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**Consolidated Financial Statements for the year ended 31 July 2020**

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## Summary

2020 has been an unprecedented year, with the impact of the COVID-19 pandemic being felt on a global scale. For the University of Southampton and its Subsidiary Undertakings, the pandemic has created a significant challenge, with many areas of our economy being adversely impacted over the last five months of the year, starting with the UK lockdown announcement on the 16 March 2020. Lockdown, and social distancing measures, have caused disruptions to teaching, research and enterprise activities, which the University community has met with resilience and agility. We have embraced remote operations and worked hard to ensure that blended approaches to teaching and research maintained our high quality standards, as well as delivered safe working environments for both staff and students. The University has met well the challenges of operating in a COVID-19 world at a financial level, as well as in its response to tackling the virus, ensuring that the disruption has not negatively affected our core mission or financial sustainability.

The University of Southampton and Subsidiary Undertakings achieved a surplus of £102.7 million in the year to 31 July 2020 (compared to a deficit of £71.0 million for 2018/19); however, this is after the impact of a large exceptional item following the completion of the 2018 Universities Superannuation Scheme (USS) valuation. The underlying surplus to 31 July 2020, before actuarial losses from pension schemes and without the USS accrual, was £38.3 million (6.6% of income) which compares to an underlying surplus of £22.2 million for 2018/19. The increase year on year in the underlying surplus was primarily due to higher levels of international student fee income and a strong focus on expenditure control in the last five months of the year to mitigate the income losses from COVID-19.

The net cash inflow from operating activities in 2019/20 was £61.9 million, a reduction of £5.5 million on the prior year. This is a strong performance, and demonstrates the quality of the management at all levels of the University in responding to COVID-19 related financial pressures.

In early 2020, a consultation took place within the University, to support a review and planned strategy refresh by our President and Vice-Chancellor, Professor Mark E. Smith CBE. The onset of a global pandemic changed the scope of this work, with the University publishing its Bridging Strategy in July 2020, as a response to the continuing health, economic and social uncertainties of COVID-19. This strategy is an essential short-term guidance document, which will be supplemented by further work

on the long-term strategy in 2021.

Central to the Bridging Strategy is an articulation that the safety and wellbeing of students and staff is what matters most to the University. With physical distancing likely to be in place for some time, we have acted quickly to ensure there are safe, connected and agile means of learning and working, and we will continue to do so. Throughout the pandemic period, we have tested our actions against the following Bridging Strategy principles:

- to ensure the continuing safety and wellbeing of our staff and students
- to ensure the University emerges from the coronavirus crisis with our high-quality research and education infrastructure intact
- to sustain and strengthen our One Southampton community to ensure we have the ambition, the ingenuity, the flexibility and the agility to flourish in a very changed landscape
- to take all necessary measures to ensure the University remains financially sustainable, and has the ability to invest in the future
- to deliver on our role as a civic and global University

As a community, we have had to manage the threat the global pandemic placed on our revenue streams. As a direct result of the national lockdown, we issued refunds for our halls of residence, as students left and returned home. We also had a period of complete campus closure, which affected both catering facilities and conference provision. Despite these issues, we managed to contain the loss of revenue and protect key areas such as our research economy, and delivered total income for the year of £583.3 million, a small reduction of 0.2% on the prior year income of £584.3 million, and a tremendous achievement for the institution.

To counter the impact of pandemic-related revenue decreases, all areas of the University maintained a strong control on expenditure, and delivered short-term non-staff savings with a focus on reducing non-essential spend. Total expenditure for the University, not including the decrease in the USS deficit accrual, is £551.2 million, a decrease of £10.3 million (1.8%) compared to the prior year. For specific areas of non-staff costs, where it was possible to have more control on expenditure during the pandemic, the decreases in spend are more significant. Excluding the impact of office expenses & professional fees, which increased in line with international student numbers, other operating expenditure decreased by £24.4 million on the prior year from £162.8 million in 2018/19 to £138.4 million in 2019/20.

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## Strategic Report (continued)

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Last year, there was an increase in the Universities Superannuation Scheme (USS) accrual, due to a change in the 2017 valuation deficit recovery plan, of £93.2 million. The 2018 valuation outcomes included a shortening of the recovery period by six years, resulting in a decrease in the accrual of £64.5 million, contributing to a larger surplus for the year. It is expected that the 2020 valuation will result in an increase in the accrual, and the escalating cost and volatility of our pension schemes represents one of the highest risks for the long-term sustainability of the University. The volatility in valuation of the USS scheme deficit has been driven by a combination of fluctuating market conditions and changes in underlying actuarial assumptions, and reflects concerns about the ability of the pension fund to deliver against its obligations to members as they arise.

We continue to invest in top-class facilities for our students and research teams. Our newest showcase facility for learning and teaching has been shortlisted for a 2020 RIBA (Royal Institute of British Architects) South Award. The nine-storey Centenary Building, which opened in September 2019, was named in celebration of 100 years of teaching on our Highfield Campus. The RIBA awards recognise and celebrate outstanding architecture in the UK and are given for good design and sustainability, regardless of budget or typology.

Building work has been impacted by COVID-19, but significant progress has still been made on foundation work, which enables future investment in our sports facilities, alongside medical and STEM (science, technology, engineering and mathematics) teaching provision. Funding from the M3 Local Enterprise Partnership (LEP) is being used to support a £14.5 million project to create a Future Town Innovation Hub, a coming together of research and enterprise activities focusing on energy efficient housing, water conservation, sustainable transport, carbon neutral waste management and recycling, and improving health outcomes. As part of this project, the new building has been transferred from the University to its subsidiary, Southampton Science Park Limited.

We continue to see the positive impact of our strategic and operational focus on quality, with improvements in all the major league tables, both nationally and internationally. We improved 5 places in the Times and Sunday Times Good University Guide 2021 to a rank of joint 15th. In this league table, Physiotherapy maintained its number one ranking and fourteen subjects were placed in the top ten. We were 17th in the Complete University Guide 2021 (up three places) with 15 subject areas in the top ten. We moved up one place in the Guardian Good University Guide

2021, to 23rd, with seven of our subject areas in the top ten places. We also rose seven places to rank 90th in the World's Top 100 in the QS World University Rankings 2021. Strong league table performance is a good indicator of future student recruitment, especially internationally, and a testament to the continued hard work within our community to further improve student experience.

In July, we received the results of the 2020 National Student Survey (NSS), a key indicator of the experience that our final year students have had with us during their undergraduate studies. This year's results have seen positive improvements across several key metrics. Our Overall Satisfaction score has seen a 0.2 percentage point (ppt) increase rising from 84.7 to 84.9. Our rank position against our competitor basket for overall satisfaction has also improved since last year, from 7th place to 4th, highlighting the tremendous efforts of staff to positively affect the experience of our students. At an institutional level, the University has seen growth against both sector and Russell Group benchmarks on several key measures, including Overall Satisfaction, Teaching, Academic Support, Learning Resources and Learning Community. This has contributed to improvements in rank position for 5 out of the 9 NSS question groups, which again reflects positively on the University's strategy to pro-actively improve the experience our students receive whilst studying with us.

Our graduates continue to be highly sought after by national and global employers. In 2018, the Destinations of Leavers from Higher Education (DHLE) Survey was replaced by Graduate Outcomes and we received our first set of results using the new methodology in summer 2020. Our ranking for graduate prospects remains strong and internal analysis of our data shows that engagement with our central Careers Services, results in higher positive destinations. We proactively engage students in achieving successful graduate outcomes through a comprehensive programme of support, opportunities, advice and guidance and through ensuring employability is a core strategic measure. Our Graduate Outcomes results show that 96.3% of our students went into employment with 83.8% in a professional destination.

During the year, we spent £10.5 million on activities relating to the University's Access and Participation Plan. The University has a proud and long-term record in supporting access, participation and success by students from under-represented groups. Expenditure in 2019/20 included £7.8 million on bursaries for students from low-income households, £0.5 million on bursaries to alleviate hardship, £0.1 million on care leaver bursaries, £1.6 million on activities and measures to promote access to higher

education and £0.5 million in support of disabled students. Across our programmes, we worked with over 10,000 young people in more than 80 schools and colleges focusing our work for students from POLAR Q1 (Participation of Local Areas) and IMD Q1 (Index of Multiple Deprivation) areas. To mitigate the impact of the COVID-19 pandemic for our students we moved activities online, regularly engaging with our most vulnerable students, offering online wellbeing support, and counselling. During the final term, we allocated over £0.3 million to students in hardship as well as offering an online learning fund to ensure that all students could access online teaching effectively.

On 1 October 2019, our new President and Vice-Chancellor, Professor Mark E. Smith CBE, joined the University. Professor Smith had previously been the Vice-Chancellor at Lancaster University and, since his arrival at Southampton, he has continued to develop the University's strategy, focusing on quality and sustainability, alongside concentrating on recovery from the impacts of the global pandemic.

## Financial Review 2019/20

### Income

The University of Southampton and Subsidiary Undertakings produced a surplus of £102.7 million, including a decrease in the USS deficit funding accrual of £64.5 million, this compares to a deficit of £71.0 million in 2018/19). Excluding the USS accrual, the underlying surplus was £38.3 million (£22.2 million in 2018/19), which represents 6.6% of income (3.8% in 2018/19) and is an increase of £16.1 million on the prior year. Income decreased by £1.0 million to £583.3 million, an increase in tuition fee income of £15.8 million having been offset by decreases in other income linked to the impacts of the global pandemic. In 2020, the national lockdown resulted in students vacating halls of residence in advance of the third semester, leading to hall fee refunds of £8.3 million. The national lockdown also resulted in lower revenue from catering and conference activities. In 2019/20 income from residences, catering and conferences was £31.6 million, a decrease of £10.3 million (24.6%) on the prior year. As a result, other operating income decreased to £106.9 million in the year (£118.3 million in 2018/19). In 2019/20, the University initially made claims of £1.9 million under the government's Coronavirus Job Retention Scheme (CJRS) to cover both research operations where funding was not possible because work could not be undertaken and changed to funders, and for those areas of non-publically funded areas where income and activity reduced significantly. With subsequent announcements from the government relating to financial support for University research operations, a decision

was made to re-pay those elements of the CJRS relating to research and to make a residual claim of £0.8 million in respect of those non-publically funded areas where income and activity reduced significantly.

Total income from tuition fees and education contracts increased by £15.8 million (6.3%) from £250.7 million in 2018/19 to £266.5 million in 2019/20. The number of international students grew on the prior year by 15.9%, from 4,874 full time equivalent (FTE) to 5,647 FTE, and increased as a percentage of the total population. This growth is predominantly seen in our post-graduate taught population and reflects the popularity of our courses, our strong international reputation (as demonstrated by our top 100 QS rank) and the effectiveness of our recruitment strategy. The change in student mix and higher fees paid by overseas students, resulted in the increase in total tuition fee income.

In 2019/20, the number of Home/European Union (EU) undergraduate students decreased. This change reflects a combination of factors; including the demographic dip in UK 18 year olds, alongside the University's strategy to maintain high entry tariff requirements. Overall, the total student population decreased from 21,807 to 21,179 FTE according to our most recent HESA (Higher Education Statistics Agency) student return.

Research grants and contracts income decreased by 1.8% to £120.0 million. As a result of the global pandemic and lockdown measures, there were impacts on research, which resulted in a direct reduction in research income of around £1.1 million relating to research activity being stalled. The University has utilised appropriate sources of government support funding, with additional support for research being very beneficial to an area of the organisation which was impacted by the pandemic. Research income from EU sources decreased by £2.2 million in the year. This is due to a number of factors including; the transfer of projects to another Higher Education Institution, a reduction in Marie Skłodowska-Curie fellowships being awarded to UK host institutions, and suspension of activity on some grants related to COVID-19.

Investment income remained stable at £7.8 million (£7.9 million in 2018/19). Income from short-term deposits and investments has been negatively impacted by the reduction in the Bank of England base rate in March 2020 (to 0.10%). Market volatility, following the start of the global pandemic, has also affected returns from investments and we expect both factors will challenge investment income in the immediate future.

## Strategic Report (continued)

Donations and endowment income decreased from £5.6 million in 2018/19 to £3.7 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. During the global pandemic, the University has supported efforts to tackle the disease and its impacts in a number of ways including diverting teaching staff to the National Health Service (NHS) front line, donating Personal Protective Equipment (PPE) kit and focusing on relevant research activities. By July 2020, the University community had also raised £0.3 million towards its Coronavirus Response Fund.

### Expenditure

Whilst overall expenditure decreased by £168.0 million from £654.7 million in 2018/19 to £486.7 million, the result excluding the movement in the USS pension provision is a reduction in expenditure of £10.3 million from £561.5 million in 2018/19 to £551.2 million. As part of the response to the financial impacts of the global pandemic, the University put in place an 'essential spend only' policy, which helped to deliver a reduction in expenditure to mitigate against revenue decreases. All University staff played their part in managing costs whilst developing and maintaining high quality teaching, research and enterprise activities.

