with the skills to contribute to a low carbon and sustainable society. This is further developed by Professor Simon Kemp establishing the international journal of student sustainability research 'Meliora', which came highly commended at the 2018 Green Gown Awards.

We recognise that as a research-intensive university there is a tension between carrying out our work and minimising environmental impacts. Our carbon emissions over the last year remained stable compared to the previous year, and we have achieved our targets on reducing to < 0.055kg CO₂/£ turnover, as well as <1.10 tonnes CO₂/Halls of Residence Occupant. We continue to look for, and invest in, opportunities to lower our emissions.

To ensure we manage and reduce our travel emissions, the University has a Travel Plan which covers the period 2015–2020, setting out a series of measures to encourage staff, students and visitors to adopt more sustainable travel habits. The University's bus service – Unilink – which was established in 2001 to transport University staff and students between teaching sites and halls of residence, while also providing a service which is open for visitors and the local community, was shortlisted in November 2018 for the Times Higher Education (THE) Awards and the 'Benefitting

Public Benefit (continued)

Society' category of the national Green Gown Awards. This acknowledged the fact that our entire fleet has been updated with new ultra-low emission standard EURO6, and fitted with auto stop/start engines. This significantly reduces the immediate air pollution at bus stops, as the engines switch off when the doors are open.

In January 2019, 10 electric vehicle charge points were installed on our Highfield, Boldrewood, Avenue and Winchester campuses, available for use to all staff and visitors who may need to charge their electric vehicles whilst on site. Joju Solar are our charging point provider, whom we selected through Hampshire County Council's electric vehicle framework.

The recycling rate across our campuses and halls of residence is another key area we are monitoring to improve performance. The University of Southampton is part of a consortium of seven universities that work together to tender for recycling services, ensuring that as much of our waste as possible is diverted from landfill. During the last year we diverted 100% of our waste from landfill and instead sent it for composting, recycling or to an 'energy from waste' facility so that heat can be recovered and electricity generated. In a separate initiative at the end of the academic year students donated over 3 tonnes of unwanted clothes, food and household items as they moved out of our halls of residence. Once sorted these items were donated to the British Heart Foundation and other local charities.

Trade Union Facilities Time (Unaudited)

The Trade Union Act 2016 introduced new annual Trade Union Facilities Time reporting requirements for public sector organisations. Employers with at least one 'relevant union official' are required to publish information on facility time.

The following information has not been audited, and covers the period 1 April 2018 to 31 March 2019:

Trade union representatives and full time equivalents

Trade union representatives: 69

FTE trade union representatives: 66.1

Percentage of working hours spent on facility time

0% of working hours: 0 representatives

1% to 50% of working hours: 69 representatives

51% to 99% of working hours: 0 representatives

100% of working hours: 0 representatives

Total pay bill and facility time costs

Total pay bill: £304,488,000

Total cost of facility time: £226,464

Percentage of pay spent on facility time: 0.08%

Paid trade union activities

Hours spent on paid facility time: 6,888

Hours spent on paid trade union activities: 0

Percentage of total paid facility time hours spent on TU activities: 0.00%

The following corporate governance statement provides information about the University's governance, management and legal structure during the year ended 31 July 2019 and up to the date of signing of these Financial Statements.

Legal status of the University

The University of Southampton is a chartered corporation established by Royal Charter in 1952. Its aims, powers and framework of governance are set out in the Charter and supporting Statutes and Ordinances.

The University has charitable status as one of the exempt charities listed in Schedule 3 to the Charities Act 2011. It is therefore exempt from certain requirements of that Act, including the need to register with the Charity Commission. Since 1 April 2018, the Office for Students has been 'principal regulator' for charity law purposes of those English universities which are exempt charities.

Governance

The University's constitution is set out in the Charter, Statutes and Ordinances. These are the overarching governance documents that outline the University's aims, structure, responsibilities and powers. These require the University to have two separate governing bodies, Council and Senate, each with clearly defined functions and responsibilities to oversee and manage the University's activities, as follows:

Council - is the governing body of the University, and is charged by the Charter with responsibility for "...the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University..." (Article 10 of the Charter). In carrying out its functions, the Council is bound by the terms of the 'Terms and conditions of funding for higher education institutions' between the Office for Students and the University.

Council has a membership consisting of *ex officio* members, lay members, representatives of both academic staff and other staff, and the President of the Students' Union (see below for Council membership). The Chair and Vice-Chair of Council are appointed from among the lay membership which forms a majority on the Council.

Council normally meets six times a year and receives reports on the functioning of the University and of its subsidiary companies.

These include the critical assessment of agreed Key Performance Indicators. Matters specifically reserved for Council decision include the Mission and strategic direction of the University, and the approval of budgetary allocations and major new developments.

Senate – is the University's main academic authority, and its responsibilities include (subject to Council approval where necessary) the direction and regulation of education and examinations, the award of degrees, and the promotion of research.

Whilst Council is the ultimate authority within the University, it cannot be directly involved in decision making on all matters for which it is formally responsible: the range of business undertaken inevitably means that some delegation of powers to individuals and to committees is necessary.

Audit Committee is responsible for reviewing the University's arrangements for matters of governance, internal control, risk management, data assurance, value for money and for reviewing and commenting on the annual financial statements and accounting policies. It meets four times a year with the University's senior officers and the external and internal auditors. The Committee will discuss detailed audit reports and recommendations for the improvement of the University's systems of control, together with management's response and implementation plans. The Committee also considers reports from the Office for Students relating to the conduct of business and monitors adherence to the regulatory requirements. Whilst senior executives are in attendance at meetings, they are not members of the Committee. The Committee members also meet twice a year separately with external and internal auditors for independent consultations.

Finance Committee considers and makes recommendations to Council regarding the University's financial plans and interests and takes into consideration both local constraints and aspirations together with the context of the wider environment of Higher Education funding, public policy and the demand for Higher Education services.

Nominations Committee is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University. The Committee also appoints the lay members of the Audit

Corporate Governance (continued)

Committee, Remuneration Committee, Finance Committee and Health & Safety Audit & Assurance Committee.

Remuneration Committee determines the remuneration of the President and Vice-Chancellor and members of the University Executive Board, and has oversight of the remuneration arrangements for other senior members of staff, including members of our professoriate and senior professional services staff. The members of Remuneration Committee are all lay members of Council; membership comprises the Chair of Council, the Vice-Chair of Council, the Treasurer and two other lay members of Council.

All of these committees are formally constituted with terms of reference and, with the exception of Remuneration Committee, comprise lay members (one of whom is in the chair) and academic members. All members of Council and of its committees, together with the executive officers, are subject to Standing Orders, which *inter alia* require the maintenance of a Register of Interests. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Council has other committees tasked with overseeing health and safety.

The University has complied with the key recommendations of the Committee of University Chairs' 'The Higher Education Code of Governance'. The Statement of Primary Responsibilities adopted by the University's governing body can be viewed at:

www.southampton.ac.uk/about/governance/council.page

President and Vice-Chancellor

The President and Vice-Chancellor is the principal academic and administrative officer of the University and has overall responsibility to Council for the executive management of the University. Under the 'Terms and conditions of funding for higher education institutions' between the Office for Students the President and Vice-Chancellor is the designated 'accountable officer', and in that capacity is required to advise Council on the discharge of all its responsibilities under the terms of funding and the Audit Code of Practice.

Statement of Internal Control

Council is responsible for maintaining a sound system of internal control that supports the achievement of the University's policies, aims and objectives, whilst safeguarding public and other funds and assets for which it is responsible. The system of internal control is designed to understand and manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore provide only a reasonable, but not absolute, assurance against financial misstatement or loss.

The internal control system has been in place for the year ended 31 July 2019 and up to the date of approval of the financial statements, and accords with Office for Students guidance.

The key elements of the system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities and delegated authority of Deans of Faculties or the Chief Operating Officer;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of business, operational, compliance and financial risk;
- regular reviews of overall performance and at least termly reviews of financial performance and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations approved by the Finance Committee, Audit Committee and Council.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks and the likelihood and impact of those risks becoming a reality; and to manage them efficiently, effectively and economically.

Corporate Governance (continued)

Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system.

Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council reviews the University's strategic risk register on a regular basis, and reviews the University Key Performance Indicators annually in July.

Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

Role of Council in the Preparation of the Financial Statements

Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the financial statements are prepared in accordance with the 'Statement of Recommended Practice (SORP): Accounting for Further and Higher Education' and other relevant accounting and financial reporting standards. In addition, within the 'Terms and conditions of funding for higher education institutions' between the Office for Students and the Council of the University, Council, through the President and Vice-Chancellor, is required to prepare financial statements for each financial year which give a true and fair view of the state

of affairs of the University and of the surplus or deficit and cash flows for that year.

Council has, through its committees and officers, ensured that in the preparation of the financial statements:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting and financial reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis has been used in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Office for Students are used only for the purposes for which they have been given and in accordance with the 'Terms and conditions of funding for higher education institutions' and any other conditions which the Funding Council may have prescribed;
- ensure that there are appropriate financial and management controls in place to safeguard funds from all sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

Members of Council have had due regard to the guidance on public benefit published by the Charity Commission in exercising their powers or duties.

Corporate Governance (continued)**Members of the Council**

There are five classes of Council membership.

Class 1: Officers

Class 2: Lay members appointed by the Council

Class 3: Academic members of staff

Class 4: Non-academic member of staff

Class 5: Representatives of the Students' Union

Membership for the period 1 August 2018 – 27 November 2019

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 27 Nov 2019	Attendance Aug 2018 – Jul 2019	Membership of other Committees of Council (including joint committees)
Mr PD Greenish CBE	Class 1 Chair	August 2018	July 2021	6/6	Standing Committee of Council Nominations Committee Remuneration Committee Finance Committee
Dame J Macgregor	Class 1 Vice-Chair	August 2018	July 2021	6/6	Remuneration Committee Standing Committee of Council Nominations Committee
Dr D J Price CBE	Class 1 Treasurer	August 2015	July 2021	6/6	Standing Committee of Council Nominations Committee Remuneration Committee Finance Committee
Professor Sir C Snowden	Class 1 President and Vice-Chancellor	October 2015	March 2019	3/3	Standing Committee of Council Nominations Committee Finance Committee
Professor M Spearing	Class 1 President and Vice-Chancellor (Interim)	March 2019	September 2019	3/3	Standing Committee of Council Nominations Committee Finance Committee
Professor M E Smith CBE	Class 1 President and Vice-Chancellor	October 2019		N/A	Standing Committee of Council Nominations Committee Finance Committee
Professor A Neill	Class 1 Vice President	August 2018	July 2019	4/6	Standing Committee of Council Nominations Committee
Mrs Winnie Eley	Class 1 Vice President	August 2019	August 2019	N/A	Standing Committee of Council Nominations Committee

Corporate Governance (continued)

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 27 Nov 2019	Attendance Aug 2018 – Jul 2019	Membership of other Committees of Council (including joint committees)
Professor A Neill	Class 1 Vice President	September 2019	September 2019	N/A	Standing Committee of Council Nominations Committee
Professor M Spearing	Class 1 Vice President	October 2019	July 2020	N/A	Standing Committee of Council Nominations Committee
Ms F Barnes	Class 2	November 2016	July 2022	6/6	Finance Committee Nominations Committee
Mr G Berruyer	Class 2	October 2015	January 2019	2/3	Remuneration Committee
Mr G Hobbs	Class 2	August 2016	July 2022	5/6	Audit Committee
Mr P Hollins	Class 2	April 2016	March 2022	3/6	Remuneration Committee
Mr W Shannon	Class 2	July 2015	July 2021	4/6	Finance Committee
Dr A Vincent	Class 2	August 2017	July 2020	6/6	Health & Safety Audit and Assurance Committee Remuneration Committee
Ms H Pawlby	Class 2	August 2017	July 2020	5/6	
Mr S Young	Class 2	March 2019	July 2022	1/2	Finance Committee (from September 2019)
Dame M Atkins	Class 2	March 2019	July 2022	1/2	
Professor J Holloway	Class 3	August 2018	July 2021	6/6	
Professor R Mills	Class 3	August 2017	July 2020	6/6	
Professor P Reed	Class 3	March 2016	July 2021	6/6	Nominations Committee
Mr R Cartwright	Class 3	August 2018	July 2021	6/6	
Mr A Reyes-Hughes	Class 4	August 2014	July 2020	6/6	
Mr S Gore	Class 5	July 2017	June 2018	3/4	
Ms E Dawes	Class 5	July 2018	September 2018	1/1	
Ms E Harrison	Class 5	July 2019	June 2020	1/1	

Independent Auditor's report to the Council of University of Southampton

Opinion

In our opinion the financial statements of University of Southampton (the 'university') and its subsidiaries (the 'group'):

- **give a true and fair view of the state of the group's and university's affairs as at 31 July 2019 and of the group's and the university's income and expenditure, gains and losses and changes in reserves and cash flows for the year then ended; and**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice: Accounting for Further and Higher Education.**

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income and expenditure;
- the consolidated and university balance sheets;
- the consolidated and university statements of changes in reserves;
- the consolidated statement of cash flows; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.