Staff expenditure, excluding the movement in the USS pension provision, increased by 2.3% from £315.2 million in 2018/19 to £322.4 million. Severance and early retirement payments decreased by £0.2 million. The average headcount for staff in 2019/20 was 5,594, a decrease from 5,603 in 2018/19 and in line with a strategy to control expenditure and align resources to student numbers. Pay bill pressures, such as the pay award and increasing pension costs, contributed to staff expenditure increasing despite a reduction in average headcount on prior year. The 2019 national pay award was 1.8% and around 50% of staff are entitled to annual pay scale increments of around 3%. In October 2019, the employers' contribution to the USS pension scheme increased from 19.5% to 21.1%, which with the deficit recovery contributions of 2% (rising to 6% from October 2021), is currently at the limits of affordability.

Other operating expenditure decreased by £17.5 million (9.0%) to £177.2 million (2018/19 £194.7 million), excluding the impact of the increase in professional fees related to agents commission, this decrease is £24.4 million. As a result of a policy to limit expenditure to mitigate against the revenue impacts of COVID-19, there are decreases year-on-year on spend against other operating expenditure including: non-capitalised equipment (£5.4 million decrease), consumables and laboratory expenditure (£3.2

million decrease) and travel costs (£5.0 million decrease). Offset against this, there was a £6.9 million increase in office expenses and professional fees, of which £4.8 million relates to increases in agent commission in respect of higher levels of international students. At the beginning of the pandemic, we assessed those areas of expenditure we could control and reduce, in order to mitigate against revenue decreases. The majority of staff costs were forecast to remain static over the last 5 months of the year, with pay rises already approved and staff in post. Therefore, the University community focused on actively reducing budgeted expenditure in non-staff areas.

The University reported £1.2 million relating to impairment of property value in the year, compared to £1.4 million in 2018/19. Of this, £0.4 million relates to the write down of property in preparation for the University's estate development plans.

Interest payable and other finance costs have increased by £2.9 million, from £17.3 million in 2018/19 to £20.2 million in 2019/20. The increase relates to additional interest in the form of the discount unwind in respect of the University's Pension and Assurance Scheme (PASNAS) and USS pension schemes.

### Statement of Financial Position

Despite the continuing challenges of our pension deficits, our total net assets remain strong at £499.4 million, an increase of £47.8 million on the prior year (£451.6 million in 2018/19).

The University has significant funds to ensure the highest quality in our teaching and research facilities. In the year to July 2020, we acquired or constructed capital assets with a value of £27.7 million. Construction work has been impacted by the global pandemic; however, the University has continued to focus on developing COVID-19 secure strategic developments whilst maintaining appropriate levels of cash to manage future requirements. In 2019/20, £8.0 million was invested in enhanced Chemistry facilities and £2.9 million on improvements to student residences. Other enabling activity provides the platform from which further large-scale development projects will take place.

The value of non-current asset investments increased by £7.8 million in the year, to £10.2 million. At the year-end, a market value adjustment of £7.0 million was made in respect of the University's holdings in Synairgen plc. Synairgen is a University spin out company, which focuses on discovering and developing novel therapies for respiratory disease. An announcement of positive results from a Synairgen drug trial on COVID-19 patients in July 2020 significantly increased its market valuation and share price.

There are no capital repayments to be made over the term of the bond, with full repayment due in 2057. An investment plan is in place to repay the bond in full at its term. The finance lease commitment relating to Mayflower halls has decreased from £47.5 million to £47.2 million and our bank loans have decreased from £67.7 million to £65.2 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 University's net debt, as set out in note 25, moved from £352.3 million net debt as at 31 July 2019 to £345.6 million as at 31 July 2020. However, the net debt does not take into account the investment portfolio held as part of University's treasury management strategy of £455.7 million. If this is taken into account, the overall position is adjusted net funds of £110.2 million, compared to £70.9 million at 31 July 2019.

The pension liability of the University's PASNAS fund has increased to a deficit of £203.4 million (2018/19 £137.9 million). The main reasons for the increase in the deficit are the decrease in discount rate from 2.1% per annum to 1.4%, reflecting the changes in gilt yields over the year and the changes in expectations for future inflation. These changes in assumptions have contributed to the £65.5 million negative impact on the scheme deficit. Most other assumptions remain unchanged from 31 July 2019. Further details are set out in note 29.

During 2019/20, the 2018 valuation of the Universities Superannuation Scheme (USS) was finalised. The valuation of the market value of USS scheme assets was £63.7 billion, compared to £60.0 billion from the 2017 valuation, as reflected in the 2018/19 financial statements. The valuation of assets compares to value of the schemes technical provisions of £67.3 billion (£67.5 billion in 2018/19), which indicates a shortfall of £3.6 billion (£7.5 billion in 2018/19). This is a decrease of £3.9 billion in the scheme deficit from £7.5 billion to £3.6 billion. The deficit recovery contributions required from October 2019 to September 2021 are 2% of salary, followed by a payment increase to 6% until 31 March 2028. This is a reduction in the deficit recovery period from the previous valuation, which set out recovery contributions of 5% of salary until 30 June 2034. The decrease in the scheme deficit has resulted in a decrease in our USS deficit provision of £62.2 million, from £141.0 million in 2018/19 to £78.8 million.

The 2020 valuation is now underway. The process of determining the technical provisions which lead to the valuation along with

the assessment of the overall employer covenant are the subject of consultations with employers. Based on the proposals put forward for the technical provisions consultation in September 2020, the fund's deficit at 31 March 2020 could range from £9.8 billion to £17.9 billion. The key drivers of the increase in the deficit and the range of outcomes is the current gilt yields which have been driven down by the economic uncertainties surrounding the global pandemic and the trustees assessment of the covenant strength of employers. The likely impact for the University is an increase in our USS deficit provision and change contribution rates. The 2020 valuation is expected to conclude in the summer of 2021.

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 prosperity of both our city and region. During the year, total occupancy levels decreased to approximately 83%, down from 87% in July 2019, reflecting both a general period of economic uncertainty and some initial impact of the Covid-19 pandemic on the commercial property market. Science Park turnover was £4.7 million (2018/19 £5.0 million) and there was a profit before covenant payments and taxation of £2.4 million (2018/19 £2.4 million).

In November 2019, the University ratified expansion plans for the University of Southampton Malaysia (UoSM) to move to a larger, high-quality campus. This move, into the growing Iskandar region of Malaysia, allows us to expand the portfolio of programmes offered at UoSM. The building is on track to be ready for teaching from the start of the 2021/22 academic year.

## 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	2019/20 Target	2019/20 Achievement	
Operating cash flow	£58.5 million	£61.9 million	Outperformed
Staff Costs as a % of Income (excluding exceptional items)	Less than 54.6%	55.3%	Underperformed

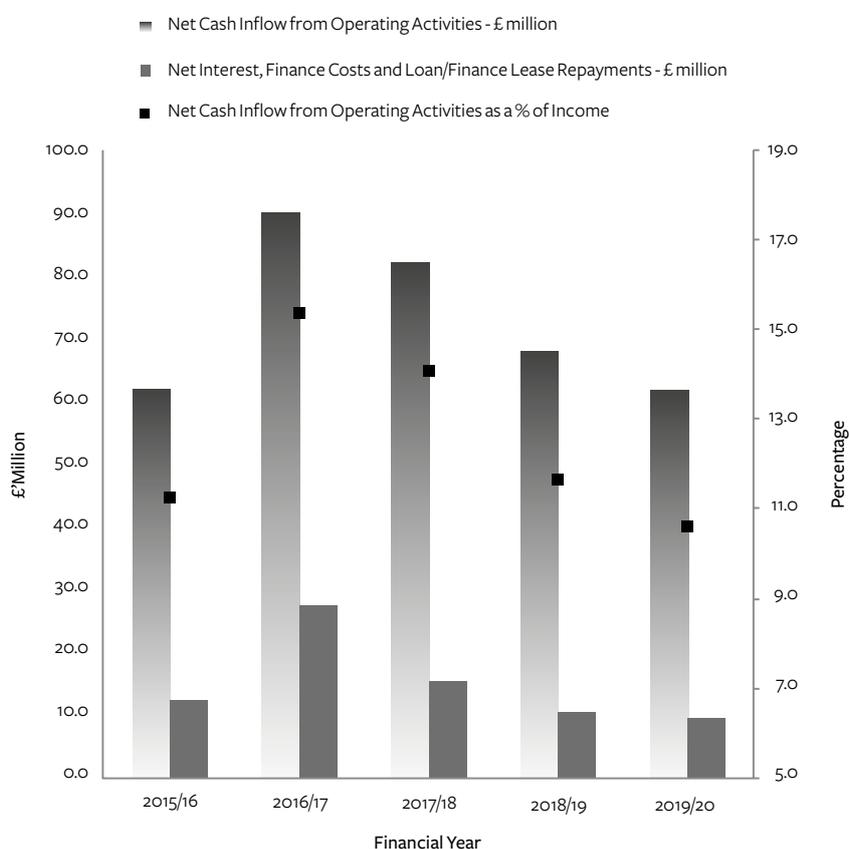
The University outperformed its operating cash flow target, despite all the challenges of the year, which is a great achievement for the whole community. Staff costs as a percentage of income were slightly higher than target. This is due to a decrease in planned income levels, and increases in teaching staff in key areas due to higher than planned international students.

The 2019/20 targets were taken from the University's Business Plan, approved in July 2019. The 2019/20 results have been taken from the cash flow statement 'net cash inflow from operating activities', and from the Consolidated Statement of Comprehensive Income for the year (staff costs less decrease in the USS deficit accrual, divided by total income).

### Key financial trend analysis

#### Net Cash Inflow from Operating Activities 2015/16 – 2019/20

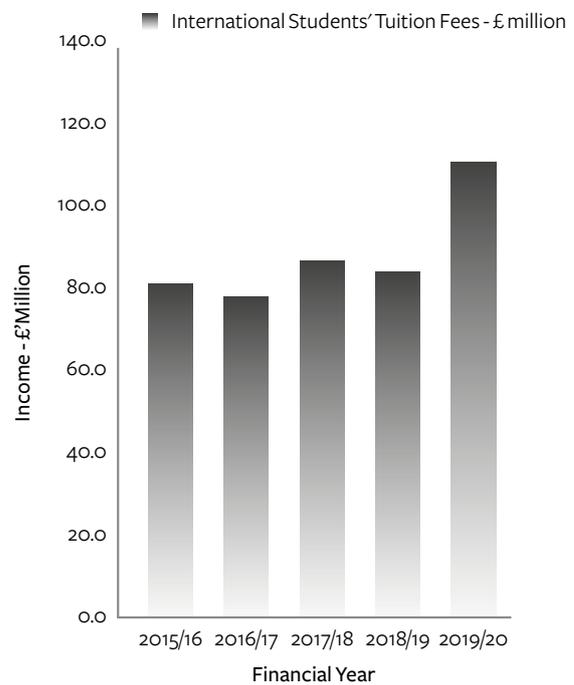
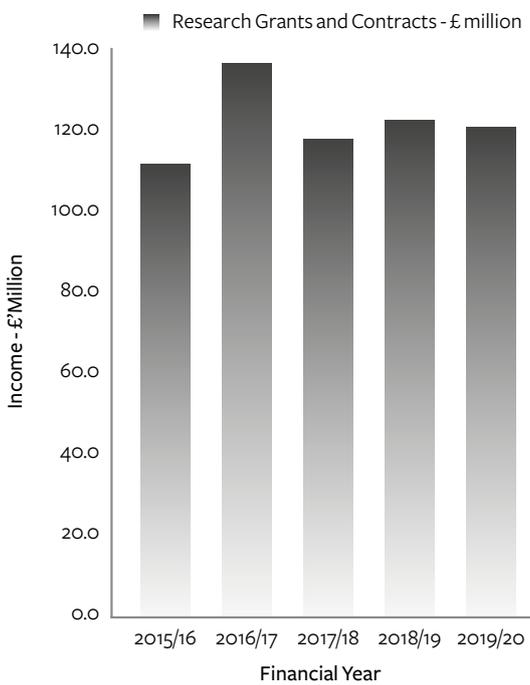
The net cash inflow from operating activities is the amount of cash generated by the University and Subsidiary Undertakings before external financing costs and investment. The net cash inflow from operating activities in 2019/20 was £61.9 million. The University and Subsidiary Undertakings have a focus 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 2015/16 – 2019/20**

Research grants and contracts earnings and international students’ tuition fees are two key sources of income. Research grants and contracts income was £120.0 million in 2019/20 compared with £122.2 million in 2018/19, a decrease of 1.8%, and a significant achievement given the COVID-related challenges during the year. Research activity has been impacted by the global pandemic, however the University has worked hard to ensure the impact was minimised, in particular through the safe opening of laboratory spaces and the enabling of working from home.

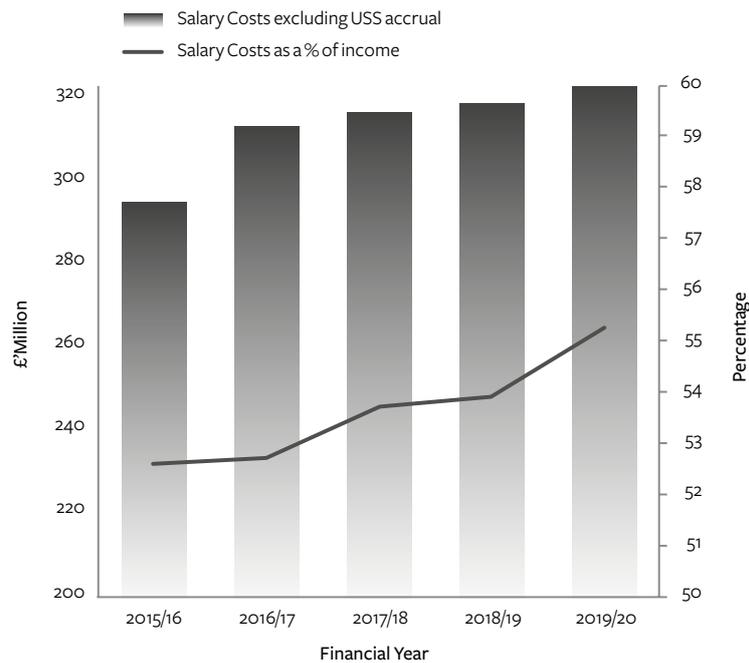
International students’ tuition fee income increased by £26.5 million to £111.2 million in 2019/20, recruitment having been positively impacted by our strong international reputation and offering of post-graduate courses. Our strategy to improve international student numbers has been supported by activity such as the newly launched India Centre for Inclusive Growth and Sustainable Development. Over the five-year period, international student numbers have increased by 5% (588 FTE) and tuition fee income has increased by 36.6%.



**Salary Costs as Proportion of Income 2015/16 – 2019/20**

Salary costs, as a proportion of income, was 55.3% in 2019/20 (excluding the impact of the USS accrual), this compares to 53.9% in 2018/19. Including the USS accrual, this drops to 44.2% (69.9% in 2018/19). Underlying staff costs have increased by 2.3% to £322.4 million in 2019/20 (£315.2 million in 2018/19). As a response to the impact of COVID-19, and aligned to a strategy of controlling staff costs, in July 2020, the University announced the opening of a Voluntary Severance scheme, with decisions having been announced in November 2020.

**Strategic Report (continued)**



**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 reviewing the provisional 2020/21 University budget. This review also considered high, medium and low financial scenarios, reflecting the volatility and level of uncertainty, resulting from COVID-19. The major risk areas are summarised below:

Area:	Risk:	Mitigating action:
<b>Operating model</b>	A continuation of COVID-19 beyond the current anticipated 12-18 month period will have a long lasting negative impact on the Higher Education sector. The potential impact of long-term social distancing measures, alongside UK and global economy downturns, may see a decrease in student participation and research activity funding.	Plans for 2020/21 deliver expenditure controls to mitigate against significant revenue drops.  Longer-term, the University has strong cash balances so is able to invest in alternative proposition delivery methods.
<b>Student income</b>	Actual student income for 2020/21 may fall below the business plan target, therefore reducing forecast income streams.  International students may not be able to commence study due to travel restrictions, relating to COVID-19.  The business plans do not take account of any changes in regulations, demand or the availability of funding because of the UK leaving the EU.	Recruiting student numbers to planned levels will be a core part of the University’s Confirmation and Clearing strategy.  Expenditure controls and cost cutting initiatives to mitigate against potential revenue decreases.  There is still considerable uncertainty regarding the implications of Brexit. Plans include prudent forecasts for EU funding.

## Strategic Report (continued)

Area:	Risk:	Mitigating action:
<b>Student income</b>	The maximum fee for Home/EU undergraduate students is currently being held at £9,250. The Augar Review of Post 18 Education & Funding recommended a reduction in Home/EU fees to £7,500 from 21/22 at the earliest, to be compensated for by an increase in T Grant funding. There is a risk that T 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.
<b>Research grants and contracts income</b>	The University may fail to achieve the planned levels of external research funding.  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.	Maximising research income is a key performance indicator. The Research Strategy and Bridging Strategy KPIs will support delivery.  The Government has guaranteed funding for Horizon 2020 research projects, 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.
<b>Staff costs</b>	There is a risk that national pay awards will increase above the assumptions included in the business plan.	Expenditure controls are in place to mitigate against higher than anticipated national pay awards.
<b>Pension costs</b>	The escalating cost and volatility of our pension schemes remains one of our highest risks to long-term sustainability.  USS pension costs will rise in October 2021 to 11% member and 23.7% employer contributions. Staff and employer contributions are likely to further increase as a result of the 2020 valuation.  Following a 2019 consultation, contributions to the PASNAS scheme increased from 1 January 2020. Further contribution increases are likely in the future.	Pension accounting adjustments are excluded from the Barclays loan covenant calculations.  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 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.
<b>International reputation</b>	Reputational damage results in lower number of international students and an adverse impact to relationships with research and enterprise partners.	Development of international strategy with focus on core relationships and student experience.  Continued focus on strong international league table results.
<b>Sustainability</b>	Strong cash flow is required to generate sufficient funding for future capital investment.  There is a risk of unexpected expenditure, including increased interest rates or costs related to COVID-19 or Brexit.	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.  The University tests business plans against a range of scenarios and manages expenditure through financial controls.

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## Strategic Report (continued)

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### Future Plans

We believe, whilst the impacts of a global pandemic will be long-lasting, the University is in a strong position to move from its Bridging Strategy into a phase of refreshed delivery of our core mission, under the leadership of our new President and Vice-Chancellor, Professor Mark E Smith CBE.

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

This has been a challenging year for the University, with the global pandemic affecting all areas of our operations. Staff have had to adapt to remote working, students faced changes to methods of teaching and our research facilities have been temporarily closed. Concerns about COVID-19 threats to our health and the prospect of an uncertain future have tested the mental health and resilience of the entire University community. To have weathered this period in 2019/20 and ended the year in such a strong position is a source of immense satisfaction for the University. This is no more strongly highlighted than through the ability to graduate students smoothly this summer which required significant adaptation of our processes and the way we work. The value to society of international quality, research-intensive universities and the direct local civic impact they can have could not be better illustrated than some of the developments that have come out of our University in response to COVID-19. There has been the development of drones for drug delivery, new respirators, drugs for relieving the symptoms and the saliva test for detection of the virus. This is a university that can make a difference.

University of Southampton and Subsidiary Undertakings have maintained strong control on expenditure whilst maintaining standards, which has led to a successful year in challenging circumstances, with total income at £583.3 million. This is only £1.0 million lower than the previous year, despite the requirement to refund third term halls of residence fees and stop conference and catering activities.

Overall, the surplus for the year was £102.7 million, an underlying surplus of £38.3 million once the impact of the decrease in USS deficit accrual is removed. The efforts of every part of the University to restrict spend wherever possible, once the organisation went into lockdown, has ensured that cash reserves

were increased. This allows the University to be able to manage potential volatility in 2020/21 and beyond in a sustainable way.

The 2019/20 decrease in the provision to cover the revised deficit recovery scheme for the USS pension scheme of £64.5 million, follows a £93.2 million increase in the provision for 2018/19. The valuation prior to this took place in March 2014, and resulted in a £8.4 million decrease in the deficit funding accrual. This year the deficit for the PASNAS defined benefit scheme increased to £203.4 million. 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 £61.9 million, which allowed us to invest £27.2 million in new buildings and equipment.

The continued strategic and operational focus on quality also achieved significant dividends during the year. We rose seven places and remained within the World's Top 100 in the QS World University Rankings 2021 and ranked 15th in the Times and Sunday Times Good University Guide 2021, with 14 subject areas ranked in the top ten and the largest rise of any university in the top 20. Finally, the National Student Survey showed a further increase in the overall satisfaction of our students to 84.9% and an improved position in five 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 a highly challenging higher education environment.

On behalf of Council, I would like to thank all staff across the University for the tremendous work they have accomplished to deliver high quality education, research and enterprise in such difficult circumstances.

Finally, we have benefitted from the arrival of our new President and Vice-Chancellor, Professor Mark E Smith CBE who is managing the institution through one of its most challenging periods.

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, enterprise and education, which is reflected in our consistently high international league table rankings. The University is an exceptional place whose people achieve remarkable things, some examples of which are shared below. It makes a strong contribution to public benefit through its education, research and enterprise activities. The health and economic shockwaves of the COVID-19 pandemic have brought the University's mission "to change the world for the better" into sharp focus.

We invest significantly to provide a relevant, flexible education for our students. The University's overall student satisfaction score has improved this year to 84.9% in the 2020 National Student Survey. The improvement, which reflects the University's strategy to improve the student experience, is particularly impressive as many universities saw significant falls; it places Southampton very strongly in relation to its direct peer set and the Russell Group more widely.

## COVID-19 pandemic

Like many organisations, the University has had to react quickly to the impacts of the global pandemic. The initial lockdown required a swift response to ensure the safety of students, staff and the wider community. Since lockdown ended, we have focused on creating a COVID-secure environment in which all our staff and students can feel safe and supported to continue delivering high quality teaching, research and all of the services that enable and enrich those activities.

Our researchers and staff have stepped forward to support the national crisis in a number of ways, including newly graduated

doctors and nurses working on the front line through to donating critical personal protective equipment.

We used interdisciplinary expertise from our Biomedical Research Centre and Institute for Life Sciences coupled with our engineering expertise to design and produce innovative, new respiratory equipment for use in hospital intensive care units. The Royal Academy of Engineering awarded the University team behind PeRSo - Personal Respirator Southampton - with a President's Special Award for Pandemic Service for exceptional engineering achievements in tackling COVID-19 throughout the UK.

Together with Southampton City Council and the local NHS, the University is leading the way on large-scale saliva testing for COVID-19. Following a successful pilot, the second phase will evaluate the application of the convenient, non-invasive saliva test in educational settings through primary, secondary and tertiary levels.

During lockdown, audiologists at the University's Auditory Implant Service (USAIS) conducted what is thought to be the first remote switch-on of a cochlear implant in the UK, allowing a young girl to hear for the first time. Staff were keen to get 18-month-old Margarida Cibrao-Roque, from Camberley in Surrey, using her new implants as soon as possible. With some ingenious thinking, they worked out a way to conduct their tests over the internet, connecting two computers, using specialist software and hardware and monitoring progress via video link.

Our Lifelab project is an award-winning and novel educational intervention designed to empower secondary school pupils and teachers through science enquiry to understand the consequences of lifestyle choices on their own health. All face-to-face activities were suspended as a result of the pandemic, however, a research project 'Teenagers' Experience of COVID-19 (TeC-19)' was launched and discussions held with local providers. An output was the development of a resource pack under the heading #ForOurFuture, a hub of information to signpost young people to a range of resources, from academic, skill-based, volunteering opportunities to support for physical and mental health.

In April 2020, the University launched a new fundraising effort to support investment for key projects to fight the escalating coronavirus crisis. The Southampton Coronavirus Response Fund was set up to support and accelerate the University's urgent work in tackling the global pandemic. The fund has raised over £680,000 at the beginning of November 2020.

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## Public Benefit (continued)

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The University is also taking a leading role in the largest worldwide study into the mental and physical impact of the pandemic. The ‘Collaborative Outcomes study on Health and Functioning during Infection Times’ (COH-FIT) aims to survey more than 100,000 people around the world. It will collect data on participants’ around their mental and physical wellbeing, access to care and coping strategies before, during and after the pandemic.

In June the University, and spinout drug development company Synairgen, announced the expansion of the clinical trial of an inhaled drug that could prevent the worsening of COVID-19 respiratory symptoms in those most at risk. The trial was rolled out beyond the Southampton area, to include people in most of the UK.

These are just some of the larger examples among the myriad of exceptional work being done by our world-class academics and support teams.

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### Research and Enterprise Impact

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For the last five months of the financial year, efforts have been re-purposed towards fighting the global pandemic. Outside of this work, our research teams have contributed to public benefit through their activities.

The University has been working to support local government, informing their response to climate change with world leading university research. Our work with Hampshire County Council has supported their strategy development and action plan to reduce carbon emissions across Hampshire, with one of our PhD candidates working closely with them to model and calculate carbon impacts for 23 separate climate change actions. The creation of a carbon calculator will support Hampshire County Council in prioritising climate actions and targeting constituents to encourage changes in behaviour.

Scientists from the Antibody and Vaccine Group at the University have discovered a way to transform antibody drugs previously developed to treat autoimmunity into antibodies with powerful anti-cancer activity through a simple molecular “switch”. This work, published in the journal *Cancer Cell*, focuses on a molecule called CD40, which is present on the surface of immune cells and controls both autoimmunity and cancer. The study was funded by Cancer Research UK.

Researchers at the University have mapped the global locations of major renewable energy sites, providing a valuable resource

to help assess their potential environmental impact. The study, published in the *Nature* journal *Scientific Data*, shows where solar and wind farms are based around the world, demonstrating both their infrastructure density in different regions and approximate power output. It is the first ever global, open-access dataset of wind and solar power generating sites.

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### Student education, student support and widening participation

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#### Education

The University of Southampton offers excellent education in a modern learning environment led by world-class research, and we have worked hard to ensure this offering is not compromised by the impact of the global pandemic. We continue to offer 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 can 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 2019/20, our Student Life team supported 2,459 students. Through the period of lockdown, our student support drop-in continued to provide virtual assistance through a range of specialities. Following a successful pilot, the Student Early Warning System was rolled out across all faculties and helped us to identify students whose engagement levels had dropped and to be able to put in place the relevant support.

#### Widening Participation

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

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 the latest published data, from 2018/19, 87.2% of our undergraduates were from a state school, and 7.9% were from low participation neighbourhoods. In the last decade, we have also significantly increased our proportion of first-year

**Public Benefit (continued)**

undergraduate black and minority ethnic students from 10.4% in 2008/09 to 23.0% in 2018/19.