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 group and the university in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the university.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">● Recognition of research grant income.● Capitalisation of expenditure.● Valuation of the USS deficit. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used for the group financial statements was £8.0m which was determined on the basis of 1.4% of total incoming resources.</p>

Independent Auditor's report to the Council of University of Southampton (continued)

Scoping	The significant components of the group are the University of Southampton and the University of Southampton Science Park (USSP). An audit was performed on the University of Southampton, with a component materiality of £7.9m, while procedures were carried out on investment properties and non-current liabilities in USSP to a component materiality of £3.2m. These procedures covered 99% of group revenue and 99% of group net assets.
Significant changes in our approach	The key audit matters identified are consistent with those identified in the previous year, apart from in relation to the valuation of the Universities Superannuation Scheme (USS) deficit, which we did not identify as a key audit matter in the previous year. This is due to the fact that a new schedule of contributions was agreed in the year with the scheme administrator. This led to a significant increase in the provision required, thus making the provision more sensitive to the assumptions and judgments made by management.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the governing body's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the governing body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the university'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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of research grant income

Key audit matter description

The Group recognised £122m (2018: £116m) of research grant income in the year. Income on research grants is recognised in accordance with performance conditions that generally mean income is recognised when qualifying expenditure is incurred, although this can vary between agreements. This is an area that could therefore be subject to manipulation as performance conditions could be applied incorrectly, inappropriate income could be recognised or income could be recognised in the incorrect period. Incorrect recognition of income would also lead to the related accrued and deferred income being incorrectly stated.


We have identified a key audit matter in relation to research grant income totalling £122m (2018: £116m) as disclosed in note 5 of the accounts. There is a risk that income may be recognised where costs do not relate to a project, or are not eligible for recovery from the grantor. This risk applies specifically to grants totalling £58m (2018: £63m) that are for grants which are due to end within 12 months of year end and which are not part of an audit regime.

Details of the accounting policies applied are set out on page 36. This income is also included in the financial review on page 4, and is defined as a major financial risk on page 9.

Independent Auditor's report to the Council of University of Southampton (continued)

How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> • We evaluated the design and implementation of controls over the recognition of expenditure (and hence the related income) on research grants. • For a sample of research projects, we obtained the grant agreements and assessed whether there were any performance conditions attached to receipt of funding. We then tested whether income had been recognised in line with those conditions. • For the sample of projects above, we tested a sample of expenditure in order to establish whether it related to the project, and that it was eligible for recovery under the specific grant agreement. • For the sample of projects, we recalculated the income to be recognised in the year and the related accrued or deferred income to be recognised as at 31 July 2019.
Key observations	Based on the work performed we are satisfied that the recognition of research grant income is satisfactory.
Capitalisation of expenditure ➤	
Key audit matter description	<p>The Group recognised a total of £56m (2018: £47m) of additions to land and buildings and assets in course of construction in the year to 31 July 2019, as disclosed in Note 14.</p> <p>There is a judgement as to whether the expenditure included in this amount correctly meets the definitions of capital spend under FRS 102, and a consequent risk that items may have been inappropriately capitalised. This could be utilised as a method to manipulate the financial statements by capitalising amounts which should be recognised as expenditure in the Income Statement.</p> <p>Details of the accounting policies applied are set out on page 38. Capital expenditure is discussed in the financial review on page 4.</p>
How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> • We evaluated the design and implementation of controls over the classification of expenditure on capital projects as capital or revenue in nature. • We assessed management's accounting policies in this area as to their compliance with FRS 102. • For a sample of additions we tested the appropriateness of their accounting treatment against the standards set out in FRS102. • For that sample we assessed whether the expenditure met the required definitions to be recognised as capital.
Key observations	Based on the work performed we are satisfied that the expenditure capitalised is satisfactory.

Independent Auditor's report to the Council of University of Southampton (continued)

Valuation of the USS deficit 	
Key audit matter description	<p>As described in the statement of accounting policies, the Group participates in the USS. In the year, the 2017 triennial valuation of this scheme was completed, which identified an increase in the scheme deficit to £7.5 billion from £5.3 billion in 2014. A new schedule of contributions was agreed alongside this, which increased the level of contributions which the Group is required to make. These in turn have led to an increase in the provision recognised; the Group recognised a total provision of £141m (2018: £47m) at 31 July 2019 in relation to the Group's obligation to fund the deficit on the USS pension, as disclosed in Note 22.</p> <p>We have identified a key audit matter in relation to the valuation of the USS deficit obligation, accounted for in line with the 'Employee Benefits' section of the HE SORP. This is a new key audit matter this year, as due to the increase in the liability, the assumptions and judgments made by management in determining this amount will have a more significant impact than in previous years when the liability was lower. Key judgments include the setting of appropriate assumptions which can be subjective and influenced by multiple complex and changing factors. These judgments include the discount rate to use, the expected level of future salary increases and expected movements in headcount.</p> <p>Details of the accounting policies applied are set out on page 37. The valuation of the USS deficit is discussed in the financial review on page 5, and is defined as a major financial risk on page 9.</p>
How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> ● We evaluated the design and implementation of controls over the valuation of the USS defined benefit obligation. ● We have reviewed the methodology applied in valuing the liabilities recognised with reference to the British Universities Finance Directors' Group (BUFDG) guidance and models. ● We have considered the consistency of the key assumptions year on year and challenged the University specific assumptions determined by management by considering the consistency with forecasts, the accuracy of previous assumptions and benchmarking the University's assumptions against the sector. ● We have involved internal actuarial specialists to review the assumptions used in the valuation. ● We have reviewed management's sensitivity analysis, and have performed further analysis on the sensitivity of the assumptions used by management.
Key observations	<p>Based on the work performed we are satisfied that the balances recognised in relation to the USS deficit obligation are satisfactory.</p>

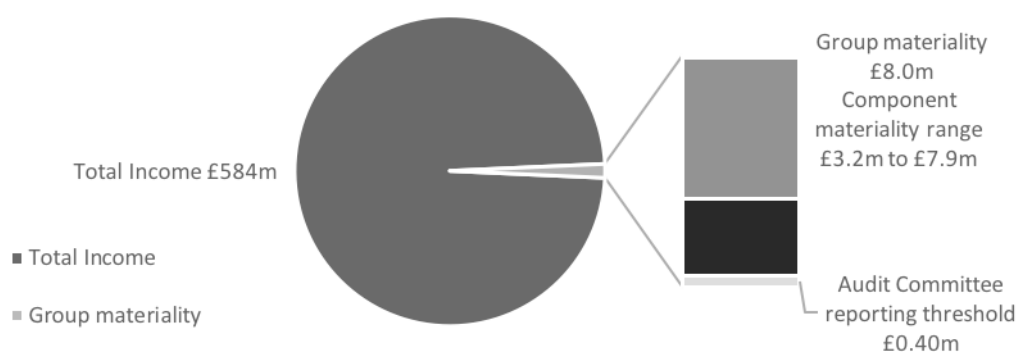
Independent Auditor's report to the Council of University of Southampton (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	University financial statements
Materiality	£8.0m (2018: £7.5m)	£7.9m (2018: £7.0m)
Basis for determining materiality	1.4% of incoming resources (2018: 1.3% of incoming resources).	Materiality of the university represents 1.4% of incoming resources (2018: 1.2% of incoming resources)
Rationale for the benchmark applied	We use total incoming resources as the benchmark for determining materiality as we deem this reflects the underlying performance of the business and is a key metric for users of the financial statements.	We use total incoming resources as the benchmark for determining materiality as we deem this reflects the underlying performance of the business and is a key metric for users of the financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £400k (2018: £350k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the nature of the University and its subsidiaries, and assessing the risks of material misstatement at the group level. The University has eight subsidiary companies which form part of the consolidation, including subsidiaries based in Malaysia and Singapore. All subsidiaries are wholly owned by the University. The scope of our audit is summarised in the table below.

Component	Component Materiality £m	Scope
University of Southampton	7.9 (2018: 7.5)	Full audit to component materiality.
University of Southampton Science Park	3.2 (2018: 3.0)	Audit of specified account balances to component materiality, being audit work performed on the valuation of the investment properties and work performed on non-current liabilities (borrowings)
Other non-dormant subsidiaries	n/a (2018: n/a)	Reviews at group level.

Independent Auditor's report to the Council of University of Southampton (continued)

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified accounts balances. All audit work on subsidiaries was performed directly by the group engagement team.

Our scoping decisions were made to ensure that all significant balances were covered by our audit procedures. Specifically, our full audit procedures cover 99% (2018: 99%) of group income, and 95% (2018: 95%) of Property Plant and Equipment (the only significant contribution to net assets driven by a component which is not the university itself). This scope is consistent with the approach adopted in the prior year.

Other information

The governing body is responsible for the other information. The other information comprises the information included in the Strategic Report, Public Benefit Statement and Corporate Governance Statement, other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

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.

Responsibilities of the governing body

As explained more fully in the governing body's responsibilities statement, the governing body is 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 governing body determines 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 governing body is responsible for assessing the group's and the university'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 governing body either intends to liquidate the group or the university or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Independent Auditor's report to the Council of University of Southampton (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including real estate, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in recognition of research grant income and capitalisation of expenditure. Recognition of research grant income represents a fraud risk as this is an area that could be subject to manipulation through incorrect application of performance conditions, recognition of income based on recording ineligible expenditure or recognising income in the incorrect period. Capitalisation of expenditure represents a fraud risk as this could be utilised as a method to manipulate the financial statements by capitalising amounts which should be recognised as expenditure in the Income Statement.
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the OfS regulatory framework and the Higher Education Act.

Audit response to risks identified

As a result of performing the above, we identified recognition of research grant income and capitalisation of expenditure as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the OfS and HEFCE; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's report to the Council of University of Southampton (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Office for Students (OfS) "Regulatory Advice 9: Accounts Direction"

In our opinion, in all material respects:

- funds from whatever source administered by the university for specific purposes during the year ended 31 July 2019 have been applied to those purposes and managed in accordance with relevant legislation;
- funds provided the OfS and by Research England have been applied in accordance with the terms and conditions of the Accounts Direction and any other terms and conditions attached to them during the year ended 31 July 2019; and
- the requirements of the OfS's accounts direction have been met.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the governing body on 4 December 2017 to audit the financial statements for the year ending 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 July 2018 to 31 July 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the governing body in accordance with the charter and statutes of the University. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it 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 board of governors as a body, for our audit work, for this report, or for the opinions we have formed.



Craig Wisdom FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

St Albans, UK

27 November 2019

Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2019

	Notes	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
Income					
Tuition fees and education contracts	3	250,701	259,212	249,098	257,704
Funding body grants	4	79,641	79,071	79,641	79,071
Research grants and contracts	5	122,209	116,634	121,636	116,244
Other income	6	118,316	117,724	114,595	113,906
Investment income	7	7,867	2,960	8,190	3,287
Donations and endowments	8	5,576	7,146	5,576	7,146
Total income		584,310	582,747	578,736	577,358
Expenditure					
Staff costs excluding movements in the USS deficit funding accrual	9	315,154	312,861	313,121	311,074
Increase/(decrease) in the USS deficit funding accrual accounted for within staffing costs	9	93,219	(8,373)	93,219	(8,373)
Staff costs	9	408,373	304,488	406,340	302,701
Other operating expenses	10	194,707	196,894	192,310	195,109
Depreciation and amortisation	12	34,288	34,944	34,005	34,699
Interest and other finance costs	11	17,319	17,761	17,677	17,767
Total expenditure		654,687	554,087	650,332	550,276
(Deficit)/Surplus before other gains/losses		(70,377)	28,660	(71,596)	27,082
Gain/(loss) on investments		1,225	328	(2,330)	146
(Loss)/gain on disposal of fixed assets		(1,653)	2,007	(1,653)	2,007
Share of operating deficit in associate		(53)	(108)	-	-
(Deficit)/Surplus before tax		(70,858)	30,887	(75,579)	29,235
Taxation	13	(173)	(77)	-	(58)
(Deficit)/Surplus for the year after tax		(71,031)	30,810	(75,579)	29,177

Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2019 (continued)

	Notes	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
(Deficit)/Surplus for the year after tax		(71,031)	30,810	(75,579)	29,177
Other comprehensive (expenditure)/income					
Actuarial (loss)/gain in respect of pension schemes	28	(34,699)	22,458	(34,699)	22,458
Total comprehensive (expenditure)/ income for the year		(105,730)	53,268	(110,278)	51,635
Represented by :					
Endowment comprehensive (expenditure)/ income for the year		(42)	139	(42)	139
Restricted comprehensive income/(expenditure) for the year		3,492	(16,645)	3,492	(16,645)
Unrestricted comprehensive (expenditure)/ income for the year		(109,180)	69,774	(113,728)	68,141
		(105,730)	53,268	(110,278)	51,635

All items of income and expenditure relate to continuing operations.

Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2019

Consolidated	Income and Expenditure account			Total
	Endowment	Restricted	Unrestricted	
	£000	£000	£000	
Balance at 1 August 2017	12,944	18,662	472,501	504,107
Surplus from the income and expenditure statement	139	7,405	23,266	30,810
Other comprehensive income	-	-	22,458	22,458
Release of restricted capital funds spent in the year	-	(24,050)	24,050	-
	139	(16,645)	69,774	53,268
Balance at 1 August 2018	13,083	2,017	542,275	557,375
(Deficit)/surplus from the income and expenditure statement	(42)	7,748	(78,737)	(71,031)
Other comprehensive expenditure	-	-	(34,699)	(34,699)
Release of restricted capital funds spent in the year	-	(4,256)	4,256	-
Total comprehensive (expenditure)/income for the year	(42)	3,492	(109,180)	(105,730)
Balance at 31 July 2019	13,041	5,509	433,095	451,645

University	Income and Expenditure account			Total
	Endowment	Restricted	Unrestricted	
	£000	£000	£000	
Balance at 1 August 2017	12,944	18,662	467,739	499,345
Surplus from the income and expenditure statement	139	7,405	21,633	29,177
Other comprehensive income	-	-	22,458	22,458
Release of restricted capital funds spent in the year	-	(24,050)	24,050	-
	139	(16,645)	68,141	51,635
Balance at 1 August 2018	13,083	2,017	535,880	550,980
(Deficit)/surplus from the income and expenditure statement	(42)	7,748	(83,285)	(75,579)
Other comprehensive expenditure	-	-	(34,699)	(34,699)
Release of restricted capital funds spent in the year	-	(4,256)	4,256	-
Total comprehensive (expenditure)/income for the year	(42)	3,492	(113,728)	(110,278)
Balance at 31 July 2019	13,041	5,509	422,152	440,702

Consolidated and University Balance Sheet as at 31 July 2019

	Notes	Consolidated		University	
		2019 £000	2018 £000	2019 £000	2018 £000
Non-current assets					
Tangible fixed assets	14	739,942	712,767	700,377	674,718
Heritage assets	14	6,035	6,035	6,035	6,035
Intangible assets	15	629	1,447	629	1,447
Investments	16	2,414	2,601	18,146	21,042
Investment in associate	17	138	191	-	-
		749,158	723,041	725,187	703,242
Current assets					
Stock		775	669	775	669
Trade and other receivables	18	72,722	68,431	78,056	73,894
Investments	19	423,162	225,581	423,162	225,581
Cash and cash equivalents		61,525	261,657	59,350	258,580
		558,184	556,338	561,343	558,724
Less: Creditors: amounts falling due within one year	20	(159,337)	(162,200)	(155,798)	(158,384)
Net current assets		398,847	394,138	405,545	400,340
Total assets less current liabilities		1,148,005	1,117,179	1,130,732	1,103,582
Creditors: amounts falling due after more than one year	21	(416,473)	(420,410)	(411,191)	(414,078)
Provisions					
Pension provisions	22	(278,839)	(138,524)	(278,839)	(138,524)
Other provisions	22	(1,048)	(870)	-	-
Total net assets		451,645	557,375	440,702	550,980
Represented by:					
Restricted Reserves					
Income and expenditure reserve - endowment reserve	23	13,041	13,083	13,041	13,083
Income and expenditure reserve - restricted reserve	24	5,509	2,017	5,509	2,017
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		433,095	542,275	422,152	535,880
Total reserves		451,645	557,375	440,702	550,980

The financial statements were approved by the Council on 27 November 2019, and signed on its behalf by:



Professor Mark E Smith
President and Vice-Chancellor



Philip Greenish
Chair of Council



Sarah Pook
Executive Director, Finance and Planning

Consolidated Statement of Cash Flows for the year ended 31 July 2019

	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000
Cash flow from operating activities		
(Deficit)/surplus for the year	(71,031)	30,810
Adjustment for non-cash items		
Depreciation and amortisation	34,288	34,944
Gain on investments	(1,225)	(328)
Investment in kind	(58)	-
Increase in impairment of investments	50	95
Increase in stock	(106)	(13)
Increase in trade and other receivables	(5,695)	(570)
Increase in creditors	4,482	15,538
Increase in pension provision	105,616	903
Increase in other provisions	178	128
Receipt of donated equipment and software	(183)	(753)
Exchange rate loss on loans	85	17
Gain on revaluation of investment property	(1,311)	(177)
Gain on financial instruments	(65)	(145)
Share of operating deficit in associate	53	108
Adjustment for investing or financing activities		
Investment income	(7,867)	(2,960)
New endowments	(211)	(2)
Capital grant income	(6,532)	(7,957)
Interest payable	14,276	14,237
Loss/(gain) on the disposal/write-down of fixed assets	2,728	(2,007)
Net cash inflow from operating activities	67,472	81,868

Consolidated Statement of Cash Flows for the year ended 31 July 2019

	Year ended 31 July 2019	Year ended 31 July 2018
	£000	£000
Cash flows from investing activities		
Capital grants receipts	7,826	18,816
Payments made to acquire tangible assets	(69,013)	(57,807)
Receipts/(Payments) made to acquire intangible assets	10	(55)
Payments made to acquire fixed asset investments	(100)	(100)
Proceeds from disposal of tangible assets	-	9,796
Proceeds from disposal of fixed asset investments	5	-
Net (investment in)/divestment from current investments	(196,065)	108,636
Investment income	7,977	2,938
Net cash inflow/(outflow) from investing activities	(249,360)	82,224
Cash flows from financing activities		
Interest paid	(14,241)	(14,209)
New endowments	211	2
Repayment of amounts borrowed	(3,894)	(3,811)
Capital element of finance lease repayments	(320)	(299)
Net cash outflow from financing activities	(18,244)	(18,317)
(Decrease)/increase in cash and cash equivalents in the year	(200,132)	145,775
Cash and cash equivalents at beginning of the year	261,657	115,882
Cash and cash equivalents at end of the year	61,525	261,657
(Decrease)/increase in cash and cash equivalents in the year	(200,132)	145,775

Notes to the Financial Statements for the year ended 31 July 2019

1. Statement of principal accounting policies

a. General

The University of Southampton is a chartered corporation established by Royal Charter in 1952, and an exempt charity under the terms of the Charities Act 2011. Its principal place of business is University Road, Southampton, Hampshire, United Kingdom.

b. Basis of accounting

These financial statements have been prepared in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and the applicable accounting standard Financial Reporting Standard 102 (FRS 102). The financial statements comply with the requirements of FRS 102.

The financial statements are prepared in accordance with the historical cost convention, modified to include certain items at fair value.

The University has taken the exemption permitted under FRS 102 to not produce a cash flow statement for the University. A group cash flow statement is provided on page 34.

The University is a public benefit entity and therefore has applied the relevant public benefit requirements of FRS 102.

c. Basis of consolidation

The consolidated financial statements combine the financial statements of the University and its subsidiary undertakings for the financial year to 31 July.

Where the financial statements of subsidiary companies are denominated in foreign currency, income and expenditure are converted to sterling for consolidation on the basis of the average exchange rate for the accounting period and the balance sheet is converted using the rate at the balance sheet date. Any resulting exchange rate differences are recognised in the Statement of Comprehensive Income.

The consolidated Statement of Comprehensive Income includes the Group's share of the comprehensive income of associated undertakings and the Consolidated Balance Sheet includes the investment in associated undertakings at the Group's share of their underlying net tangible assets (the 'equity method'). Associated undertakings are those in which the Group has significant, but not dominant, influence over their commercial and financial policy decisions.

The consolidated financial statements do not include the income and expenditure of the University of Southampton Students' Union as it is a separate entity over which the University does not exert control or significant influence over policy decisions.

A 20% non-controlling interest exists in Southampton Asset Management Ltd, a subsidiary company. The value of this minority interest is insignificant and it has therefore not been disclosed within the financial statements.

d. Income recognition

Grant funding

Grant funding including funding council block grants, research grants from government sources and grants (including research grants) from non-government sources are recognised as income when the University is entitled to the income and performance related conditions specified in the agreement have been met. In the absence of any performance conditions income is recognised in full as soon as it becomes receivable.

Income received in advance of any performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as the conditions are met. Where grants are received in arrears income is recognised in line with the performance conditions which have been met.

Tuition fees

Fee income is stated gross of any expenditure and credited to the Statement of Comprehensive Income over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Provision of goods or services

Income from the sale of goods or services is credited to the Statement of Comprehensive Income when the goods or services are supplied or the terms of the contract have been satisfied. Where services are being rendered, but are not complete at the end of the period, income is recognised with reference to the stage of completion/degree of provision of the service, as determined on an appropriate basis for each contract.

Operational decision making is based on the activities of the whole institution, and this, along with the fact that materially all of the University's income and expenditure relates to its principal activities and originates in the UK, means that there is only one operating segment, and no segmental reporting is therefore reported.

Notes to the Financial Statements for the year ended 31 July 2019

Donations and endowments

Donation income is accounted for under the Performance Model and can be split into the following types of donation:

- *Donated income with performance conditions*
Income is recognised within the Statement of Comprehensive Income when receivable (legal/contractual commitment) and performance conditions have been met.
- *Donations with restrictions*
A donation is considered to have a restriction when the gift agreement contains “a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition.”
Income with restrictions, but no performance conditions, is recognised within the Statement of Comprehensive Income when the grant is receivable (legal/contractual commitment) and recorded within restricted reserves. As the funding is expended against the restriction it is transferred to unrestricted reserves by way of a reserves transfer.
- *Donations without restrictions*
Income with neither restrictions nor performance conditions is recognised within the Statement of Comprehensive Income when the University is entitled to the income and recorded within unrestricted reserves.

Endowments are a class of donation where the donor requires the original gift to be invested, with the return to be spent against the donor’s charitable aims. The donor can specify that the capital can be spent (expendable endowment) or maintained in perpetuity (permanent endowment). In addition, the donor can specify how the gift and any associated income should be spent (a restricted endowment) or give the funds for the general benefit of the University (unrestricted endowment).

An endowment gift is recognised in the Statement of Comprehensive Income when the University is entitled to the gift. Investment income and appreciation of endowments is recognised in the year in which it arises and is either restricted or unrestricted income according to the terms of the restriction applied to each individual endowment fund.

Capital grants

Capital grants received for the purpose of purchasing or constructing specific assets are recognised as income when the University is entitled to the funds subject to any performance

related conditions being met. Grants where the University has discretion over the assets being purchased or built are recognised in full as income when the University is entitled to the income.

Interest

Interest is credited to the Statement of Comprehensive Income on a receivable basis.

Agency income

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

e. Accounting for retirement benefits

The two principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS) closed to new members from 01/01/19. The University of Southampton Retirement Fund (USRF) commenced from 01/01/19 for new members. The University also contributes to the National Health Service Pension Scheme (NHPS), Hampshire County Council (HCC), National Employment Savings Trust (NEST) and schemes relating to subsidiary companies. A small number of staff remain in other schemes.

The USS is a multi-employer scheme for which it is not possible to identify the assets and liabilities of each university due to the mutual nature of the scheme and therefore this scheme is accounted for as a defined contribution retirement benefit scheme. A liability is recorded within provisions for any contractual commitment to fund past deficits within the USS scheme.

PASNAS and HCC are defined-benefit schemes, the assets of which are held in trustee-administered funds which are valued every three years by professionally qualified independent actuaries. NHPS is externally funded and the University’s share of the underlying assets and liabilities of the scheme cannot be identified, therefore this is accounted for as if it were a defined contribution scheme.

Defined benefit schemes

Defined benefit schemes are post-employment benefit schemes other than defined contribution schemes. Under defined benefit schemes, the University’s obligation is to provide the agreed

Notes to the Financial Statements for the year ended 31 July 2019

benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The University recognises a liability for its obligations under defined benefit schemes net of scheme assets.

The net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Defined contribution schemes

A defined contribution scheme is a post-employment benefit scheme under which the University pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Statement of Comprehensive Income in the year during which services are rendered by employees.

f. Employment benefits

Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the period in which the employees render service to the University. Any unused benefits which have accrued at each balance sheet date are recognised as a liability, with the expense being recognised as staff costs in the Statement of Comprehensive Income.

g. Leases

Finance leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases.

Leased assets acquired by way of a finance lease and the associated lease liability are stated at the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term. Any lease premiums or incentives are spread evenly over the minimum lease term.

h. Foreign currency

Transactions denominated in foreign currencies are recorded in the Statement of Comprehensive Income at the actual rate of exchange on conversion to sterling. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate prevailing at that date.

Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

i. Tangible fixed assets

Tangible fixed assets are stated at cost and depreciated on a straight-line basis over a term based on the expected useful economic life of the asset.

Land is not depreciated. Buildings capitalised prior to 1 August 2015 are depreciated over their useful lives which is a period not exceeding fifty years. Since 1 August 2015, where the major components of buildings have significantly different useful lives, the initial cost of the asset or the replacement cost of a component shall be allocated to its major components and each component depreciated separately over its useful life (between eight and fifty years depending on the component and not exceeding the building's useful life).

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are ready for use.

Leasehold buildings are depreciated on the same basis as freehold buildings subject to the expected life of the building not exceeding the period of the lease.

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written

Notes to the Financial Statements for the year ended 31 July 2019

off in the year of acquisition. All other equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Equipment capitalised by the University is generally stated at cost and depreciated over three years. Large scale items of equipment and computer infrastructure are depreciated over a period equal to their expected useful economic life. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods of between three and ten years.