The University has partnered with the Cowrie Scholarship Foundation (CSF) which aims to raise hundreds of thousands of pounds to provide scholarships for disadvantaged Black British students to study at leading UK universities. The Foundation's mission is to fund 100 disadvantaged Black British students through leading UK universities. The University of Southampton is supporting CSF by providing scholarships for three students over a ten-year period to study an undergraduate programme of their choice.

In the 2019/20 academic year the effects of COVID-19 have been particularly difficult for students from underrepresented groups and low income backgrounds. We implemented a number of measures to support students who were experiencing difficulties in their studies or engaging with outreach. The Online Learning Grant (OLG) was set up and provided financial support to over 1,200 students to help them access online lessons, resources and materials. The University committed £235,000 to the OLG in the 2019/20 academic year. We also sent out 2,350 hard copy activity packs to pupils in the local area to support their engagement with outreach activity. We have been developing a range of online provision of outreach and support for students from underrepresented groups which will support sustainability and form part of a blended approach to outreach as we look to work with areas outside of our traditional recruitment radius.

**Public and community engagement and culture**

Touching every area of Southampton city's life, the University works with business partners, incubates city entrepreneurs and enriches the city's arts and culture offerings. A core element of the city's public transport infrastructure is funded by the University. 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 second largest employer in the region, the University provides employment opportunities to over 6,500 people; and is home to more than 21,000 students from more than 130 countries. The vibrant and fast-growing city of which we are 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, contributing professionally to the city, region and country. In June 2020, during the pandemic, the University launched E-Mentoring Southampton, a brand new

platform allowing alumni to connect virtually with students and other alumni in need of career guidance.

The University fully supports Southampton's UK City of Culture Bid. Led by the Arts and Culture team, the University funded community engagement and research for the bid, this included designing and building Culture Mapper, an online tool to capture physical and digital engagement taking place across the city, to undertake baseline data research.

The John Hansard Gallery (JHG) welcomed over 100,000 visitors across 11 exhibitions and associated engagement activity. Throughout the pandemic, JHG has continued to reach a wide public audience through online activity and local partnerships. In 2019/20 JHG commissioned three new online video works. In January, the gallery launched JHG Ambassadors, a new programme to recruit and build a dynamic and confident cohort of 15 diverse individuals who will play a key role in the city, building relationships between JHG, its audiences and communities.

Located on our Highfield Campus, Turner Sims (TS) presented 67 concerts across the year, selling 15,000 tickets. In autumn 2019, TS collaborated with Southampton Music Hub and London Sinfonietta to present a schools concert for 325 pupils and teachers from local schools. Turner Sims presented three season previews through the year, free events profiling forthcoming concerts and including a live performance by a featured artist. A pro-active partner for Black History Month South, the Turner Sims presented events featuring black artists; and contributed towards a feature in the BHM Southampton 2019 magazine including an interview with pianist Isata Kanneh-Mason.

Our sports facilities are well used by local residents and schools. Following a refurbishment investment last year, the doors were opened to the new look changing village (Jubilee Sports Centre) in November 2019. With its increased number of disabled facilities, gender-neutral toilet facilities, large enclosed family changing rooms, the Jubilee Sports Centre aims to increase flexibility and offer more privacy to all its users.

Our Library is available 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. During the pandemic, the University introduced a digital and click and collect service for books available on the shelves at the Hartley Library.

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## Public Benefit (continued)

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### Outreach and public engagement

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Prior to the pandemic, various outreach and public engagement activities were held in 2019/20.

University entrepreneurs launched prosthetics software breakthroughs, IT security and quantum technology at the world's largest technology show, CES 2020 (The Consumer Electronics Show).

Southampton's Association for Computing Machinery (ACM) Web Science Conference (#WebSci20) was a resounding success with more than 270 people from around the world gathering at the international conference to explore new directions in the Web and artificial intelligence (AI). The online event, organised by the Web Science Institute (WSI), proved extremely popular with world leaders in Web Science research, technology, industry and policy-making, coming together with Web Science students, to take part in keynote speeches, presentations of new research, panel debates and a PhD symposium.

The arrival of COVID-19 prevented the University from running our annual Science and Engineering Festival in its normal format, but we were able to make speedy adaptations to run a two-month 'virtual' Festival. This was accessed by more than 22,000 people far and wide from the safety of their own homes, extending to an international audience across several countries in six continents, including Mexico, Brazil, Argentina, Russia, USA, Kenya, Japan, China, Australia, Singapore and Malaysia.

The Economic and Social Research Council (ESRC) Festival of Social Science (FoSS) was held in November 2019 at various physical locations across Southampton and Winchester with eight events hosted by the University and more than 230 attendees from across the UK. A wide range of social science areas were covered and events included: promoting the voice of autistic children; different aspects of inter-generational exchange; law, policy and the well-being of the elderly; parole of prisoners; painting your pain and Brexit, with a mixture of talks, discussions, debates, exhibition, hands on workshop, seminars and conference style approaches. The funding for FoSS events is provided by ESRC as an integral part of our Impact Acceleration Account award.

During the pandemic, between April and July, ten 'bite-sized' videos were published using existing lecture content, edited to create short 20 minute videos covering a wide range of topics from humanities to medicine. These were made available to staff,

students, alumni, and members of the local community. Over 4,000 people watched the videos.

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### Social impact

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The University of Southampton has a significant effect on communities in a variety of ways. It contributes to health and wellbeing in the region and more widely through our research and education programmes; through its links with industry; and its commitment to arts, culture and creativity. We train doctors, nurses, midwives and other allied health professionals, serving local hospitals and more recently, contributing to the fight against the COVID-19 pandemic. The University has a 60-year legacy of teaching, training and developing nurses with around 1,000 nursing students currently enrolled on our pre-registration, undergraduate and postgraduate nursing degrees and diplomas. Many of these students and staff have and will continue to work directly with patients this year, some of whom have been impacted by COVID-19. The pandemic has shown us more than ever the value of modern nursing.

Commemorating Florence Nightingale's 200th birthday in May, the World Health Organisation made 2020 the International Year of the Nurse and Midwife. To mark the occasion, our own nursing students and staff released a video in which they shared their views on the true value of nurses in the world today.

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### Regional and Economic Impact

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The University of Southampton's contribution encompasses education, outreach, business and enterprise, employment, student volunteering, sports and the arts, highly-qualified students and graduates, and the use of many of our campus facilities. The University is the second largest employer in Southampton, and along with our student population, contributes significantly to our local communities and city.

We are one of the leading entrepreneurial universities in the UK. As at 31st July 2020, we have 34 active spinouts, with equity in 18 of these. We also help new enterprises to get off the ground. Our business incubator at the University's Science Park is currently supporting 20 companies, helping them to raise millions of pounds in investment. We attract investment and new businesses to the area. The Science Park is home to more than 100 companies, each providing jobs and opportunities in the region.

The University represents a major asset for linking key local industries, sectors and employers.

**Public Benefit (continued)**

An independent economic impact assessment, published in 2018, estimated that the University annually supports economic activity in Southampton of £0.9 billion and 14,000 jobs. Across the region the figure is £1.3 billion and 19,800 jobs; and for the UK it is £2.5 billion and 32,900 jobs.

**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.

The impact of the worldwide pandemic has required the University to reaffirm what matters most and has developed an interim 'Bridging Strategy' to enable it to emerge strongly and safely. The core principles highlight the four areas that are most important to us: People; Excellence of Education and the Student Experience; Excellence of Research and Enterprise; Sustainability (environmental and financial). The University has already begun to demonstrate its commitment to these principles, evidenced by highlights included in this report.

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 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**

Environmental sustainability is core to our mission. The University's ambition is to achieve net zero carbon emissions by 2030, embedding sustainability into everything it does.

Work continued during the pandemic to develop a Sustainability and Environment Strategy with key performance indicators. This was launched in the autumn of 2020 informed by consultation with the University community. The University has already made

positive progress on its sustainability agenda. The University has made a series of commitments related to sustainability, including signing the Green City Charter, which pledges to support the City of Southampton Council to achieve its 2030 net zero target, and signing the UN Sustainable Development Goals (SDGs) Accord.

We recognise that as a research-intensive university there is a tension between carrying out our work and minimising environmental impacts. We have reduced our carbon emissions by 3% over the last year, as well as achieving a 20% reduction in gas consumption from the prior year. Some reductions in carbon emissions are a direct result of a reduction in travel, due to restrictions caused by COVID-19, and we are investigating ways in which this momentum can continue in a post-pandemic world.

We continue to deliver world-leading sustainability-related research, in areas such as sustainable energy, energy efficiency, clean carbon, food and water security, and sustainable cities and towns, among many others. The strategy harnesses these strengths to deliver on our vision for sustainability at the University.

During the pandemic, the University passed a three-yearly recertification audit to retain its environmental ISO14001 certification. ISO14001 is the international standard for implementing and operating a successful environmental management system. The University received extremely positive feedback from the auditor on our approach and the way positive sustainability measures are embedded in our operations.

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, health and our annual bioblitz event. The event included weekly biodiversity themes to get the community involved with improving biodiversity at home. Themes covered how to encourage wildlife into your gardens, which plants and herbs can attract bees and how small acts of kindness to wildlife can have a big impact.

To ensure we manage and reduce our travel emissions, the University is developing a new Travel Plan, which covers the period 2020-30, 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

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## Public Benefit (continued)

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and the 'Benefitting Society' category of the national Green Gown Awards. This acknowledged 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 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.

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## Trade Union Facilities Time (Unaudited)

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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 2019 to 31 March 2020:

### Trade union representatives and full time equivalents

Trade union representatives:	62
FTE trade union representatives:	58.4

### Percentage of working hours spent on facility time

0% of working hours:	0.0
1% to 50% of working hours	62.0
51% to 99% of working hours	0.0
100% of working hours	0.0

### Total pay bill and facility time costs

Total pay bill	£408,373,000
Total cost of facility time	£191,631
Percentage of pay spent on facility time	0.05%

### Paid trade union activities

Hours spent on paid facility time	6,888
Hours spent on paid trade union activities	0.0
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 2020 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 Committee, Remuneration Committee, Finance Committee and Health & Safety Audit & Assurance Committee

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## Corporate Governance (continued)

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**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:

<http://www.southampton.ac.uk/about/governance/council.page>

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### President and Vice-Chancellor

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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.

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### Statement of Internal Control

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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 2020 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.

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 and key performance indicators (KPIs) on a regular basis, and

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## Corporate Governance (continued)

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formally reviews the University retrospective KPI performance 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.

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### Role of Council in the Preparation of the Financial Statements

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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 funds from all government sources including Office for Students, UKRI, Department for Education and Education and Skills Funding Agency 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.

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### Members of the Council

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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

**Corporate Governance (continued)**

Membership for the period 1 August 2019 – 25 November 2020

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 25 Nov 2020	Attendance Aug 2019 – Jul 2020	Membership of other Committees of Council (including joint committees)
Mr P D 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 M Spearing	Class 1 President and Vice-Chancellor (Interim)	March 2019	September 2019	1/1	Nominations Committee Finance Committee
Professor M E Smith CBE	Class 1 President and Vice-Chancellor	October 2019		5/5	Nominations Committee Finance Committee
Professor A Neill	Class 1 Vice President	August 2020	July 2021	1/1	Nominations Committee
Professor M Spearing	Class 1 Vice President	October 2019	July 2020	5/5	Nominations Committee
Ms F Barnes	Class 2	November 2016	July 2022	6/6	Finance Committee Nominations Committee
Mr G Hobbs	Class 2	August 2016	July 2022	6/6	Audit Committee
Mr P Hollins	Class 2	April 2016	March 2022	5/6	Remuneration Committee
Mr W Shannon	Class 2	July 2015	July 2021	5/6	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	6/6	Finance Committee (from September 2019)
Dame M Atkins	Class 2	March 2019	July 2022	6/6	

**Corporate Governance (continued)**

<b>Name</b>	<b>Type of Membership</b>	<b>Original appointment in this class commenced</b>	<b>Appointment end or actual leaving date if before 25 Nov 2020</b>	<b>Attendance Aug 2019 – Jul 2020</b>	<b>Membership of other Committees of Council (including joint committees)</b>
Professor J Holloway	Class 3	August 2018	July 2021	6/6	
Professor R Mills	Class 3	August 2017	July 2020	5/6	
Dr V Cardo	Class 3	October 2020	July 2023	0/0	
Professor P Reed	Class 3	March 2016	July 2021	6/6	Nominations Committee
Mr R Cartwright	Class 3	August 2018	July 2021	5/6	
Mr A Reyes-Hughes	Class 4	August 2014	July 2020	6/6	
Mr A Whitmore	Class 4	August 2020	July 2023	1/1	
Ms E Harrison	Class 5	July 2019	June 2020	5/5	
Ms O Reed	Class 5	July 2020	June 2021	1/1	

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

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### 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 2020 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 statement of financial position;
- the consolidated statement of changes in reserves;
- the consolidated statement of cash flows; and
- the related notes 1 to 32.

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 (2019).

### 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. The non-audit services provided to the group and the university for the year are disclosed in note 10 to the financial statements. 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

The key audit matters that we identified in the current year were:

- Capitalisation of expenditure; and
- Valuation of the USS deficit.

Within this report, key audit matters are identified as follows:

- ⓘ Newly identified
- ⊕ Increased level of risk
- ↔ Similar level of risk
- ⊖ Decreased level of risk

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

<b>Materiality</b>	The materiality that we used for the group financial statements was £8.2m which was determined on the basis of 1.4% of total income.
<b>Scoping</b>	Our full scope audit covered 99% of group income and 98% of group net assets.
<b>Significant changes in our approach</b>	In the previous year we identified the recognition of research grant income as a key audit matter. In the current year, this is no longer a key audit matter, as in the current year we did not assess this as a significant risk. There are no other significant changes in our approach in the current year.

**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.

**Capitalisation of expenditure** **Key audit matter description**

The Group recognised a total of £21m (2019: £56m) of additions to land and buildings and assets in course of construction in the year to 31 July 2020, as disclosed in note 14 to the financial statements.

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 fraudulently manipulate the financial statements by capitalising amounts which should be recognised as expenditure in the Income Statement.

Details of the accounting policies applied are set out in note 1 to the financial statements. Capital expenditure is discussed in the financial review on page 4.

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

<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"> <li>• We obtained an understanding of the relevant controls over the classification of expenditure on capital projects as capital or revenue in nature.</li> <li>• We assessed management's accounting policies in this area as to their compliance with FRS 102.</li> <li>• We tested the appropriateness of the accounting treatment of additions against the standards set out in FRS 102.</li> <li>• We assessed whether the expenditure met the required definitions to be recognised as capital.</li> <li>• We have assessed whether there were any significant delays in construction, and how the costs of these have been treated.</li> </ul>
<b>Key observations</b>	Based on the work performed we are satisfied that the expenditure capitalised is satisfactory.
<b>Valuation of the USS deficit</b> 	
<b>Key audit matter description</b>	<p>A new schedule of contributions was agreed in the year. This led to a significant decrease in the provision required (the USS provision has decreased to £79m as at year end, from £141m in 2018/19). Though this makes the provision less sensitive to changes in assumptions, there is a greater degree of uncertainty associated with the pay rise and headcount assumptions due to the COVID-19 pandemic. The provision is calculated by the University in line with the guidance and models provided by the British Universities Finance Directors' Group (BUFDG). In valuing the provision, a discount rate of 0.74% (2019: 1.62%) has been used by management.</p> <p>Details of USS deficit can be found in note 29 to the financial statements. Details of the sensitivity analysis prepared by management can be found in note 2 to the financial statements. The valuation of the USS deficit is discussed in the financial review on page 4, and is defined as a major financial risk on page 11.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<ul style="list-style-type: none"> <li>• We obtained an understanding of the relevant controls over the valuation of the USS defined benefit obligation.</li> <li>• We have reviewed the methodology applied in valuing the liabilities recognised with reference to the BUFDG guidance and models.</li> <li>• 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, the potential impact of COVID-19 on the assumptions and benchmarking the University's assumptions against the sector.</li> <li>• We have included internal actuarial specialists as part of our audit team to review the assumptions used in the valuation, in particular the appropriateness of the discount rate.</li> <li>• We have reviewed management's sensitivity analysis, and have performed further analysis on the sensitivity of the assumptions used by management.</li> </ul>
<b>Key observations</b>	Based on the work performed we are satisfied that the balances recognised in relation to the USS deficit obligation are satisfactory.

### Our application of materiality

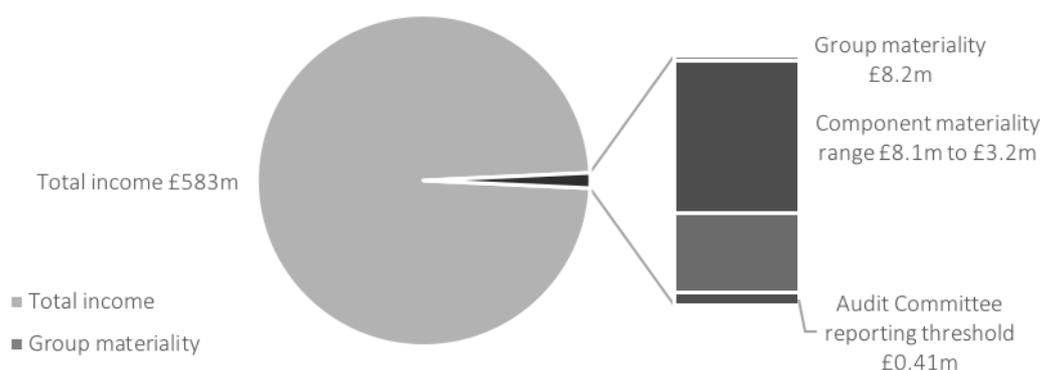
#### Materiality

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.

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

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

	Group financial statements	University financial statements
<b>Materiality</b>	£8.2m (2019: £8.0m)	£8.1m (2019: £7.9m)
<b>Basis for determining materiality</b>	1.4% of total income (2019: 1.4% of total income).	
<b>Rationale for the benchmark applied</b>	We use total income 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.	



### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 65% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment;
- the potential impact of COVID-19 on the control environment;
- the low number of uncorrected misstatements identified in prior periods; and
- the level of turnover of management and key accounting personnel.

### Error reporting threshold

We agreed with the audit committee that we would report to the committee all audit differences in excess of £408k (2019: £400k), 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

### Identification and scoping of components

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.

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

<b>Component</b>	<b>Component Materiality £m</b>	<b>Scope</b>
<b>University of Southampton</b>	£8.1m (2019: £7.9m)	Full scope audit.
<b>University of Southampton Science Park</b>	£3.2m (2019: £3.2m)	Audit of account balances, specifically the investment properties and non-current liabilities (borrowings)
<b>Other non-dormant subsidiaries</b>	n/a (2019: n/a)	Analytical procedures at group level.

*Our areas of our audit scope*

At the group level we 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 scope audit or audit of 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 scope audit procedures cover 99% (2019: 99%) of group income, and 98% (2019: 99%) of group net assets. 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.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**We have nothing to report in respect of these matters.****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.

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

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### 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 and non-compliance with laws and regulations 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including real estate, pensions and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in capitalisation of expenditure. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the OfS regulatory framework and the Higher Education Act.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's conditions of registration with the Office for Students and environmental regulations.

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## **Independent Auditor’s report to the Council of University of Southampton (continued)**

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### *Audit response to risks identified*

As a result of performing the above, we identified capitalisation of expenditure as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 Office for Students; 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.

### **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 have been applied to those purposes and managed in accordance with relevant legislation;
- funds provided by the OfS and UK Research and Innovation (including Research England), the Education and Skills Funding Agency and the Department for Education have been applied in accordance with the relevant terms and conditions; and
- the requirements of the OfS’s accounts direction have been met.

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

##### *Matters required under the OfS Accounts Direction*

Under the OfS Regulatory Advice 9: Accounts Direction, we are required to report in respect of the following matters if, in our opinion:

- the provider’s grant and fee income, as disclosed in note 4 to the accounts, has been materially misstated; or
- the provider’s expenditure on access and participation activities for the financial year, as disclosed in note 12 to the accounts, has been materially misstated.

**We have nothing to report in respect of these matters.**

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

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**Other matters**

*Auditor tenure*

Following the recommendation of the audit committee, we were reappointed by the governing body on 6 September 2020 to audit the financial statements for the year ending 31 July 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 July 2018 to 31 July 2020.

*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, United Kingdom

3 December 2020

**Consolidated and University Statement of Comprehensive Income for the year ended 31 July 2020**

	Notes	Consolidated		University	
		2020	2019	2020	2019
		£000	£000	£000	£000
<b>Income</b>					
Tuition fees and education contracts	3	<b>266,472</b>	250,701	<b>264,825</b>	249,098
Funding body grants	4	<b>78,491</b>	79,641	<b>78,491</b>	79,641
Research grants and contracts	5	<b>119,950</b>	122,209	<b>119,434</b>	121,636
Other income	6	<b>106,929</b>	118,316	<b>103,942</b>	114,595
Investment income	7	<b>7,758</b>	7,867	<b>7,996</b>	8,190
Donations and endowments	8	<b>3,744</b>	5,576	<b>3,744</b>	5,576
<b>Total income</b>		<b>583,344</b>	584,310	<b>578,432</b>	578,736
<b>Expenditure</b>					
Staff costs excluding movements in the USS deficit funding accrual	9	<b>322,396</b>	315,154	<b>320,355</b>	313,121
(Decrease)/Increase in the USS deficit funding accrual accounted for within staffing costs	9	<b>(64,450)</b>	93,219	<b>(64,450)</b>	93,219
Staff costs	9	<b>257,946</b>	408,373	<b>255,905</b>	406,340
Other operating expenses	10/14	<b>177,194</b>	194,707	<b>175,728</b>	192,310
Depreciation and amortisation	12	<b>31,363</b>	34,288	<b>31,098</b>	34,005
Interest and other finance costs	11	<b>20,222</b>	17,319	<b>20,133</b>	17,677
<b>Total expenditure</b>		<b>486,725</b>	654,687	<b>482,864</b>	650,332
<b>Surplus/(Deficit) before other gains/losses</b>		<b>96,619</b>	(70,377)	<b>95,568</b>	(71,596)
Gain/(loss) on investments		<b>10,473</b>	1,225	<b>1,790</b>	(2,330)
Loss on disposal of fixed assets		<b>(1,035)</b>	(1,653)	<b>(1,035)</b>	(1,653)
Loss on disposal of current assets		<b>(1,475)</b>	-	<b>(1,475)</b>	-
Share of operating deficit in associate		<b>(11)</b>	(53)	-	-
<b>Surplus/(Deficit) before tax</b>		<b>104,571</b>	(70,858)	<b>94,848</b>	(75,579)
Taxation	13	<b>(1,867)</b>	(173)	-	-
<b>Surplus/(Deficit) for the year after tax</b>		<b>102,704</b>	(71,031)	<b>94,848</b>	(75,579)
Surplus/(Deficit) attributable to the University		<b>101,429</b>	(70,971)	<b>94,848</b>	(75,579)
Surplus/(Deficit) attributable to non-controlling interests		<b>1,275</b>	(60)	-	-
		<b>102,704</b>	(71,031)	<b>94,848</b>	(75,579)

**Consolidated and University Statement of Comprehensive Income for the year ended 31 July 2020 (continued)**

	Notes	Consolidated		University	
		2020 £000	2019 £000	2020 £000	2019 £000
<b>Surplus/(Deficit) for the year after tax</b>		<b>102,704</b>	(71,031)	<b>94,848</b>	(75,579)
<b>Other comprehensive income</b>					
Actuarial loss in respect of pension schemes	29	<b>(54,906)</b>	(34,699)	<b>(54,906)</b>	(34,699)
<b>Total comprehensive income/(expenditure) for the year</b>		<b>47,798</b>	(105,730)	<b>39,942</b>	(110,278)
<b>Represented by :</b>					
Endowment comprehensive expenditure for the year		<b>(168)</b>	(42)	<b>(168)</b>	(42)
Restricted comprehensive (expenditure)/ income for the year		<b>(139)</b>	3,492	<b>(139)</b>	3,492
Unrestricted comprehensive income/ (expenditure) for the year		<b>46,717</b>	(109,293)	<b>40,249</b>	(113,728)
Non-controlling interests		<b>1,388</b>	113	-	-
		<b>47,798</b>	(105,730)	<b>39,942</b>	(110,278)

The non-controlling interests have been included for 2019/20 and retrospectively included for 2018/19 as the value as at 31 July 2020 was material to the accounts

All items of income and expenditure relate to continuing operations. There is no tax on other comprehensive income.

**Consolidated and University Statement of Financial Position as at 31 July 2020**

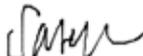
	Notes	Consolidated		University	
		As at 31 July 2020 £000	As at 31 July 2019 £000	As at 31 July 2020 £000	As at 31 July 2019 £000
<b>Non-current assets</b>					
Fixed assets	14	<b>735,679</b>	739,942	<b>694,080</b>	700,377
Heritage assets	14	<b>6,035</b>	6,035	<b>6,035</b>	6,035
Intangible assets	15	<b>44</b>	629	<b>44</b>	629
Investments	16	<b>10,238</b>	2,414	<b>32,513</b>	18,146
Share of net assets of associate	17	<b>127</b>	138	-	-
		<b>752,123</b>	749,158	<b>732,672</b>	725,187
<b>Current assets</b>					
Stock		<b>775</b>	775	<b>775</b>	775
Trade and other receivables	18	<b>69,837</b>	72,722	<b>68,191</b>	78,056
Investments	19	<b>455,666</b>	423,162	<b>455,666</b>	423,162
Cash and cash equivalents		<b>65,392</b>	61,525	<b>56,574</b>	59,350
		<b>591,670</b>	558,184	<b>581,206</b>	561,343
<b>Less: Creditors: amounts falling due within one year</b>	20	<b>(146,574)</b>	(159,337)	<b>(143,123)</b>	(155,798)
<b>Net current assets</b>		<b>445,096</b>	398,847	<b>438,083</b>	405,545
<b>Total assets less current liabilities</b>		<b>1,197,219</b>	1,148,005	<b>1,170,755</b>	1,130,732
<b>Creditors: amounts falling due after more than one year</b>	21	<b>(412,540)</b>	(416,473)	<b>(407,847)</b>	(411,191)
<b>Provisions</b>					
Pension provisions	22	<b>(282,264)</b>	(278,839)	<b>(282,264)</b>	(278,839)
Other provisions	22	<b>(2,972)</b>	(1,048)	-	-
<b>Total net assets</b>		<b>499,443</b>	451,645	<b>480,644</b>	440,702
Represented by:					
<b>Restricted Reserves</b>					
Income and expenditure reserve - endowment reserve	23	<b>12,873</b>	13,041	<b>12,873</b>	13,041
Income and expenditure reserve - restricted reserve	24	<b>5,370</b>	5,509	<b>5,370</b>	5,509
<b>Unrestricted Reserves</b>					
Income and expenditure reserve - unrestricted		<b>481,200</b>	433,095	<b>462,401</b>	422,152
<b>Total reserves</b>		<b>499,443</b>	451,645	<b>480,644</b>	440,702

Of the consolidated reserves as at 31 July 2020 £1,388,000 (2019: £113,000) is attributable to non-controlling interests.