An impairment review of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

j. Heritage assets

Artefacts held and conserved principally for their contribution to knowledge and culture, obtained since 1 August 2010, costing over £25,000, are normally capitalised and held at the lower of cost or net realisable value. Where assets are fully or substantially donated, they are capitalised and held at the lower of valuation at the time of acquisition or net realisable value.

Heritage assets are not depreciated as their long economic lives mean that any depreciation would be immaterial but they are regularly reviewed for impairment.

Income received to support the purchase of heritage assets is recognised when the University is entitled to the income.

The University holds a number of heritage assets obtained before 1 August 2010 that are not capitalised as the historical cost or valuation at the time of acquisition cannot be determined in a cost beneficial manner.

k. Intangible assets

Intangible assets costing less than £25,000 per individual item or group of related items are written off in the year of acquisition. Intangible assets capitalised by the University are generally stated at cost and amortised over three years on a straight-line basis. Significant assets are amortised over a period equal to their expected useful economic life (up to a maximum period of eight years).

An impairment review of an intangible asset is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

l. Gifts in kind

Gifts in kind are included as fixed assets and depreciated in accordance with the policy set out above. The value of the donation is included in the Statement of Comprehensive Income in the period in which it is received, using a reasonable estimate of the gross value or the amount actually realised.

m. Investment properties

Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Statement of Comprehensive Income. Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

n. Investments

All investments are initially recognised at cost and subsequently measured at fair value at each reporting date, with movements recognised in the Statement of Comprehensive Income. For non-trading investments where fair value cannot be reliably measured, they will be measured at cost less impairment.

Investments in subsidiary undertakings and associates are accounted for at cost less accumulated impairment losses.

All gains and losses on investment assets are recognised in the Statement of Comprehensive Income for that period.

o. Stock

The stocks are centrally held items for cleaning, maintenance and resale, and cochlear implants awaiting issue to patients. Stock is held at the lower of cost and net realisable value.

p. Cash and cash equivalents

Cash includes cash in hand, cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Deposit investments are deemed to be cash equivalents if they have a maturity of three months or less from the date of acquisition.

Cash and cash equivalents contain sums relating to endowment reserves which the University is restricted as to how they disburse.

q. Financial instruments

As allowable under FRS 102 the University has adopted the

Notes to the Financial Statements for the year ended 31 July 2019

option to apply the recognition, measurement and disclosure requirements of sections 11 and 12 of FRS 102. Financial assets and financial liabilities are recognised when the University becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified at fair value through the Statement of Comprehensive Income, which are initially measured at fair value (normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Investments

Investments in non-convertible preference shares and non-puttable ordinary or preference shares (where shares are publicly traded or their fair value is reliably measurable) are measured at fair value through the Statement of Comprehensive Income. Where fair value cannot be measured reliably, investments are measured at cost less impairment. In the University's Balance Sheet, investments in subsidiaries are measured at cost less impairment.

Loans

Loans which are basic financial instruments (as defined in paragraph 11.9 of FRS 102) are initially recorded at the transaction price, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method and are subject to an annual impairment review.

Public bonds

Bonds are initially measured at the proceeds of issue less all transaction costs directly attributable to the issue. After initial recognition, the bonds are measured at amortised cost using the effective interest rate method. Under this method the discount at which the bonds were issued and the transaction costs are accounted for as an additional interest expense over the term of the bonds.

Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are then revalued annually with any gains or losses being reported in the Statement of Comprehensive Income. The fair values are calculated by the bank from proprietary models based upon well recognised financial

principles, data sources believed to be reliable and reasonable estimates about relevant future market conditions.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

r. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- (a) the University has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

s. Comparatives

Where accounting practice has changed, the prior year comparatives have been revised accordingly.

Where new Financial Reporting Standards have been implemented or notes have been enhanced to provide additional information, comparative figures have been amended accordingly.

t. Taxation

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011. It is therefore a charity within the meaning of Para. 1 of Schedule 6 to the Finance Act 2010 and accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

The University's subsidiaries are liable to Corporation Tax in the same way as other commercial organisations however, the overall

Notes to the Financial Statements for the year ended 31 July 2019

taxation liability of the group is minimised through using the Gift Aid scheme.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised only if they are more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

u. Reserves

Reserves are classified as restricted and unrestricted reserves. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

Notes to the Financial Statements for the year ended 31 July 2019

2. Significant estimates and judgements

In the process of applying its accounting policies, the University is required to make certain estimates, judgements and assumptions that management believe are reasonable based on the information available. These are reviewed on a regular basis by senior management.

The University's management has sought to adopt those accounting policies most appropriate to the circumstances for the purpose of presenting fairly the Group's financial position, financial performance and cash flows. In determining and applying those accounting policies, judgement is often required in respect of items where the choice of specific policy, accounting estimate or assumption could materially affect the reported results or net asset position of the University.

A number of material judgements and significant estimates have been used in the preparation of the financial statements which are detailed below.

Key judgements

- USS pension provision

The University has a contractual commitment to fund past deficits arising within the Universities Superannuation Scheme (USS), and under FRS 102 (Section 28) this obligation is recognised as a liability on the balance sheet and the resulting expense in the Statement of Comprehensive Income. The recovery plan in the 2017 actuarial valuation requires employers to contribute 5% of salaries towards repairing the deficit over a period of 15 years to 2034. Details of this provision, which has been discounted at a rate of 1.62% as at 31 July 2019, are included in note 22.

A 1% increase in the discount rate would reduce the charge to the Income and Expenditure Statement by £11.5m.

A 1% decrease in the discount rate would increase the charge to the Income and Expenditure Statement by £12.9m.

The calculation of the provision has required management to make a judgement regarding the prevailing discount rate. This has been determined by reference to average market yields at the reporting date on high quality corporate bonds (bond rating AA) whose term covers the remaining duration of the recovery plan.

Estimation uncertainties and assumptions

- Defined benefit scheme pension provision

The University contributes to two defined benefit pension schemes for which a provision is recorded in the Balance Sheet; these are University of Southampton Pension and Assurance Scheme (PASNAS) and Hampshire County Council (HCC). The recognised pension deficit liability is based on the valuation provided by professionally qualified independent actuaries which is based on a number of assumptions. These include the future cash flows of the Scheme, the discount rate used (which is based on average AA rated UK corporate bond rates that reflect the duration of our liability), the pensionable salary growth going forward and proposed price inflation (which is based on the Retail Price Index). Further details on these assumptions can be found in note 28.

The net interest expense is based on the interest rates of AA rated corporate bonds and the deficit position.

Management review the assumptions made to derive the provisions recorded within the Balance Sheet to ensure that they are reasonable.

- USS pension provision

In addition to the judgement on the discount rate, the value of the USS pension provision is based on management's estimate of expected changes in staffing levels and pay increases. These are based on the University's business plans which have been reviewed and approved by the University's governing body.

The provisions made are based on the 2017 valuation requiring an increase of employer contributions of 5% from April 20 over a period of 14 years to 2034. Based on the inputs used to determine the current provision, the following sensitivity analysis outlines the potential impact on the existing liability of £141 million (assuming the same discount rate of 1.62%):

- a 1% increase in the deficit contribution rate from 5.0% to 6.0% would have the impact of increasing the provision by £28 million to £169 million;

- Revaluation model for investment property

The University of Southampton Science Park is an investment property which is valued each year by an independent valuation specialist. The property is stated at fair value with changes in the fair value being recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements for the year ended 31 July 2019

The valuer uses a valuation technique based on the net present value of contracted future rental streams. This valuation method requires assumptions to be made regarding the estimated yield from the property and the level of long-term occupancy rates. Management acknowledges that changes to these assumptions can derive a different valuation, but accept that the assumptions used are reasonable based on past performance and existing lease commitments.

Events after the reporting period

As set out in note 28 in respect of the USS pension scheme, a new Schedule of Contributions based on the 2018 actuarial valuation was agreed in September 2019. Application of this at 31 July 2019 would result in a decrease of £63 million in the provision for the obligation to fund the deficit on the USS pension which would instead be £78 million based on other assumptions remaining consistent until those used to calculate the 31 July 2019 liability under the 2017 schedule. This adjustment will be reflected in the University's Financial Statements for the year ended 31 July 2020.

Notes to the Financial Statements for the year ended 31 July 2019

3. Tuition fees and education contracts

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Full-time home/EU students	134,233	142,455	134,233	142,455
Full-time international students	84,215	86,448	82,612	84,940
Part-time home/EU students	3,103	3,110	3,103	3,110
Part-time international students	544	612	544	612
Research training support grants	19,255	18,510	19,255	18,510
Special and short course fees	9,351	8,077	9,351	8,077
	250,701	259,212	249,098	257,704

Included in the above is £8,566,000 (2018: £13,535,000) of NHS Teaching Contract income in respect of full and part-time fees.

Other income from health authorities is disclosed under note 6.

Fee income is stated net of waivers and discounts.

4. Funding body grants

	Consolidated and University	
	2019	2018
	£000	£000
Recurrent grants:		
Office for Students and Research England	65,375	64,072
National College for Teaching and Leadership	1	50
Specific grants:		
Office for Students and Research England	7,733	6,992
Capital grants	6,532	7,957
	79,641	79,071

Notes to the Financial Statements for the year ended 31 July 2019

5. Research grants and contracts

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Income:				
UK Research councils	48,078	48,561	48,078	48,561
UK based charities	15,840	13,808	15,840	13,800
UK Central/Local Government, health authorities and hospitals	20,616	18,035	20,608	18,035
UK industry, commerce and public corporations	8,481	8,162	8,108	7,939
EU Government bodies	16,420	16,147	16,364	16,147
EU other sources	3,450	2,904	3,428	2,852
Other overseas sources	8,942	8,406	8,855	8,323
Other sources	382	346	355	322
Research and development expenditure credit (RDEC) claims from HMRC	-	265	-	265
	122,209	116,634	121,636	116,244

Notes to the Financial Statements for the year ended 31 July 2019

6. Other income

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Residences, catering and conferences	41,901	42,384	41,901	42,384
Consultancies, trading and services rendered	41,717	43,565	40,332	41,548
Health authorities	10,195	10,363	10,195	10,363
Other income	24,503	21,412	22,167	19,611
	118,316	117,724	114,595	113,906

7. Investment income

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Investment income on endowments	210	250	210	250
Other investment income	7,657	2,710	7,980	3,037
	7,867	2,960	8,190	3,287

The increase in other investment income is mainly due to the full year effect of our investments held with Royal London which generated income of £5.3 million over the year.

8. Donations and endowments

	Consolidated and University	
	2019	2018
	£000	£000
New endowments	211	2
Donations with restrictions	4,572	6,438
Unrestricted donations	793	706
	5,576	7,146

Notes to the Financial Statements for the year ended 31 July 2019

9. Staff costs

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Staff costs :				
Salaries and wages	241,985	239,987	240,190	238,395
Social Security costs	24,162	24,247	24,083	24,192
Pension costs	47,721	45,171	47,562	45,031
Severance and early retirement	1,286	3,456	1,286	3,456
Total cost excluding USS pension provision	315,154	312,861	313,121	311,074
Increase/(decrease) in USS pension provision	93,219	(8,373)	93,219	(8,373)
Total cost including USS pension provision	408,373	304,488	406,340	302,701

	Consolidated		University	
	2019	2018	2019	2018
	Number	Number	Number	Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:				
Education, research and enterprise	2,649	2,745	2,628	2,730
Management, specialist and administrative	2,141	2,117	2,111	2,083
Technical and experimental	368	362	366	360
Community and operational	445	471	445	471
	5,603	5,695	5,550	5,644

Notes to the Financial Statements for the year ended 31 July 2019

9. Staff costs (continued)**Emoluments of the President and Vice-Chancellor**

Professor Sir Christopher Snowden (end date 8th March 2019)

	2019	Restated 2018
	£000	£000
Salary	256	423
Payment in lieu of accrued but untaken holiday	8	-
Performance-related bonus	-	-
Taxable benefits	3	4
Non-Taxable Benefits	4	6
	271	433
USS Scheme deficit recovery charge (2.1%) - non-contributory*	5	9
	276	442

2018 restated to include the non-taxable benefit of use of the official residence

* The University contributed £5,368 (2018: £8,875) to the USS Scheme in respect of deficit recovery contributions, based on 2.1% of the Vice-Chancellor's salary.

Professor Mark Spearing (President and Vice-Chancellor (Interim) start date 9th March 2019)

	2019	2018*
	£000	£000
Salary	84	-
Performance-related bonus	-	-
Taxable benefits	-	-
	84	-
Employers pension contributions	12	-
	96	-

*No comparatives for 2018 as Professor Spearing's term of office as President and Vice-Chancellor (Interim) began on 9 March 2019.

Notes to the Financial Statements for the year ended 31 July 2019

9. Staff costs (continued)**Salary**

Sir Christopher retired from the University on 8 March 2019. He was paid a full year equivalent salary of £422,598 (2018: £422,598) until his retirement, with no entitlement to any bonuses. In accordance with standard university policy he received a payment of £8,105 on departure in respect of accrued holiday which he was unable to take before leaving because of his work commitments and which represented no increase in salary. His salary increased only once during his tenure, in line with the 1.1% national inflationary uplift in August 2016. Sir Christopher was not an active member of a pension scheme, and so the University made no contributions to his pension.

Sir Christopher's remuneration reflected the market value and availability of his proven skills, experience and expertise at the time of his appointment. During his tenure at Southampton, he delivered marked improvements in our entry tariff, NSS results, and all national and international league table positions, alongside fostering stronger financial management and investment through a £300 million bond for important infrastructure development in the University.

Professor Mark Spearing was appointed as President and Vice-Chancellor (interim) from 9 March 2019, alongside his substantive role as Vice-President Research and Enterprise. During this interim appointment, Professor Spearing was paid a full year equivalent salary of £212,018 which included his underlying salary as Vice-President Research and Enterprise and an additional responsibility allowance to recognise his interim responsibilities as President and Vice-Chancellor.

Excluding casual workers, Sir Christopher's annualised total remuneration was 11.2 times higher (2018: 11.1 times higher, including non-taxable benefits) than the £40,514 per annum median total remuneration of all University employees (2018: £39,992 per annum); his annualised basic salary was 12.4 times higher (2018: 12.2 times higher) than the £34,239 per annum median basic salary of all University employees (2018: £34,520 per annum). From 9 March 2019, Professor Spearing's annualised total remuneration was 6.0 times higher than the £40,514 per annum median total remuneration of all University employees; his annualised basic salary was 6.2 times higher than the £34,239 per annum median basic salary of all University employees.

Including casual workers, Sir Christopher's annualised total remuneration was 13.5 times higher (2018: 14.0 times higher, including taxable benefits) than the £33,548 per annum median total remuneration of all University employees and casual workers (2018: £31,604 per annum); his annualised basic salary was 14.3 times higher (2018: 14.6 times higher) than the £29,593 per annum median basic salary of all University employees and casual workers (2018: £28,927 per annum). From 9 March 2019, Professor Spearing's annualised total remuneration was 7.2 times higher than the £33,548 per annum median total remuneration of all University employees and casual workers; his annualised basic salary was 7.1 times higher than the £29,593 per annum median basic salary of all University employees and casual workers.

Taxable benefits

In common with other senior post holders, the University provided Sir Christopher with single membership of a healthcare scheme to help ensure his availability for work, at a cost of £523 from 1 August 2018 to 8 March 2019 (2018: £872).

As an existing senior post holder, the University already provided Professor Spearing with single membership of a healthcare scheme in his capacity as Vice-President Research and Enterprise. This was maintained whilst he served as President and Vice-Chancellor (interim), at a cost of £353 from 9 March 2019 to 31 July 2019.

For the better performance of his official duties, and as required by contract, Sir Christopher lived at the Vice-Chancellor's official residence in Southampton whilst serving as President and Vice-Chancellor. The residence is used regularly for University meetings and official functions. These living arrangements incurred a taxable benefit of £2,117 in 2019 (2018: £3,512) and a non-taxable benefit of £3,852, based on market rental prices (2018: £6,390).

Notes to the Financial Statements for the year ended 31 July 2019

9. Staff costs (continued)

Compensation for loss of office

Aggregate payments for compensation for loss of office for 40 (2018: 119) members of staff was £1,286,000 including £340k for voluntary severance entitlement paid in 17/18 but stated in Salaries and Wages (2018: £3,456,000).

Salaries and wages, emoluments of the President and Vice-Chancellor and higher paid staff numbers are stated before salary sacrifice deductions.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs includes compensation paid to key management personnel.

The key management personnel are represented as the University Executive Board (UEB). The costs comprise the salary and benefits for the 11.4 (2018: 14.7 restated) time equivalent members of UEB.

	2019	Restated 2018
	£000	£000
Key management personnel compensation	2,361	2,957

2018 restatement to salary and benefits only (as required by reporting standards)

Notes to the Financial Statements for the year ended 31 July 2019

9. Staff costs (continued)**Higher Paid Staff**

Remuneration of higher paid staff based on basic salary is detailed below. Where a proportion of the salary is reimbursed by a third party, only the proportion paid by the University and its subsidiaries is included. Under the Office for Students current reporting guidelines the 2018 figures have been restated to include agency workers.

	2019		2018	
	Headcount	All Staff FTE	Headcount	All Staff FTE (restated)
£100,000 - £104,999	50	28.7	41	25.9
£105,000 - £109,999	23	16.5	28	22.1
£110,000 - £114,999	13	12.1	9	8.1
£115,000 - £119,999	4	4.0	1	1.0
£120,000 - £124,999	3	1.7	4	2.7
£125,000 - £129,999	5	4.4	3	3.0
£130,000 - £134,999	2	2.0	2	1.9
£135,000 - £139,999	4	2.8	5	4.0
£140,000 - £144,999	2	2.0	-	-
£145,000 - £149,999	1	1.0	2	1.0
£150,000 - £154,999	1	1.0	1	1.0
£155,000 - £159,999	1	1.0	-	-
£160,000 - £164,999	1	1.0	-	-
£165,000 - £169,999	-	-	-	-
£170,000 - £174,999	-	-	-	-
£175,000 - £179,999	-	-	1	0.3
£180,000 - £184,999	1	0.3	-	-
£185,000 - £189,999	-	-	-	-
£190,000 - £194,999	-	-	-	-
£195,000 - £199,999	-	-	-	-
£200,000 - £204,999	-	-	-	-
£205,000 - £209,999	1	1.0	1	1.0
£210,000 - £214,999	-	-	-	-
£215,000 - £219,999	-	-	-	-
.....	-	-	-	-
£420,000 - £424,999	1	0.6	1	1.0
Total	113	80.1	99	73.0

Notes to the Financial Statements for the year ended 31 July 2019

10. Other operating expenses

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Non-capitalised equipment	24,431	20,396	24,295	20,213
Impairment of property value	1,366	2,619	1,366	2,619
Impairment of equipment	5	-	5	-
Consumables and laboratory expenditure	20,154	18,208	20,072	18,150
Office expenses and professional fees	31,863	31,085	30,500	29,761
Travel costs	13,962	14,762	13,827	14,537
Repairs, refurbishment and scheduled maintenance	16,677	18,387	15,238	17,135
Heat, light, water and power	10,569	9,307	10,509	9,281
Books and periodicals	5,610	5,493	5,607	5,493
Bursaries, fellowships, scholarships and prizes	28,008	28,823	28,008	28,812
External agencies and staff secondments	13,017	12,312	12,983	12,256
Rents, rates and hire of facilities	9,280	8,735	9,532	8,906
Catering supplies	2,555	2,548	2,433	2,433
Conference fees	3,567	3,391	3,584	3,396
Grant to Students' Union	2,368	2,531	2,368	2,531
Other expenses	11,275	18,297	11,983	19,586
	194,707	196,894	192,310	195,109

Lay members and non University staff officers of the Council did not receive payment, apart from the reimbursement of expenses, for fulfilling their role as members of the governing body.

Total expenses paid to sixteen (2018: fourteen) members of Council were £6,000 (2018 restated to include only expenses reimbursed to members: £9,000), representing reimbursement of travel and other expenses incurred in attending Council and related meetings, and representing the University in the UK and overseas.

Notes to the Financial Statements for the year ended 31 July 2019

10. Other operating expenses (continued)

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Other operating expenses include:				
Deloitte:				
External auditor's remuneration in respect of audit	169	161	112	108
External auditor's remuneration in respect of other services	73	15	73	10
Mazars:				
External auditor's remuneration in respect of audit	-	17	-	17
External auditor's remuneration in respect of other services	-	104	-	104

*Other services include the audit of research grants where it is a funder requirement

In addition, Deloitte completed the statutory audit of the University's pension scheme (PASNAS) at a cost of £12,000 (including VAT) for the year ended 31 July 2019.

11. Interest and other finance costs

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Loan interest	3,540	3,617	3,350	3,391
Bond interest	6,792	6,792	6,792	6,792
Finance lease interest	3,944	3,828	3,944	3,828
Exchange rate (gain)/loss on currency loans	(398)	(70)	85	17
Increase in fair value of financial instrument	(65)	(145)	-	-
Net charge on pension schemes	3,506	3,739	3,506	3,739
	17,319	17,761	17,677	17,767

Notes to the Financial Statements for the year ended 31 July 2019

12. Analysis of expenditure by activity

Consolidated

	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	2019 Total	2018 Total
	£000	£000	£000	£000	£000	£000
Academic departments	153,351	4,119	26,666	-	184,136	187,731
Academic services	20,412	4,527	19,992	-	44,931	43,372
Research grants and contracts	56,980	3,105	27,398	-	87,483	83,054
Residences, catering and conferences	6,323	5,509	15,421	2,805	30,058	28,477
Premises	10,165	15,639	28,184	-	53,988	54,914
Administration and central services	27,299	370	13,202	-	40,871	38,482
General educational expenditure	7,440	-	42,390	-	49,830	54,408
Consultancies, trading and services rendered	22,690	1,019	19,778	125	43,612	44,411
Other activities*	10,494	-	1,676	13,356	25,526	26,610
Increase/(Decrease) in USS Pension Provision*	93,219	-	-	1,033	94,252	(7,372)
	408,373	34,288	194,707	17,319	654,687	554,087

University

	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	2019 Total	2018 Total
	£000	£000	£000	£000	£000	£000
Academic departments	152,782	3,956	26,599	-	183,337	186,927
Academic services	20,363	4,527	19,854	-	44,744	43,030
Research grants and contracts	56,980	3,091	26,981	-	87,052	82,715
Residences, catering and conferences	6,323	5,509	15,421	2,805	30,058	28,477
Premises	10,165	15,628	28,520	-	54,313	55,089
Administration and central services	26,678	370	12,961	-	40,009	37,706
General educational expenditure	7,231	-	41,931	-	49,162	53,832
Consultancies, trading and services rendered	22,105	924	18,461	-	41,490	41,451
Other activities*	10,494	-	1,582	13,839	25,915	28,421
Increase/(Decrease) in USS Pension Provision*	93,219	-	-	1,033	94,252	(7,372)
	406,340	34,005	192,310	17,677	650,332	550,276

* 2018 restated to show USS pension provision separately from other activities

Notes to the Financial Statements for the year ended 31 July 2019

13. Taxation

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
		restated		
Analysis of tax charge:				
UK Corporation Tax	-	58	-	58
Deferred tax	173	19	-	-
	173	77	-	58

Recognised in the Statement of Comprehensive Income:

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Current tax:				
Current tax	-	58	-	58
Current tax expense	-	58	-	58
Deferred tax:				
Origination and reversal of timing differences	173	19	-	-
Deferred tax expense	173	19	-	-
Total tax expense	173	77	-	58

Notes to the Financial Statements for the year ended 31 July 2019

14. Tangible fixed assets**Consolidated**

	Freehold land and buildings	Leasehold land and buildings	Assets in course of construction	Investment properties	Fixtures, fittings and equipment	Heritage assets	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 August 2018	617,445	165,323	66,646	34,474	150,632	6,035	1,040,555
Additions at cost	17,234	214	38,174	188	6,262	-	62,072
Transfers at cost	37,076	-	(38,624)	963	585	-	-
Gain on revaluation	-	-	-	1,311	-	-	1,311
Disposals at cost	(3,152)	-	-	-	(634)	-	(3,786)
Impairments and write-downs	-	-	(1,366)	-	(10)	-	(1,376)
At 31 July 2019	668,603	165,537	64,830	36,936	156,835	6,035	1,098,776
Depreciation							
At 1 August 2018	(142,266)	(57,792)	-	(191)	(121,504)	-	(321,753)
Charge for year	(13,888)	(6,855)	-	(13)	(12,724)	-	(33,480)
Eliminated on disposal	1,795	-	-	-	634	-	2,429
Impairments and write-downs	-	-	-	-	5	-	5
At 31 July 2019	(154,359)	(64,647)	-	(204)	(133,589)	-	(352,799)
Net book value							
At 31 July 2019	514,244	100,890	64,830	36,732	23,246	6,035	745,977
At 1 August 2018	475,179	107,531	66,646	34,283	29,128	6,035	718,802

Notes to the Financial Statements for the year ended 31 July 2019

14. Tangible fixed assets (continued)**University**

	Freehold land and buildings	Leasehold land and buildings	Assets in course of construction	Fixtures, fittings and equipment	Heritage assets	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 August 2018	617,444	162,888	65,891	148,144	6,035	1,000,402
Additions at cost	17,235	263	37,911	6,175	-	61,584
Transfers at cost	37,076	-	(37,660)	584	-	-
Disposals at cost	(3,152)	-	-	(281)	-	(3,433)
Impairments and write-downs	-	-	(1,366)	(10)	-	(1,376)
At 31 July 2019	668,603	163,151	64,776	154,612	6,035	1,057,177
Depreciation						
At 1 August 2018	(142,265)	(57,659)	-	(119,725)	-	(319,649)
Charge for year	(13,888)	(6,807)	-	(12,502)	-	(33,197)
Eliminated on disposal	1,795	-	-	281	-	2,076
Impairments and write-downs	-	-	-	5	-	5
At 31 July 2019	(154,358)	(64,466)	-	(131,941)	-	(350,765)
Net book value						
At 31 July 2019	514,245	98,685	64,776	22,671	6,035	706,412
At 1 August 2018	475,179	105,229	65,891	28,419	6,035	680,753

Notes to the Financial Statements for the year ended 31 July 2019

14. Tangible fixed assets (continued)

At 31 July 2019, freehold land and buildings included £92,804,000 (2018: £92,804,000) in respect of land, which is not depreciated. The figures for completed leasehold land and buildings include an asset held under a finance lease which has been capitalised. This is held at a cost of £49,000,000, with accumulated depreciation of £4,737,000 (2018: £3,757,000) and a net book value of £44,263,000 (2018: £45,243,000). Included in the balances for leasehold land and buildings is expenditure of £27,800,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £14,600,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2019 by Vail Williams LLP. In accordance with FRS 102, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £1,102,000 during the year with the valuation taking account of an addition to the estate (Benham) and an increase in the occupancy of the buildings. The historical cost of these assets at 31 July 2019, net of assistance grants, amounted to £31,940,000 (2018: £30,838,000).