The financial statements were approved by the Council on 25th November 2020, and signed on its behalf by:

  
Professor Mark E Smith CBE  
President and Vice-Chancellor

  
Philip Greenish  
Chair of Council

  
Sarah Pook  
Executive Director, Finance and Planning

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**Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2020**


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**Consolidated**

	Notes	Income and Expenditure Reserve			Total £000	Non- Controlling Interest £000	Attributable to the University £000
		Endowment	Restricted	Unrestricted			
		£000	£000	£000			
<b>Balance at 1 August 2018</b>		<b>13,083</b>	<b>2,017</b>	<b>542,275</b>	<b>557,375</b>	<b>173</b>	<b>557,202</b>
(Deficit)/surplus from the Statement of Comprehensive Income		(42)	7,748	(78,737)	(71,031)	(60)	(70,971)
Other comprehensive expenditure	29	-	-	(34,699)	(34,699)	-	(34,699)
Release of restricted capital funds spent in the year		-	(4,256)	4,256	-	-	-
<b>Total comprehensive (expenditure)/income for the year</b>		<b>(42)</b>	<b>3,492</b>	<b>(109,180)</b>	<b>(105,730)</b>	<b>(60)</b>	<b>(105,670)</b>
<b>Balance at 1 August 2019</b>		<b>13,041</b>	<b>5,509</b>	<b>433,095</b>	<b>451,645</b>	<b>113</b>	<b>451,532</b>
(Deficit)/surplus from the Statement of Comprehensive Income		(168)	(139)	103,011	102,704	1,275	101,429
Other comprehensive expenditure	29	-	-	(54,906)	(54,906)	-	(54,906)
<b>Total comprehensive (expenditure)/income for the year</b>		<b>(168)</b>	<b>(139)</b>	<b>48,105</b>	<b>47,798</b>	<b>1,275</b>	<b>46,523</b>
<b>Balance at 31 July 2020</b>		<b>12,873</b>	<b>5,370</b>	<b>481,200</b>	<b>499,443</b>	<b>1,388</b>	<b>498,055</b>

**Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2020 (continued)****University**

	Notes	Income and Expenditure Reserve			Total
		Endowment	Restricted	Unrestricted	
		£000	£000	£000	
<b>Balance at 1 August 2018</b>		<b>13,083</b>	<b>2,017</b>	<b>535,880</b>	<b>550,980</b>
(Deficit)/surplus from the Statement of Comprehensive Income		(42)	7,748	(83,285)	(75,579)
Other comprehensive expenditure	29	-	-	(34,699)	(34,699)
Release of restricted capital funds spent in the year		-	(4,256)	4,256	-
		(42)	3,492	(113,728)	(110,278)
<b>Balance at 1 August 2019</b>		<b>13,041</b>	<b>5,509</b>	<b>422,152</b>	<b>440,702</b>
(Deficit)/surplus from the Statement of Comprehensive Income		(168)	(139)	95,155	94,848
Other comprehensive expenditure	29	-	-	(54,906)	(54,906)
<b>Total comprehensive (expenditure)/income for the year</b>		<b>(168)</b>	<b>(139)</b>	<b>40,249</b>	<b>39,942</b>
<b>Balance at 31 July 2020</b>		<b>12,873</b>	<b>5,370</b>	<b>462,401</b>	<b>480,644</b>

**Consolidated Statement of Cash Flows for the year ended 31 July 2020**

	Year ended 31 July 2020	Year ended 31 July 2019
	£000	£000
<b>Cash flow from operating activities</b>		
Surplus/(Deficit) before taxation	<b>104,571</b>	(70,858)
<b>Adjustment for non-cash items</b>		
Depreciation and amortisation	<b>31,363</b>	34,288
Gain on investments	<b>(10,473)</b>	(1,225)
Investment in kind	-	(58)
Increase in impairment of investments	<b>64</b>	50
Increase in stock*	-	(106)
Increase in trade and other receivables	<b>(1,753)</b>	(5,695)
(Decrease)/Increase in creditors	<b>(16,220)</b>	4,482
(Decrease)/Increase in pension provision	<b>(51,481)</b>	105,616
Increase in other provisions	<b>1,924</b>	178
Receipt of donated equipment and software	-	(183)
Exchange rate (gain)/loss on loans	<b>(64)</b>	85
Gain on revaluation of investment property	<b>(1,154)</b>	(1,311)
Gain on financial instruments	<b>(70)</b>	(65)
Share of operating deficit in associate	<b>11</b>	53
<b>Adjustment for investing or financing activities</b>		
Investment income	<b>(7,758)</b>	(7,867)
New endowments	<b>(4)</b>	(211)
Capital grant income	<b>(1,833)</b>	(6,532)
Interest payable	<b>14,362</b>	14,276
Loss on the disposal/write down of fixed assets	<b>2,280</b>	2,728
<b>Net Cash Inflow from operating activities before tax</b>	<b>63,765</b>	67,645
Taxation	<b>(1,867)</b>	(173)
<b>Net cash inflow from operating activities after tax</b>	<b>61,898</b>	67,472

\*stock valuations were not undertaken on 31 July 2020 due to restricted access because of the pandemic and were maintained at the value of the previous annual check at 31 July 2019.

**Consolidated Statement of Cash Flows for the year ended 31 July 2020**

	<b>Year ended 31 July 2020</b>	Year ended 31 July 2019
	<b>£000</b>	£000
<b>Cash flows from investing activities</b>		
Capital grants receipts	<b>6,638</b>	7,826
Payments made to acquire tangible assets	<b>(25,336)</b>	(69,013)
(Payments)/receipts on intangible assets	<b>(2)</b>	10
Payments made to acquire fixed asset investments	<b>-</b>	(100)
Proceeds from disposal of tangible assets	<b>50</b>	-
Proceeds from disposal of fixed asset investments	<b>-</b>	5
Net investment in current investments	<b>(29,918)</b>	(196,065)
Investment income	<b>7,591</b>	7,977
	<b>(40,977)</b>	(249,360)
<b>Cash flows from financing activities</b>		
Interest paid	<b>(14,322)</b>	(14,241)
New endowments	<b>4</b>	211
Repayment of amounts borrowed	<b>(2,393)</b>	(3,894)
Capital element of finance lease repayments	<b>(343)</b>	(320)
	<b>(17,054)</b>	(18,244)
<b>Increase/(decrease) in cash and cash equivalents in the year</b>	<b>3,867</b>	(200,132)
Cash and cash equivalents at beginning of the year	<b>61,525</b>	261,657
Cash and cash equivalents at end of the year	<b>65,392</b>	61,525
<b>Increase/(decrease) in cash and cash equivalents in the year</b>	<b>3,867</b>	(200,132)

## Notes to the Financial Statements for the year ended 31 July 2020

### 1. Statement of principal accounting policies

#### Going Concern

The impact of the global COVID-19 pandemic on the University and its subsidiaries has been reviewed by Council with the publication of its Bridging Strategy in July 2020. The principles include taking all necessary measures to ensure the University remains financially sustainable and has the ability to invest in the future. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future. The University's net debt, as set out in note 25, moved from £352.3 million net debt as at 31 July 2019 to £345.6 million as at 31 July 2020. However, the net debt does not take into account the investment portfolio held as part of University's treasury management strategy of £455.7 million. If this is taken into account, the overall position is adjusted net funds of £110.2 million, compared to £70.9 million at 31 July 2019. The University has sufficient liquidity for its continuing operations and therefore the going concern basis has been used in the preparation of the financial statements.

#### 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 2019 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 36.

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 Consolidated Statement of Financial Position is converted using the rate at the Consolidated Statement of Financial Position 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 Statement of Financial Position 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.

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 there is no segmental reporting.

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 became material as at 31 July 2020 due to the increase in the market valuation of shareholdings. The value of the non-controlling interest has been disclosed in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and in the Consolidated Statement of Changes in Reserves. The corresponding figures for 2018/19 have also been disclosed.

#### 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

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## Notes to the Financial Statements for the year ended 31 July 2020

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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 Statement of Financial Position 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.

### *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 three principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS), the University of Southampton Pension and Assurance Scheme (PASNAS) and the University of Southampton Retirement Fund (USRF). The University also contributes to the National Health Service Pension Scheme (NHPS), Hampshire County Council (HCC),

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## Notes to the Financial Statements for the year ended 31 July 2020

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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. USRF and NEST are defined contribution schemes.

### *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 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 Statement of Financial Position 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 Statement of Financial Position 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.

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## Notes to the Financial Statements for the year ended 31 July 2020

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### **i. Fixed assets**

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 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.

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## Notes to the Financial Statements for the year ended 31 July 2020

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Investments in associated undertakings are accounted for using the equity method of accounting which reflects the University's share of the profit or loss, other comprehensive income and equity of the associate. In applying the equity method the University uses interim financial statements of the associate prepared to the 31st July.

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. Due to the COVID-19 pandemic, physical stock checks were not undertaken on 31 July 2020. The stock values were deemed not to have materially changed since 31st July 2019 and therefore no stock valuation changes have been recorded in the 2019/20 financial statements.

### **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 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 publically 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 Statement of Financial Position, 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.

#### *Interest rate swaps*

Under FRS102 interest rate swaps are measured at fair value through the Statement of Comprehensive Income. The value is calculated by the lender from propriety models.

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## Notes to the Financial Statements for the year ended 31 July 2020

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### **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 Statement of Financial Position 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 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 Statement of Financial Position 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 2020

### 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.

#### 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 Statement of Financial Position and the resulting expense in the Statement of Comprehensive Income. The recovery plan in the 2018 actuarial valuation requires employers to contribute 2% deficit contribution until September 2021 and then 6% of salaries towards repairing the deficit over the period from October 2021 to March 2028. The provision in the Statement of Comprehensive Income was calculated using a discount rate of 0.74% and an estimate of the changes in staffing levels and pay increases.

This has resulted in a £62 million reduction of the provision to £79 million (2019: £141 million) as at 31st July 2020. Details of this provision are included in note 22 to the accounts.

#### Judgement

##### *Discount Rate*

The discount rate used in the calculation of the provision is 0.74%. 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.

The following sensitivity analysis outlines the potential impact on the existing carried forward liability of £141m of a change to the discount rate:

- A 0.5% increase in the discount rate would reduce the charge to the Statement of Comprehensive Income by £1.9 million and increase the 2019/20 provision by £1.9 million to a total provision of £80.9 million;
- A 0.5% decrease in the discount rate would increase the charge to the Statement of Comprehensive Income by £1.9 million and reduce the 2019/20 provision by £1.9 million to a total provision of £77.1 million;

#### Estimates

##### *Staffing Levels and Pay Increases*

In addition to the discount rate and deficit recovery period, 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.

Based on the inputs used to determine the current provision, the following sensitivity analysis outlines the potential impact on the existing carried forward liability of £141 million (assuming the same discount rate of 0.74% and deficit recovery period to 31 March 2028 and additional employer's deficit contributions of 2% to September 2021 and of 6% from October 2021 to March 2028):

- an increase of 1% per annum in the pay increase assumptions would increase the charge to the Statement of Comprehensive Income by £4 million and increase the 2019/20 provision by £4 million to a total provision of £83 million.
- an increase of 1% per annum in the staff count assumptions would increase the charge to the Statement of Comprehensive Income by £4 million and increase the 2019/20 provision by £4 million to a total provision of £83 million.

#### Defined benefit scheme pension provision PASNAS and HCC

##### Estimate

The University contributes to two defined benefit pension schemes for which a provision is recorded in the Statement of Financial Position; 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

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## Notes to the Financial Statements for the year ended 31 July 2020

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actuaries which is based on a number of assumptions. These include the future cash flows of the schemes, a discount rate of 1.4% (which is based on average AA rated UK corporate bond rates that reflect the duration of our liability), a 3.0% increase in pensionable salaries going forward and proposed price inflation of 3.1% (which is based on the Retail Price Index). Further details on these assumptions can be found in note 29.

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 Statement of Financial Position to ensure that they are reasonable.

- an increase of 0.5% in the discount rate would reduce the charge to the Statement of Comprehensive Income by £51 million and reduce the 2019/20 provision from £203 million to £151 million.
- an increase of 0.5% per annum in the salary increase assumptions would increase the charge to the Statement of Comprehensive Income by £20 million and increase the 2019/20 provision to a total provision of £223 million.

### Revaluation model for investment property

Estimate

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.

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.

The determined fair value of the investment property is most sensitive to the estimated yield. The equivalent yield deriving from the valuation was 8.13%. The following sensitivity analysis outlines the potential impact on the valuation of the leasehold property assets of £42.5 million:

- If the yield were to reduce by 0.25% (7.88%), the value of the Science Park would increase by £1.35 million to £43.85 million.
- If the yield were to increase by 0.25% (8.38%), the value of the Park would reduce by £1.3m to £41.2 million.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**3. Tuition fees and education contracts**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Full-time home/EU students	<b>124,595</b>	134,233	<b>124,595</b>	134,233
Full-time international students	<b>110,951</b>	84,215	<b>109,304</b>	82,612
Part-time home/EU students	<b>2,971</b>	3,103	<b>2,971</b>	3,103
Part-time international students	<b>272</b>	544	<b>272</b>	544
Research training support grants	<b>18,362</b>	19,255	<b>18,362</b>	19,255
Special and short course fees	<b>9,321</b>	9,351	<b>9,321</b>	9,351
	<b>266,472</b>	250,701	<b>264,825</b>	249,098

Included in the above is £4,197,000 (2019: £8,566,000) 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**

	<b>Consolidated and University</b>	
	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Recurrent grants:</b>		
Office for Students and Research England	<b>70,792</b>	65,375
National College for Teaching and Leadership	<b>10</b>	1
<b>Specific grants:</b>		
Office for Students and Research England	<b>5,856</b>	7,733
<b>Capital grants</b>	<b>1,833</b>	6,532
	<b>78,491</b>	79,641

In accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 our finance policies (see page 38d. Grant funding) state that income received in advance of any performance related conditions being met is recognised as deferred income within creditors on the Statement of Financial Position (see note 20) and released as income once the performance conditions are met. Specific Government Grant income of £471,000 (2019: £417,000) and Government Capital grants of £4,804,000 (2019: £709,000) have been received but have not been included in the Statement of Comprehensive Income as performance conditions had not been met as at 31st July.

## Notes to the Financial Statements for the year ended 31 July 2020

### Details of grant and fee income

The source of grant and fee income, included in notes 3 to 4 is as follows:

	Consolidated		University	
	2020	2019	2020	2019
	£000	£000	£000	£000
<b>Recurrent Grants</b>				
Office for Students	17,899	17,946	17,899	17,946
Research England - QR	50,798	45,637	50,798	45,637
Research England - GCRF	2,095	1,792	2,095	1,792
National College for Teaching and Leadership	10	1	10	1
NHS Teaching Contract	4,197	8,566	4,197	8,566
<b>Specific Grants</b>				
Higher Education Academic Subject Centres (NCOP)	1,107	2,358	1,107	2,358
Higher Education Innovation Fund	4,051	3,063	4,051	3,063
Capital grant	1,833	6,532	1,833	6,532
Grant income from other bodies	698	2,312	698	2,312
Fee income for taught awards	225,135	232,765	223,488	202,428
Fee income for research awards	27,819	19,255	27,819	28,753
Fee income from non-qualifying courses	9,321	9,351	9,321	9,351
Total grant and fee income	<b>344,963</b>	349,578	<b>343,316</b>	328,739

Fee income is stated net of waivers and discounts.

### 5. Research grants and contracts

	Consolidated		University	
	2020	2019	2020	2019
	£000	£000	£000	£000
<b>Income:</b>				
UK Research councils	46,587	48,078	46,587	48,078
UK based charities	16,123	15,840	16,123	15,840
UK Central/Local Government, health authorities and hospitals	21,361	20,616	21,353	20,608
UK industry, commerce and public corporations	7,396	8,481	7,017	8,108
EU Government bodies	14,217	16,420	14,217	16,364
EU other sources	3,505	3,450	3,475	3,428
Other overseas sources	10,185	8,942	10,111	8,855
Other sources	576	382	551	355
	<b>119,950</b>	122,209	<b>119,434</b>	121,636

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**5. Research grants and contracts (continued)**

In accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 our finance policies (see page 38d. Grant funding) state that income received in advance of any performance related conditions being met is recognised as deferred income within creditors on the Statement of Financial Position (see note 20) and released as income once the performance conditions are met. Research grant income of £60 million (2019: £56.1 million) has been received but has not been recognised in income as it had not been spent as at 31st July as required in the performance conditions. Of the total deferred income £28.3 million (2019: £25.7 million) relates to government funded research grants.

**6. Other income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Residences, catering and conferences	<b>31,578</b>	41,901	<b>31,578</b>	41,901
Consultancies, trading and services rendered	<b>39,575</b>	41,717	<b>38,711</b>	40,332
Health authorities	<b>11,158</b>	10,195	<b>11,158</b>	10,195
Other income	<b>24,618</b>	24,503	<b>22,495</b>	22,167
	<b>106,929</b>	118,316	<b>103,942</b>	114,595

Due to the temporary closure of the campuses during the COVID-19 lockdown measures in the UK, from March 2020 students were not charged their 3rd term accommodation fees where they did not return to their University halls of residence. Proportional membership refunds were also made for the closure of Sport and Recreation facilities and Unilink bus passes.

Other income includes £800,000 (2019: £0) from the Coronavirus Job Retention Scheme.

**7. Investment income**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Investment income on endowments	<b>218</b>	210	<b>218</b>	210
Other investment income	<b>7,540</b>	7,657	<b>7,778</b>	7,980
	<b>7,758</b>	7,867	<b>7,996</b>	8,190

## Notes to the Financial Statements for the year ended 31 July 2020

### 8. Donations and endowments

	Consolidated and University	
	2020	2019
	£000	£000
New endowments	4	211
Donations with restrictions	2,919	4,572
Unrestricted donations	821	793
	<b>3,744</b>	<b>5,576</b>

### 9. Staff costs

	Consolidated		University	
	2020	2019	2020	2019
	£000	£000	£000	£000
<b>Staff costs:</b>				
Salaries and wages	245,342	241,985	243,546	240,190
Social Security costs	24,151	24,162	24,068	24,083
Pension costs	51,830	47,721	51,668	47,562
Severance and early retirement	1,073	1,286	1,073	1,286
	<b>322,396</b>	<b>315,154</b>	<b>320,355</b>	<b>313,121</b>
(Decrease)/Increase in USS pension provision	<b>(64,450)</b>	93,219	<b>(64,450)</b>	93,219
Total cost including USS pension provision	<b>257,946</b>	<b>408,373</b>	<b>255,905</b>	<b>406,340</b>

	Consolidated		University	
	2020	2019	2020	2019
	Number	Number	Number	Number
<b>Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:</b>				
Education, research and enterprise	2,637	2,649	2,615	2,628
Management, specialist and administrative	2,164	2,141	2,130	2,111
Technical and experimental	352	368	350	366
Community and operational	441	445	434	445
	<b>5,594</b>	<b>5,603</b>	<b>5,529</b>	<b>5,550</b>

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**9. Staff costs (continued)****Emoluments of the President and Vice-Chancellor****Professor Mark E Smith CBE from 1st October 2019**

	<b>2020</b>	2019
	<b>£000</b>	£000
Salary	<b>239</b>	-
Supplement in lieu of pension	<b>7</b>	-
Taxable benefits	<b>4</b>	-
Non-Taxable Benefits	<b>4</b>	-
	<b>254</b>	-
USS employer contributions	<b>36</b>	-
USS Scheme deficit recovery charge (2.0%) - non-contributory	<b>1</b>	-
	<b>291</b>	-

**Professor Mark Spearing (interim Vice-Chancellor, start date 9th March 2019 until 30th September 2019)**

	<b>2020</b>	2019
	<b>£000</b>	£000
Salary	<b>35</b>	84
	<b>35</b>	84
Employers pension contributions	<b>5</b>	12
	<b>40</b>	96

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**9. Staff costs (continued)****Professor Sir Christopher Snowden (end date 8th March 2019)**

	<b>2020</b>	2019
	<b>£000</b>	£000
Salary	-	256
Payment in lieu of accrued but untaken holiday	-	8
Taxable benefits	-	3
Non-Taxable Benefits	-	4
	<u>-</u>	<u>271</u>
USS Scheme deficit recovery charge (2.0%) - non-contributory		5
	<u>-</u>	<u>276</u>

**Salary**

At the date of this report Professor Mark E Smith CBE, who joined the University on 1st October 2019, was paid a full year equivalent salary of £287,000 (2019: NIL). Until 31st March 2020 he was a full member of the Universities Superannuation Scheme (USS). From 1st April 2020 he elected to apply the USS Voluntary Salary Cap, limiting the accrual of pension benefits to part of his salary. From the same date, he began receiving a supplement in lieu of pension of £20,200, on a full year equivalent basis, in respect of the non-pensionable part of his salary. The University made the required employer pension contributions of £37,000 during the year, including the required deficit recovery charge from 1st April 2020.

Professor Mark Spearing was interim President and Vice-Chancellor alongside his substantive role as Vice-President Research and Enterprise between 9th March 2019 and 30th September 2019 following the retirement of Sir Christopher Snowden on 8th March 2019 and the start date of Professor Mark E Smith CBE on the 1st October 2019. For the period covered by this report (1st August 2019 to 30th September 2019) he was paid a full-year equivalent salary of £212,108 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.

**Pay Ratios (including casual workers on a full year equivalent basis)**

	<b>2020</b>		2019	
	<b>Basic Pay</b>	<b>Total Remuneration</b>	Basic Pay	Total Remuneration
Professor Mark E Smith CBE	<b>9.6</b>	<b>10.2</b>	n/a	n/a
Professor Mark Spearing	<b>7.1</b>	<b>7.1</b>	7.1	7.2
Professor Sir Christopher Snowden	<b>n/a</b>	<b>n/a</b>	14.3	13.5
Median salary (for reference)	<b>£30,046</b>	<b>£34,303</b>	£29,593	£33,548

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**9. Staff costs (continued)****Pay Ratios (excluding casual workers on a full year equivalent basis)**

	<b>2020</b>		2019	
	<b>Basic Pay</b>	<b>Total Remuneration</b>	Basic Pay	Total Remuneration
Professor Mark E Smith CBE	<b>8.1</b>	<b>8.3</b>	n/a	n/a
Professor Mark Spearing	<b>6</b>	<b>5.8</b>	6.2	6.0
Professor Sir Christopher Snowden	<b>n/a</b>	<b>n/a</b>	12.4	11.2
Median salary (for reference)	<b>£35,513</b>	<b>£42,084</b>	£34,239	£40,514

**Taxable benefits**

In common with other senior post holders, the University provided Professor Mark E Smith CBE with single membership of a healthcare scheme to help ensure his availability for work, at a cost of £763 for the period from 1st October 2019 to 31st July 2020. Former President and Vice-Chancellor Sir Christopher Snowden also received this benefit during his tenure at a cost of £523 for the period 1st August 2018 to 8th March 2019.

As an existing senior post holder, the University already provided Professor Mark 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 £149 from 1st August 2019 to 30th September 2019 (2019: £353 from 9 March 2019 to 31 July 2019).

For the better performance of his official duties, and as required by contract, Professor Mark E Smith CBE 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. Due to the COVID-19 working restrictions Professor Mark E Smith CBE temporarily vacated the official residence on 27th March 2020 and this arrangement continued for the remainder of the financial year. These living arrangements incurred a taxable benefit of £3,715 in 2020 (2019: £2,117 in respect of former President and Vice Chancellor Sir Christopher Snowden) and a non-taxable benefit of £4,290 based on market rental prices (2019: £3,852 in respect of former President and Vice Chancellor Sir Christopher Snowden).

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**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.

	2020		2019	
	Headcount	All Staff FTE	Headcount	All Staff FTE
£100,000 - £104,999	<b>44</b>	<b>30.5</b>	50	28.7
£105,000 - £109,999	<b>51</b>	<b>28.5</b>	23	16.5
£110,000 - £114,999	<b>15</b>	<b>10.6</b>	13	12.1
£115,000 - £119,999	<b>6</b>	<b>6.0</b>	4	4.0
£120,000 - £124,999	<b>1</b>	<b>1.0</b>	3	1.7
£125,000 - £129,999	<b>7</b>	<b>5.5</b>	5	4.4
£130,000 - £134,999	<b>4</b>	<b>4.0</b>	2	2.0
£135,000 - £139,999	<b>3</b>	<b>1.9</b>	4	2.8
£140,000 - £144,999	<b>2</b>	<b>1.8</b>	2	2.0
£145,000 - £149,999	<b>1</b>	<b>1.0</b>	1	1.0
£150,000 - £154,999	-	-	1	1.0
£155,000 - £159,999	<b>2</b>	<b>2.0</b>	1	1.0
£160,000 - £164,999	-	-	1	1.0
£165,000 - £169,999	-	-	-	-
£170,000 - £174,999	-	-	-	-
£175,000 - £179,999	-	-	-	-
£180,000 - £184,999	<b>1</b>	<b>0.6</b>	1	0.3
£185,000 - £189,999	<b>2</b>	<b>1.3</b>	-	-
£190,000 - £194,999	-	-	-	-
£195,000 - £199,999	-	-	-	-
£200,000 - £204,999	-	-	-	-
£205,000 - £209,999	-	-	1	1.0
£210,000 - £214,999	-	-	-	-
none between £215,000 and £284,999				
£285,000 - £289,999	<b>1</b>	<b>0.8</b>	-	-
none between £290,000 and £419,999				
£420,000 - £424,999	-	-	1	0.6
<b>Total</b>	<b>140</b>	<b>95.5</b>	113	80.1

The number of staff paid in excess of £100,000 has increased in the last year, mainly due to the addition of 20 (headcount), primarily clinical staff, who through contractual incremental rises and pay awards, have salaries in 2019/20 within the lowest £100,000 - £104,999 banding. In 2018/19 these individuals' salaries fell just below the £100,000 disclosure threshold.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**9. Staff costs (continued)****Compensation for loss of office**

Aggregate payments for voluntary severance for 45 (2019: 40) members of staff was £1,073,000 (2019: £1,286,000).