In addition to the above expenditure on tangible assets a further £24,417,000 has been committed by the University and its subsidiary undertakings (note 26).

Heritage Assets

The University holds and conserves a significant number of rare books and manuscripts within the Special Collections Division of the Hartley Library. This includes over 6 million items in approximately 2,500 collections that have been obtained by the University and its predecessors since the 1860s. The University also maintains a significant number of paintings, drawings, sculptures, silverware and life science specimens. Items and collections obtained before 1 August 2010 have not been capitalised as the cost or valuation at the time of acquisition cannot be economically determined.

In August 2011, the University completed the acquisition of the Broadlands Archives, a significant collection of manuscripts dating from the sixteenth century to the present. Comprising more than 4,500 boxes of documents, the Broadlands Archives include correspondence of the Victorian Foreign Secretary and Prime Minister Lord Palmerston and approximately 250,000 papers and 50,000 photographs of Earl Mountbatten of Burma, including the foundation archives for the states of India and Pakistan. The collection also includes the diaries of the 19th-century social reformer and philanthropist, the 7th Earl of Shaftesbury and material regarding the Temple and Ashley estates in Hampshire.

An open market valuation of the Broadlands Archives was obtained in September 2012 from Bernard Quaritch Ltd, specialists in the valuation and sale of archives and manuscript collections. The valuer considered the separate collections that comprise the Broadlands Archives and took account of restrictions under the terms of associated grants and contracts in reaching an overall valuation of £6 million. The Archives have been capitalised at this value.

Further information regarding the Broadlands Archives and the other collections held within the Hartley Library, including access details, can be found on the Special Collections website at www.southampton.ac.uk/archives.

In 2017/18, the Honor Frost Archive (1940s to 2010) was donated to the University. The archive provides a comprehensive record of Honor Frost's archaeological work, together with series of correspondence, photographs and material relating to publications and research. The archive has been attributed a value of £35,000. There were no additions, disposals or revaluations of the heritage assets in 2018/19.

Notes to the Financial Statements for the year ended 31 July 2019

15. Intangible assets**Consolidated and University**

	Software £000	Software in progress £000	Total £000
Cost or valuation			
At 1 August 2018	15,894	52	15,946
Additions at cost	-	(10)	(10)
Transfers at cost	-	-	-
Disposals at cost	-	-	-
At 31 July 2019	15,894	42	15,936
Amortisation			
At 1 August 2018	(14,499)	-	(14,499)
Charge for year	(808)	-	(808)
At 31 July 2019	(15,307)	-	(15,307)
Net book value			
At 31 July 2019	587	42	629
At 1 August 2018	1,395	52	1,447

16. Non-current investments**Consolidated**

	Subsidiary companies £000	Investments held by subsidiaries £000	Other fixed asset investments £000	Total £000
At 1 August 2018	-	1,349	1,252	2,601
Additions	-	58	100	158
Disposals	-	(16)	-	(16)
Market value loss	-	(286)	-	(286)
Impairment	-	(43)	-	(43)
At 31 July 2019	-	1,062	1,352	2,414

Notes to the Financial Statements for the year ended 31 July 2019

16. Non-current investments (continued)**University**

	Subsidiary companies	Investments held by subsidiaries	Other fixed asset investments	Total
	£000	£000	£000	£000
At 1 August 2018	19,790	-	1,252	21,042
Additions	850	-	100	950
Impairment	(3,846)	-	-	(3,846)
At 31 July 2019	16,794	-	1,352	18,146

As at the balance sheet date, the University had invested £1,000,000 in the Wyvern Seed Fund Limited Partnership (Wyvern). The University is a limited liability partner in Wyvern, which offers venture capital to spin-out companies originating at the Universities of Bristol and Southampton. This investment is held at cost.

USMC Sdn Bhd shareholding as at 31 July 2019 has been fully impaired at £3.846m - this was approved by Finance Committee as the business plan continues to show annual losses pending the approval of a revised business plan.

Additional information on shareholdings where the University or its subsidiaries exercise control or significant influence or where shares are listed and the University maintains a holding above 10%:

	Percentage holding	Nature of activity
Subsidiaries held by the University		
ECS Partners Limited (ECSP Limited)	100.00	Consultancy
IT Innovation Limited	100.00	Dormant
IT Innovation Centre Limited	100.00	Dormant
Southampton Asset Management Limited (SAM Limited)	80.00	Investment company
Southampton Innovations Limited (SI Limited)	100.00	Investment company
Southampton International Singapore Limited	100.00	* Research
USMC Sdn Bhd (Malaysia)	100.00	Education
University of Southampton Holdings Limited (USH Limited)	100.00	Investment company
The University of Southampton Science Park Limited (SSP Limited)	100.00	Science park management
University of Southampton Retirement Scheme Trustee Ltd	100.00	Dormant

* Company limited by guarantee, maximum liability Singapore Dollars S\$1,000.

All of the above subsidiary companies are domiciled in England and Wales, apart from USMC Sdn Bhd and Southampton International Singapore Limited, which are domiciled in Malaysia and Singapore respectively.

Notes to the Financial Statements for the year ended 31 July 2019

16. Non-current investments (continued)**Subsidiaries held by USH Limited**

Southampton Education Consulting (Beijing) Limited	100.00	Consultancy
Z21 Limited	100.00	Dormant

Associate held by USH Limited

Clantect Limited	33.00	Enterprise
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All of the above subsidiary and associate companies are domiciled in England and Wales, apart from Southampton Education Consulting (Beijing) Limited, which is domiciled in China.

17. Investment in associate**Consolidated**

	2019	2018
	£000	£000
At 1 August	191	299
Share of operating loss	(53)	(108)
At 31 July	138	191

University of Southampton Holdings Limited owns 33% of Clantect Ltd. It has a financial year end of 31 October. The consolidated Financial Statements of the University reflect a carrying value of £138,000 (2018: £191,000) equal to 33% of the net assets at 31 July 2019.

Notes to the Financial Statements for the year ended 31 July 2019

18. Trade and other receivables

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Amounts falling due within one year:				
Grants from Office for Students and Research England	6,221	6,930	6,221	6,930
Student debtors	1,151	1,053	1,151	1,053
Research grants and contracts	30,052	27,866	30,052	27,866
Trade and other receivables	23,903	20,575	22,000	19,120
Amounts due from group undertakings	-	-	1,453	1,063
Prepayments to group undertakings	-	-	106	102
Other prepayments	9,979	9,786	9,360	9,137
	71,306	66,210	70,343	65,271
Amounts falling due after more than one year:				
Prepayments	1,416	2,221	1,322	2,132
Amounts owed by subsidiary undertakings	-	-	6,391	6,491
	72,722	68,431	78,056	73,894

Notes to the Financial Statements for the year ended 31 July 2019

19. Current investments

	Consolidated and University	
	2019	2018
	£000	£000
Cash on deposit	209,624	193,397
Investment in shares (at fair value)	213,538	32,184
	423,162	225,581

20. Creditors: amounts falling due within one year

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Bank loans	2,419	2,902	1,518	2,053
Other loans - Office for Students	-	1,000	-	1,000
Obligations under finance leases	343	321	341	316
Research grant income received in advance	56,147	50,218	56,147	50,218
Social Security and other taxation	12,285	13,020	12,254	13,016
Amounts owed to group undertakings	-	-	241	75
Trade and other creditors	19,999	28,952	18,673	27,482
Accruals and deferred income	68,144	65,787	66,624	64,224
	159,337	162,200	155,798	158,384

Notes to the Financial Statements for the year ended 31 July 2019

21. Creditors: amounts falling due after more than one year

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Bank loans	65,237	67,564	62,104	63,529
Public bond	298,409	298,367	298,409	298,367
Obligations under finance leases	47,183	47,525	47,183	47,523
Accruals and deferred income	5,436	6,681	3,435	4,659
Amounts owed to group undertakings	-	-	60	-
Derivatives	208	273	-	-
	416,473	420,410	411,191	414,078

Loans are repayable as follows:

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Bank loans:				
Between one and two years	2,268	2,405	1,312	1,504
Between two and five years	5,908	6,890	3,731	3,756
Over five years	57,061	58,269	57,061	58,269
Due after more than one year	65,237	67,564	62,104	63,529
Due within one year (note 20)	2,419	2,902	1,518	2,053
	67,656	70,466	63,622	65,582
Other loans - Office for Students:				
Due within one year (note 20)	-	1,000	-	1,000
	-	1,000	-	1,000
Public bond:				
Over five years	298,409	298,367	298,409	298,367
	298,409	298,367	298,409	298,367

Notes to the Financial Statements for the year ended 31 July 2019

21. Creditors: amounts falling due after more than one year (continued)

Obligations under finance leases:

	Consolidated		University	
	2019 £000	2018 £000	2019 £000	2018 £000
Between one and two years	367	343	367	341
Between two and five years	1,280	1,188	1,280	1,188
Over five years	45,536	45,994	45,536	45,994
Due after more than one year	47,183	47,525	47,183	47,523
Due within one year (note 20)	343	321	341	316
	47,526	47,846	47,524	47,839

In April 2017 an unsecured fixed rate public bond was issued for £300 million over a 40 year term with a coupon rate of 2.25%. The bond was issued at 99.76% of the principal amount. It is listed on the London Stock Exchange. There are no capital repayments to be made over the term, with full repayment due in 2057. Interest is payable every six months.

The bond transaction costs of £980,000 and the bond discount of £708,000 are being amortised over the life of the bond and charged to interest and other finance costs.

Additional information on bank loans:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2019 £000	Balance outstanding 2018 £000
University:					
National Westminster Bank	1999	2019	fixed	-	549
Barclays Bank	1999	2020	fixed	344	619
Barclays Bank	2006	2026	variable	4,940	5,593
Barclays Bank	2006	2036	fixed	8,338	8,821
Barclays Bank	2007	2037	fixed	50,000	50,000
				63,622	65,582
Subsidiaries:					
Santander	2007	2023	fixed	4,034	4,884
				67,656	70,466

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 5.32% to 5.70%, and the variable rate margin is 0.50% over Euribor. The National Westminster Bank loan was repaid as at 29th July 2019. All other loans are secured against the general covenant of the University.

Notes to the Financial Statements for the year ended 31 July 2019

22. Provisions**Consolidated**

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 28) £000	Maintenance Fund £000	Deferred tax £000	Total Provisions £000
At 1 August 2018	46,734	91,790	317	553	139,394
Utilised in year	(2,321)	-	(460)	-	(2,781)
Additions in year	96,572	46,064	464	174	143,274
At 31 July 2019	140,985	137,854	321	727	279,887

University

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 28) £000	Total Provisions £000
At 1 August 2018	46,734	91,790	138,524
Utilised in year	(2,321)	-	(2,321)
Additions in year	96,572	46,064	142,636
At 31 July 2019	140,985	137,854	278,839

Obligation to fund deficit on USS pension

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the USS to deficit payments in accordance with the deficit recovery plan. In calculating this provision, management have estimated future staff levels within the USS scheme for the duration of the contractual obligation and salary inflation. Key assumptions are set out below and further information is provided in note 28.

The adoption of the new deficit recovery plan following the 2017 actuarial valuation has given rise to a significant increase in the deficit provision which has increased from £46.7million to £141million. See also note 9 in respect of significant one-off pension costs/gains. More details on the 2017 actuarial valuation are set out in note 28.

Since the year end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed of which more detail is given in note 28. As at 31 July 2019 and with all other assumptions used to calculate the provision unchanged, this would have resulted in a revised provision of £78million, a decrease of £63million.

Defined Benefit Obligations

This relates to two defined benefit pension schemes, PASNAS and HCC, to which the University pays contributions on behalf of some of its staff. This provision records the deficit that exists on PASNAS as at 31 July 2019. HCC has a balance of fund assets and liabilities which net to nil at 31 July 2019.

Maintenance Fund

The maintenance fund (into which payments are made from landlord and tenants) provides funding for future maintenance of buildings, roadways and other common areas at Southampton Science Park, and includes payments from tenants who have since left the Science Park. The fund is held by University of Southampton Science Park Limited. Provisions are only made when there is a legally binding commitment arising from a past event.

Deferred Tax

The provision for deferred tax relates to tax liabilities arising from the revaluation of the University of Southampton Science Park, the revaluation of a financial instrument, and the revaluation of investments held by subsidiary companies at fair value.

Notes to the Financial Statements for the year ended 31 July 2019

23. Endowment reserves

Consolidated

	Restricted Permanent £000	Unrestricted Permanent £000	Restricted Expendable £000	2019 Total £000	2018 Total £000
At 1 August 2018					
Capital	7,443	2,509	2,224	12,176	12,040
Accumulated income	773	-	134	907	904
	<u>8,216</u>	<u>2,509</u>	<u>2,358</u>	13,083	<u>12,944</u>
New endowments	211	-	-	211	2
Investment income	125	45	40	210	250
Expenditure	(110)	(45)	(50)	(205)	(246)
Net investment/income (expenditure)	15	-	(10)	5	4
(Decrease)/Increase in market value of investments	(157)	(54)	(47)	(258)	133
At 31 July 2019	8,285	2,455	2,301	13,041	13,083
Represented by:					
Capital	7,516	2,455	2,161	12,132	12,176
Accumulated income	769	-	140	909	907
	8,285	2,455	2,301	13,041	13,083
Analysis by type of purpose:					
Chair/Lectureships	3,433	-	-	3,433	3,521
Scholarships and bursaries	1,983	-	636	2,619	2,421
Research support	-	-	1,105	1,105	1,127
Prize funds	494	-	148	642	610
Welfare/Hardship	605	-	37	642	684
General	1,770	2,455	375	4,600	4,720
	8,285	2,455	2,301	13,041	<u>13,083</u>
Analysis by asset:					
Current and non-current asset investments				12,125	12,158
Cash and cash equivalents				916	925
				13,041	<u>13,083</u>

Notes to the Financial Statements for the year ended 31 July 2019

24. Restricted Reserves

Reserves with restrictions are as follows:

	Unspent Capital Grants £000	Donations /Other Restricted Funds £000	2019 Total £000	2018 Total £000
Balances at 1 August	-	2,017	2,017	18,662
New grants	6,532	-	6,532	7,957
New donations/other restricted funds	-	8,569	8,569	10,331
Capital grants utilised	(4,256)	-	(4,256)	(24,050)
Expenditure	-	(7,353)	(7,353)	(10,883)
Total restricted comprehensive income/(expenditure) for the year	2,276	1,216	3,492	(16,645)
Balances at 31 July	2,276	3,233	5,509	2,017

	2019 Total £000	2018 Total £000
Analysis of donations/other restricted funds by type of purpose:		
Research activities	4,715	1,265
Student support	334	438
Scholarships and bursaries	39	65
Outreach	47	88
Other	374	161
Balances at 31 July	5,509	2,017

Notes to the Financial Statements for the year ended 31 July 2019

25. Related party transactions

Due to the nature of the University's operations and the composition of the University Council, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All such transactions are conducted at arm's length and in accordance with the University's Financial Regulations, Standing Orders on contracts and normal procurement procedures.

A Register of Interests is maintained for members of the University Council and associated committees. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2019 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Executive Director, Finance and Planning. There were a number of related party transactions during the year ended 31 July 2019 significant enough to warrant disclosure in the Financial Statements.

Mr Peter Hollins, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board. Professor Jane Falkingham is Dean of the Faculty of Social Sciences and a member of the University Executive Group (UEB). She is a Council Member for the Economic and Social Research Council (ESRC). The University received £4.98m grant income from the ESRC in the year to 31 July 2019 and an additional £1.25 million accounted as receivable for completed performance conditions. Professor Mandy Fader, Head of School for Health Sciences is also a Director of the Wessex Academic Health Science Network Limited. In the year to 31 July 2019 the University received £369,000 from the company mainly for the Centre for Implementation Science and also paid £29,000 to them as collaborators on a research grant and £13k for annual membership of the network. Dame Judith MacGregor, a lay member of Council, is a Council Member of the Arts and Humanities Research Council. In the year to 31 July 2019 the University received £992,000 grant income from the AHRC.

Ms Emily Dawes, Ms Emily Harrison and Mr Stephen Gore were members of Council (Class 5 membership) as representatives of the Students' Union. Ms Emily Harrison (Ms Dawes to 13th November 2018 and Mr Gore to 30th June 2019) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a grant from the University, an amount of £2,363,000 in 2018/19 (2017/18: £2,531,000), which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

In July 2018 the University became a partner of the Alan Turing Institute, the national centre for data science. The University has agreed to make a grant of £5 million to the Institute, of which a balance of £3,500,000 is held under creditors as at 31 July 2019. The University received £74,000 grant income from the Institute in the year to 31 July 2019.

In accordance with the exemptions contained within FRS 102 Financial Reporting Standard Section 33 (Related Party Disclosures) no disclosure has been made for transactions between the University and wholly owned group undertakings. Transactions between the University and spin-out companies in which minority shareholdings are held are not generally disclosed as the University does not control or exercise any significant influence over the financial and operating policies of the companies.

Notes to the Financial Statements for the year ended 31 July 2019

26. Capital and other commitments

Provision has not been made for the following capital and other commitments at 31 July:

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Commitments contracted for	24,417	61,433	24,417	61,144
	24,417	61,433	24,417	61,144

27a. Lease obligations

At 31 July the University was committed to making the following payments under non-cancellable operating leases:

Consolidated

	Land and buildings	Plant and machinery	2019 Total	2018 Total
	£000	£000	£000	£000
Future minimum lease payments due:				
Not later than one year	3,176	571	3,747	3,607
Between one and five years	11,528	568	12,096	8,028
Over five years	14,955	-	14,955	15,356
	29,659	1,139	30,798	26,991

University

	Land and buildings	Plant and machinery	2019 Total	2018 Total
	£000	£000	£000	£000
Future minimum lease payments due:				
Not later than one year	2,977	571	3,548	3,432
Between one and five years	10,270	568	10,838	8,187
Over five years	14,935	-	14,935	15,356
	28,182	1,139	29,321	26,975

From 17/18 lease obligations have been calculated to show maximum obligations if lease was broken at the next tenant break option date.

Notes to the Financial Statements for the year ended 31 July 2019

27b. Lease receivables

At 31 July the principal future minimum lease payments receivable under non-cancellable leases are as follows:

Land and buildings:

	Consolidated		University	
	2019	2018	2019	2018
	£000	£000	£000	£000
Less than one year	6,537	5,953	4,289	3,823
Between one and five years	19,479	18,980	16,022	15,746
More than five years	61,467	65,399	57,265	60,934
	87,483	90,332	77,576	80,503

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS). These are both defined-benefit schemes. PASNAS closed to new members from 1st January 2019. The University of Southampton Retirement Fund (USRF), a defined contribution scheme, commenced from 1st January 2019 for new members.

The University also contributes to the National Health Service Pension Scheme (NHPS), the Teachers' Pension Scheme (TPS), the Medical Research Council Pension Scheme (MRCPS), Hampshire County Council (HCC), National Employment Savings Trust (NEST) and schemes relating to subsidiary companies.

Employer pension contributions for USS and PASNAS within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

The pension scheme costs incurred in 2018/19 and 2017/18 for the consolidated group are summarised as follows:

	2018/19		2017/18		
	Employer contributions	Pension accounting adjustment	Employer contributions	Pension accounting adjustment	Total Cost
	£000	**	£000	**	£000
USS*	30,565	-	29,664	-	29,664
PASNAS*	6,392	8,892	6,471	7,277	13,748
NHPS	1,253	-	1,278	-	1,278
Other pension schemes	964	(345)	2,221	(1,740)	481
Total pension cost (note 9)	39,174	8,547	39,634	5,537	45,171

* The figure for USS employer contributions excludes an amount of £96,000 (2018:£86,000) and the figure for PASNAS employer contributions excludes an amount of £104,000 (2018: £120,000) which are made on behalf of a third party at no cost to the University.

** The pension accounting adjustment for PASNAS is the net current service cost as part of the movement in the actuarial valuation as at 31st July. The pension accounting adjustment on Other pension schemes is the balance after independent valuation of the HCC pension scheme to ensure that the surplus on the scheme is not being recognised in the University Group statements.

Employer contributions in 2019/20 are expected to be:

	Rate %	£000
USS **	19.5	34,228
PASNAS	17.25	6,263
USRF	10.00	493
TPS	16.48	29
NHPS	14.38	1,235
MRCPS	15.90	79
HCC (two separate schemes)	31.70	34
	36.90	8
NEST	3.00	148

** The 2018 actuarial valuation of USS has been undertaken but this had not yet been formally completed by 31st July 2019. The rate and projected contributions above take no account of any future changes to the current recovery plan. However, the USS trustee board has

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

confirmed on 13th September 2019 that from 1st October 2019 the employers' contribution rate will increase from 19.5% to 21.1%. The impact of this will increase the USS estimated employer contributions to £34,228,000 for 2019/20.

The University has fully adopted the disclosure rules of FRS 102 Section 28 'Employee Benefits'. The notes that follow show the detailed valuations required by the standard. However, pension fund liabilities can be valued in a number of other ways, and the University will continue to support the schemes based on the principles of on-going operations, as advised by the scheme trustees and actuaries.

The actuaries' recommendations for contributions to USS, PASNAS and HCC are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. The latest valuations of the schemes' assets and liabilities for which results are available are:

	USS	PASNAS	HCC
Date of valuation	31 March 2017	31 July 2015	31 March 2016
Market valuation of assets	£60,000 million	£170 million	£5,213 million
Past service liabilities	£67,500 million	£210 million	£6,453 million
Deficit of assets	<u>(£7,500) million</u>	<u>(£40) million</u>	<u>(£1,240) million</u>

The USS and HCC valuations reflect the total assets and liabilities of the schemes, not just the element attributable to the University. The USS valuation dated 31 March 2018, agreed in September 2019, revalued the deficit of assets at (£3,600 million). This valuation is likely to substantially reverse the deficit recovery plan of £93.2 million included in the 2018/19 financial statements.

The PASNAS valuation dated 31 July 2018, agreed in October 2019, revalued the deficit of assets at (£39 million).

USS

Significant accounting policies

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

Critical accounting judgements

FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as Universities Superannuation Scheme. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in profit or loss in accordance with section 28 of FRS 102. The directors are satisfied that Universities Superannuation Scheme meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the recovery plan in existence at the date of approving the financial statements.

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

The total cost (employers contributions and pension provision adjustment) charged to the Consolidated Statement of Comprehensive Income and Expenditure is £124.9m (2018: £22.4m).

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2017 (“the valuation date”), which was carried out using the projected unit method. As at the year-end a valuation as at 31 March 2018 was underway but not yet complete.

Since the institution cannot identify its share of Retirement Income Builder section of the scheme assets and liabilities, the following disclosures reflect those relevant for the section as a whole.

The 2017 valuation was 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. At the valuation date, the value of the assets of the scheme was £60.0 billion and the value of the scheme’s technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%.

The key financial assumptions used in the 2017 valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increase (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI - 0.53% reducing linearly to CPI - 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 21 +: CPI + 1.7%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on analysis of the scheme’s experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

Mortality base table	2017 valuation <i>Pre-retirement:</i> 71% of AMCoo (duration 0) for males and 112% of AFCoo (duration 0) for females. <i>Post-retirement:</i> 96.5% of SAPS S1NMA “light” for males and 101.3% of RFVoo for females.
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% pa for males and 1.6% pa for females.

The current life expectancies on retirement age 65 are:

	2019	2018
Males currently aged 65 (years)	24.6	24.5
Females currently aged 65 (years)	26.1	26.0
Males currently aged 45 (years)	26.6	26.5
Females currently aged 45 (years)	27.9	27.8

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

A new deficit recovery plan was put in place as part of the 2017 valuation, which requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. The 2019 pension liability provision reflects this plan. The provision figures have been produced using the following assumptions as at 31 March 2018 and 2019.

	2019	2018
Discount rate	2.44%	2.64%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.11%	2.02%

The funding position of the scheme has since been updated on an FRS 102 basis:

	2019	2018
Scheme assets	£67.4bn	£63.6bn
Total scheme liabilities	£79.2bn	£72.0bn
FRS 102 total scheme deficit	£11.8bn	£8.4bn
FRS 102 total funding level	85%	88%

A new deficit recovery plan was put in place as part of the 2017 valuation and is set out in the new Schedule of Contributions dated 28 January 2019. This requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. In accordance with the requirements of FRS 102 and the SORP, the University has made a provision for this contractual commitment to fund the past deficit. In the prior year, the deficit payments were 2.1% of salaries up to March 2031.

This significant increase in deficit contributions has given rise to a substantial increase in the deficit provision which has increased from £46.7million to £141million as set out in note 22. This increase is attributable to the change in the deficit contributions contractual commitment. See also note 9 in respect of significant one-off pension costs/gains.

The 2018 actuarial valuation was finalised after the year-end which indicated a shortfall of £3.6 billion and a funding ratio of 95%.

Since the year-end, following the completion of the 2018 actuarial valuation, a new deficit recovery plan has been agreed. This amends the existing deficit recovery plan as set out in the 2017 valuation Schedule of Contributions. This new plan requires deficit payments of 2% of salaries from 1 October 2019 to 30 September 2021 and then payments of 6% of salaries from 1 October 2021 to 31 March 2028. The 2018 actuarial valuation deficit recovery plan will be used to calculate the USS deficit provisions in the 2019/20 financial statements.

As at 31 March 2019, USS had 202,165 active members and the University had 4,096 active members participating in the scheme at year-end.

The total employer contributions for the year were £30,565,000 (2018: £29,664,000) which includes £2,779,000 (2017: £2,459,000) of contributions outstanding at the Balance Sheet date, payable in August 2019.

NHPS/TPS/MRCPS

The NHPS, TPS and MRCPS schemes are externally funded. Each institutions' share of the underlying assets and liabilities of these schemes cannot be identified and therefore contributions to these schemes are accounted for as if they were defined contribution schemes. As a result the costs charged to the income and expenditure account represent the contributions payable to the schemes for the year.

The number of members of these schemes employed by the University as at 31 July 2019 was TPS 3; NHPS 135 and MRCPS 12.

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

The total pension costs due for the University and contributions outstanding at the Balance Sheet date were:

	Pension cost		Outstanding at 31 July	
	2019	2018	2019	2018
	£000	£000	£000	£000
NHPS	1,253	1,278	(31)	109
TPS	19	41	3	3
MRCPS	97	114	6	9

NEST

From April 2013, the University introduced the NEST scheme to comply with the Pensions Act 2008. This gives all University workers access to a qualifying pension scheme.

The total pension cost for the year was £131,000 (2018: £132,000) which includes £12,000 (2018: £12,000) of contributions outstanding at the Balance Sheet date, payable in August 2019.

The number of members of this scheme as at 31 July 2019 was 1,025.

Federated Superannuation Scheme for Universities (FSSU)

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year there was no payments (2017: £0) made to former members of FSSU or widows of members in respect of these unfunded liabilities.

PASNAS

The University operates a final salary defined benefit scheme for non-academic staff (PASNAS). The scheme is funded by contributions made in accordance with the recommendations of the scheme's actuaries. Following a consultation process, in May 2018 Council ratified a decision to close the scheme to new members as at 31 December 2018. All new eligible staff will be enrolled into a new defined contribution arrangement from 1 January 2019 (USRF).

As at 31 July 2019 there was a total of 1,722 active members of PASNAS.

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2015 and indicated that the scheme's assets represented 81% of the technical provisions. An estimate has been made for Guaranteed Minimum Pension (GMP) Equalisation and for the McCloud* judgement in the current valuation.

*McCloud judgement relates to the transitional protection offered to some members of public sector final salary schemes when the schemes were reformed. The transitional protection allowed those members who were within 10 years of normal pension age to remain in their final salary scheme instead of being moved to the new career average arrangement with its higher pension age. As some members would be better off in the new scheme rather than the old the McCloud judgement requires that there is no reduction in benefits accrued or are receiving if already retired.

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2019	31 July 2018
Increase in salaries	3.00% pa	3.50% pa
Increase in pensions – pre 1 Oct 2010 (CPI)	2.60% pa	2.50% pa
Increase in pensions – post 1 Oct 2010 (CPI max 2.5%)	1.95% pa	1.90% pa
Discount rate	2.10% pa	2.80% pa
Inflation	3.60% pa	3.50% pa
Inflation (CPI)	2.60% pa	2.50% pa

The changes in the above financial assumptions - the decrease in the discount rate and salary increases and the increase in inflation - have had a negative impact on the overall scheme deficit of £46.1 million.

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of male and female members at age 65.

	Retiring today	Retiring in 20 years
Male	22.5	23.9
Female	24.9	26.3

The asset allocation of the scheme's assets calculated at fair value is:

	Value 31 July 2019 £000	Value 31 July 2018 £000	Value 31 July 2017 £000
Gilts	36,792	31,496	27,268
Bonds	34,340	31,496	29,366
Equities	95,661	92,240	94,390
Target return funds and cash	56,415	49,494	48,243
Property	22,075	20,248	10,488
Total	245,283	224,974	209,755

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

	2019	2018
	£000	£000
Analysis of the amount shown in the balance sheet		
Scheme assets	245,283	224,974
Scheme liabilities	(383,137)	(316,764)
Deficit in the scheme – net pension liability recorded within pension provisions (note 22)	(137,854)	(91,790)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	(13,481)	(13,868)
Past service cost	(1,906)	-
Total operating charge	(15,387)	(13,868)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	6,291	5,663
Interest cost	(8,764)	(8,381)
Net finance cost	(2,473)	(2,718)
Analysis of other comprehensive income		
Gain on assets	14,604	9,611
Experience gains/(losses) on liabilities	5,780	(292)
(Losses)/gains from changes to demographic assumptions	(1,751)	-
(Losses)/gains from changes to financial assumptions	(53,332)	13,369
(Charge)/credit to other comprehensive income	(34,699)	22,688
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(91,790)	(104,483)
Movement in the year:		
Current service cost	(15,387)	(13,868)
Contributions	6,495	6,591
Net finance cost	(2,473)	(2,718)
(Losses)/gains recognised in other comprehensive income	(34,699)	22,688
Deficit in scheme at end of year	(137,854)	(91,790)
Analysis of movement in fair value of fund assets		
Assets at beginning of year	224,974	209,755
Employer contributions	6,495	6,591
Employee contributions	2,437	2,557
Benefits paid net of expenses	(7,851)	(8,018)
Administration costs	(1,667)	(1,185)
Interest on assets	6,291	5,663
Return on scheme assets	14,604	9,611
Assets at end of year	245,283	224,974

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

	2019	2018
	£000	£000
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(316,764)	(314,238)
Current service cost	(13,481)	(13,868)
Past service cost	(1,906)	-
Interest on scheme liabilities	(8,764)	(8,381)
Employee contributions	(2,437)	(2,557)
Benefits paid	9,518	9,203
Actuarial experience gains/(losses) on liabilities	5,780	(292)
(Increase)/decrease in assumptions underlying the present value of the scheme liabilities	(55,083)	13,369
Liabilities at end of year	(383,137)	(316,764)

	2019	2018	2017
History of experience gains and losses			
Experience gains on assets in excess of interest (£000)	14,604	9,611	14,391
Percentage of scheme assets	6.0%	4.3%	6.9%
Experience gains/(losses) on liabilities (£000)	5,780	(292)	2,523
Percentage of scheme liabilities	1.5%	0.1%	0.8%

HCC

HCC has been able to apportion a percentage of its funds assets and liabilities relating to the University and therefore the scheme has been treated as a defined benefit scheme in the accounts.

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2019	31 July 2018
Increase in salaries	3.8% pa	3.6% pa
Increase in pensions	2.3% pa	2.1% pa
Discount rate	2.1% pa	2.8% pa
RPI inflation	3.3% pa	3.2% pa
CPI inflation	2.3% pa	2.1% pa

The current mortality assumptions include sufficient allowance for future improvements in mortality rates and are further adjusted to reflect the actual mortality experience of the Fund. The assumed life expectations in years on retirement at age 65 are:

	Retiring today	Retiring in 20 years
Male	23.1	24.7
Female	25.8	27.6

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

The number of active members of this scheme employed by the University as at 31 July 2019 was 3.

The asset allocation of the scheme's assets calculated at fair value is:

	Value 31 July 2019 £000	Value 31 July 2018 £000	Value 31 July 2017 £000
Equities	5,322	4,960	3,415
Government bonds	1,821	1,802	363
Property	636	546	1,384
Corporate bonds	-	86	61
Cash	168	164	167
Other	893	242	190
Total	8,840	7,800	5,580

	2019 £000	2018 £000
Analysis of the amount shown in the balance sheet		
Scheme assets	8,840	7,800
Scheme liabilities	(7,670)	(7,050)
Adjustment in respect of FRS 102 section 28.22	(1,170)	(750)
Nil balance/(deficit) in the scheme – net pension liability recorded within pension provisions (note 22)	-	-

Analysis of the amount charged to staff costs within operating surplus

Current service cost	(50)	(50)
Past service cost	(30)	-
Total operating charge	(80)	(50)

Analysis of the amount charged to interest payable within operating surplus

Expected return on scheme assets	230	160
Interest on scheme liabilities	(190)	(180)
Net finance income/(expenditure)	40	(20)

Analysis of other comprehensive income

Return on scheme assets	250	470
Actuarial experience (loss)/gain on liabilities	(600)	50
(Charge)/income to other comprehensive income	(350)	520

Notes to the Financial Statements for the year ended 31 July 2019

28. Pension Schemes (continued)

	2019	2018
	£000	£000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	-	(1,490)
Movement in the year:		
Current service cost	(50)	(50)
Past service cost	(30)	-
Employer contributions	810	1,790
Net finance credit/(cost)	10	(20)
Loss recognised in other comprehensive income	-	(230)
Unrecognised gain *	(740)	-
Nil balance in scheme at end of year	-	-
Analysis of movement in fair value of fund assets		
Assets at beginning of year	7,800	5,580
Employer contributions	810	1,790
Employee contributions	10	10
Benefits paid	(260)	(210)
Interest on assets	230	160
Return on scheme assets	250	470
Assets at end of year	8,840	7,800
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(7,050)	(7,070)
Current service cost	(50)	(50)
Past service cost	(30)	-
Interest on scheme liabilities	(190)	(180)
Employee contributions	(10)	(10)
Benefits paid	260	210
Actuarial experience (loss)/gain on liabilities	(600)	50
Liabilities at end of year	(7,670)	(7,050)

*Based on the present values of the fund assets and fund liabilities at the reporting date, the scheme had a surplus of £1,170,000 at 31 July 2019. In line with the guidance provided by section 28.22 of FRS 102, this surplus has not been recognised.

Notes to the Financial Statements for the year ended 31 July 2019

29. Financial Instruments

The University's Treasury function monitors and manages the financial assets and liabilities relating to our operations and the financial risks that arise from these instruments. The identified risks - credit risk, liquidity risk and interest rate risk - are actively managed to limit the potential impact of any adverse events on our financial sustainability.

The carrying value of the Consolidated and University financial assets and liabilities are summarised by category below:

		Consolidated		University	
	Note	2019	2018	2019	Restated 2018
		£000	£000	£000	£000
Financial assets:					
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Investments in unit trusts	23	12,125	12,158	12,125	12,158
Other investments	19 and 23	201,413	20,026	201,413	20,026
Investment in ordinary shares	16	1,062	1,349	-	-
<i>Equity instruments measured at cost less impairment</i>					
Non-current asset investments	16	1,352	1,252	1,352	1,252
<i>Debt instruments measured at amortised cost</i>					
Long-term loans receivable amounts due from subsidiary undertakings	18	-	-	6,391	6,491
<i>Measured at undiscounted amount receivable</i>					
Trade and other receivables – including grants from Office for Students and Research England, student debtors, amounts due from group undertakings and prepayments to group undertakings	18	31,275	28,557	30,931	28,268
		247,227	63,342	252,212	68,195

Notes to the Financial Statements for the year ended 31 July 2019

29. Financial Instruments (continued)**Financial liabilities:**

		Consolidated		University	
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Derivative financial liabilities	21	208	273	-	-
<i>Measured at amortised cost</i>					
Loans payable – bank loans, public bond and obligations under finance leases	21	413,591	417,679	409,555	412,788
<i>Measured at undiscounted amount payable</i>					
Trade and other creditors*	20	19,999	28,952	18,914	27,557
		433,798	446,904	428,469	440,345

* 2018 figures restated in line with HEI practice to include trade creditors only (no longer includes social security and tax, accruals or deferred income)

The Consolidated and University's income, expenses, gains and losses in respect of financial instruments are summarised below:

		Consolidated		University	
	Note	2019	2018	2019	Restated 2018
		£000	£000	£000	£000
<i>Interest income and (expense)</i>					
Total income for financial assets at amortised cost	7	7,867	2,960	8,190	3,287
Total interest expense for financial liabilities at amortised cost - loan, bond - finance lease interest	11	(14,276)	(14,237)	(14,086)	(14,011)
		(6,409)	(11,277)	(5,896)	(10,724)
<i>Fair value gains and (losses)</i>					
On financial assets measured at fair value through the Statement of Comprehensive Income		1,225	328	(2,330)	146
On derivative financial liabilities	11	65	(145)	-	-
		1,290	183	(2,330)	146

Notes to the Financial Statements for the year ended 31 July 2019

30. National College for Teaching and Leadership (NCTL) bursaries**Consolidated and University**

	At 1 August 2018 £000	Income received £000	Disbursements £000	Returned to NCTL £000	At 31 July 2019 £000
Student training bursaries	271	3,031	(2,704)	(302)	296
	271	3,031	(2,704)	(302)	296

The receipts and disbursements above are excluded from the Statement of Comprehensive Income as the funds are administered by the University on an agency basis on behalf of the NCTL.

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