Aggregate payments for redundancy at the end of fixed term contracts and any associated payments for 90 (2019: 117) members of staff was £218,000 (2019: £248,000).

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 (2019: 11.4) full time equivalent members of UEB. The positions are:

President and Vice-Chancellor

Chief Operating Officer

Vice-President Research and Enterprise

Vice-President Education

Vice-President International

Executive Director of Finance and Planning

Executive Director of Human Resources

Deans of Faculties

	<b>2020</b>	2019	2018	2017
	<b>£000</b>	£000	£000	£000
Key management personnel compensation	<b>2,346</b>	2,361	3,301	3,723

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**10. Other operating expenses**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Non-capitalised equipment	<b>19,055</b>	24,431	<b>18,982</b>	24,295
Impairment of property value	<b>694</b>	1,366	<b>694</b>	1,366
Impairment of equipment	-	5	-	5
Consumables and laboratory expenditure	<b>17,001</b>	20,154	<b>16,966</b>	20,072
Office expenses and professional fees	<b>38,771</b>	31,863	<b>37,139</b>	30,500
Travel costs	<b>8,982</b>	13,962	<b>8,861</b>	13,827
Repairs, refurbishment and scheduled maintenance	<b>16,297</b>	16,677	<b>14,885</b>	15,238
Heat, light, water and power	<b>8,885</b>	10,569	<b>8,857</b>	10,509
Books and periodicals	<b>5,704</b>	5,610	<b>5,703</b>	5,607
Bursaries, fellowships, scholarships and prizes	<b>26,408</b>	28,008	<b>26,399</b>	28,008
External agencies and staff secondments	<b>10,338</b>	13,017	<b>10,256</b>	12,983
Rents, rates and hire of facilities	<b>9,617</b>	9,280	<b>9,749</b>	9,532
Catering supplies	<b>1,627</b>	2,555	<b>1,541</b>	2,433
Conference fees	<b>1,982</b>	3,567	<b>1,995</b>	3,584
Grant to Students' Union	<b>2,339</b>	2,368	<b>2,339</b>	2,368
Other expenses	<b>9,494</b>	11,275	<b>11,362</b>	11,983
	<b>177,194</b>	194,707	<b>175,728</b>	192,310

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 8 (2019: 10) lay members of Council were £2,700 (2019: £4,800), representing reimbursement of travel and other expenses incurred in attending Council and related meetings, and representing the University in the UK and overseas.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**10. Other operating expenses (continued)**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Other operating expenses include the external auditors, Deloitte, remuneration for:				
Audit of Financial Statements	<b>160</b>	169	<b>117</b>	112
Other Audit services	<b>118</b>	73	<b>118</b>	73

Other services includes £113,000 (2019: £70,000) for external auditing 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 for the year ended 31 July 2020.

**11. Interest and other finance costs**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Loan interest	<b>3,519</b>	3,540	<b>3,360</b>	3,350
Bond interest	<b>6,792</b>	6,792	<b>6,792</b>	6,792
Finance lease interest	<b>4,051</b>	3,944	<b>4,051</b>	3,944
Exchange rate (gain)/loss on currency loans	<b>(64)</b>	85	<b>(64)</b>	85
Exchange rate loss/(gain) on subsidiary	<b>892</b>	(483)	<b>892</b>	-
Increase in fair value of financial instrument	<b>(70)</b>	(65)	-	-
Net charge on pension schemes	<b>5,102</b>	3,506	<b>5,102</b>	3,506
	<b>20,222</b>	17,319	<b>20,133</b>	17,677

## Notes to the Financial Statements for the year ended 31 July 2020

### 12. Analysis of expenditure by activity

<b>Consolidated</b>	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	<b>2020 Total</b>	2019 Total Restated
	£000	£000	£000	£000	£000	£000
Academic departments	160,378	4,052	24,380	-	<b>188,810</b>	190,182
Academic services	20,975	3,107	15,862	-	<b>39,944</b>	44,931
Research grants and contracts	58,166	2,786	23,651	-	<b>84,603</b>	87,483
Residences, catering and conferences	5,627	5,155	14,500	2,805	<b>28,087</b>	30,058
Premises	10,468	14,785	27,602	-	<b>52,855</b>	53,988
Administration and central services	27,466	676	12,598	-	<b>40,740</b>	40,871
General educational expenditure	7,916	12	42,403	-	<b>50,331</b>	49,830
Consultancies, trading and services rendered	20,451	790	13,216	89	<b>34,546</b>	37,566
Other activities	10,949	-	2,982	15,044	<b>28,975</b>	25,526
(Decrease)/Increase in USS Pension Provision	(64,450)	-	-	2,284	<b>(62,166)</b>	94,252
	<b>257,946</b>	<b>31,363</b>	<b>177,194</b>	<b>20,222</b>	<b>486,725</b>	<b>654,687</b>

<b>University</b>	Staff costs	Depreciation and amortisation	Other operating expenses	Interest payable	<b>2020 Total</b>	2019 Total Restated
	£000	£000	£000	£000	£000	£000
Academic departments	159,701	4,007	24,305	-	<b>188,813</b>	189,351
Academic services	20,917	3,107	15,707	-	<b>39,731</b>	44,744
Research grants and contracts	58,166	2,778	23,196	-	<b>84,140</b>	87,052
Residences, catering and conferences	5,627	5,155	14,500	2,805	<b>28,087</b>	30,058
Premises	10,468	14,774	27,859	-	<b>53,101</b>	54,313
Administration and central services	26,924	569	12,460	-	<b>39,593</b>	40,041
General educational expenditure	7,675	12	41,932	-	<b>49,619</b>	49,162
Consultancies, trading and services rendered	19,928	696	11,740	-	<b>32,364</b>	35,444
Other activities	10,949	-	4,029	15,044	<b>30,022</b>	25,915
Other Operating Expenditure Total Excluding USS Pension Provision	<b>320,355</b>	<b>31,098</b>	<b>175,728</b>	<b>17,849</b>	<b>545,030</b>	<b>556,080</b>
(Decrease)/Increase in USS Pension Provision	(64,450)	-	-	2,284	<b>(62,166)</b>	94,252
Total Other Operating Expenditure including USS Pension Provision	<b>255,905</b>	<b>31,098</b>	<b>175,728</b>	<b>20,133</b>	<b>482,864</b>	<b>650,332</b>

The 2019 figures have been restated as expenditure on research facilities for £6 million has been reclassified as academic department expenditure from consultancies, trading and services rendered.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**12. Analysis of expenditure by activity (continued)**

<b>Access and Participation Expenditure</b>	<b>2020</b>
<b>Consolidated and University</b>	<b>Actual</b>
	<b>£000</b>
Access Investment	<b>1,589</b>
Financial Support	<b>8,376</b>
Disability Support (excluding expenditure included in the two categories above)	<b>471</b>
Research and Evaluation	<b>49</b>
	<b>10,485</b>

These costs are included within note 12 and include salaries of £1,424,000

The published access and participation plan can be found at [www.southampton.ac.uk/about/governance/access-agreement.page](http://www.southampton.ac.uk/about/governance/access-agreement.page)

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**13. Taxation**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Analysis of tax charge:</b>				
Deferred tax	<b>1,867</b>	173	-	-
	<b>1,867</b>	173	-	-

**Recognised in the Statement of Comprehensive Income:**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Deferred tax</b>				
Origination and reversal of timing differences	<b>1,867</b>	173	-	-
<b>Deferred tax expense</b>	<b>1,867</b>	173	-	-
<b>Total tax expense</b>	<b>1,867</b>	173	-	-

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**14. 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
<b>Cost or valuation</b>							
At 1 August 2019	668,603	165,537	64,830	36,936	156,835	6,035	1,098,776
Additions at cost	12,442	-	9,316	31	5,900	-	27,689
Transfers at cost	55,368	-	(59,079)	122	3,589	-	-
Gain on revaluation	-	-	-	1,154	-	-	1,154
Disposals at cost	(3,698)	-	-	-	(7,147)	-	(10,845)
Impairments and write-downs	(792)	(499)	(160)	-	-	-	(1,451)
<b>At 31 July 2020</b>	<b>731,923</b>	<b>165,038</b>	<b>14,907</b>	<b>38,243</b>	<b>159,177</b>	<b>6,035</b>	<b>1,115,323</b>
<b>Depreciation</b>							
At 1 August 2019	(154,359)	(64,647)	-	(204)	(133,589)	-	(352,799)
Charge for year	(16,228)	(3,403)	-	(12)	(11,133)	-	(30,776)
Eliminated on disposal	2,611	-	-	-	7,097	-	9,708
Impairments and write-downs	258	-	-	-	-	-	258
<b>At 31 July 2020</b>	<b>(167,718)</b>	<b>(68,050)</b>	<b>-</b>	<b>(216)</b>	<b>(137,625)</b>	<b>-</b>	<b>(373,609)</b>
<b>Net book value</b>							
<b>At 31 July 2020</b>	<b>564,205</b>	<b>96,988</b>	<b>14,907</b>	<b>38,027</b>	<b>21,552</b>	<b>6,035</b>	<b>741,714</b>
At 1 August 2019	514,244	100,890	64,830	36,732	23,246	6,035	745,977

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**14. 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
<b>Cost or valuation</b>						
At 1 August 2019	668,603	163,151	64,776	154,612	6,035	1,057,177
Additions at cost	12,442	-	8,304	5,799	-	26,545
Transfers at cost	55,368	-	(58,957)	3,589	-	-
Disposals at cost	(3,698)	-	-	(7,147)	-	(10,845)
Impairments and write-downs	(792)	(499)	(160)	-	-	(1,451)
<b>At 31 July 2020</b>	<b>731,923</b>	<b>162,652</b>	<b>13,963</b>	<b>156,853</b>	<b>6,035</b>	<b>1,071,426</b>
<b>Depreciation</b>						
At 1 August 2019	(154,358)	(64,466)	-	(131,941)	-	(350,765)
Charge for year	(16,228)	(3,355)	-	(10,928)	-	(30,511)
Eliminated on disposal	2,611	-	-	7,097	-	9,708
Impairments and write-downs	257	-	-	-	-	257
<b>At 31 July 2020</b>	<b>(167,718)</b>	<b>(67,821)</b>	<b>-</b>	<b>(135,772)</b>	<b>-</b>	<b>(371,311)</b>
<b>Net book value</b>						
<b>At 31 July 2020</b>	<b>564,205</b>	<b>94,831</b>	<b>13,963</b>	<b>21,081</b>	<b>6,035</b>	<b>700,115</b>
At 1 August 2019	514,245	98,685	64,776	22,671	6,035	706,412

At 31 July 2020, freehold land and buildings included £92,804,000 (2019: £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 £5,717,000 (2019: £4,737,000) and a net book value of £43,283,000 (2019: £44,263,000).

Included in the balances for leasehold land and buildings is expenditure of £27,800,000 funded by Office for Students and Research England (previously HEFCE and its predecessors), in respect of clinical land and buildings in National Health Service ownership, and

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**14. Fixed assets (continued)**

£14,600,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

Impairments have been recognised in the Statement of Comprehensive Income for the year within Other Operating Expenses £1,194,000 (2019: £1,371,000). Impairments in 2019/20 comprise costs of £548,000 less £193,000 previously depreciated on assets assigned for demolition, £404,000 less £64,000 previously depreciated for 5 assets previously capitalised but on review amended to operating expenditure and a writedown in a provision made in 2018/19 and reversed in 2019/20 for £499,000.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2020 by a RICS registered external valuer in accordance with the RICS valuation - Global Standards 2017. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards 2017 ('Red Book'), the valuer has declared a 'material valuation uncertainty' in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19. The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best information available.

The net historical cost of investment property (including grants receivable in respect of assistance with construction of an Incubator Unit) at 31 July 2020 amounted to £32,093,081 (2019: £31,940,327), including interest capitalised of £445,032 (2019: £445,032). The investment property is held for use in operating leases.

In addition to the above expenditure on fixed assets a further £25,202,000 has been committed by the University and its subsidiary undertakings (note 27).

**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](http://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 2019/20.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**15. Intangible assets****Consolidated and University**

	Software £000	Software in progress £000	Total £000
<b>Cost or valuation</b>			
At 1 August 2019	15,894	42	15,936
Additions at cost	-	2	2
<b>At 31 July 2020</b>	<b>15,894</b>	<b>44</b>	<b>15,938</b>
<b>Amortisation</b>			
At 1 August 2019	(15,307)	-	(15,307)
Charge for year	(587)	-	(587)
<b>At 31 July 2020</b>	<b>(15,894)</b>	<b>-</b>	<b>(15,894)</b>
<b>Net book value</b>			
<b>At 31 July 2020</b>	<b>-</b>	<b>44</b>	<b>44</b>
At 1 August 2019	587	42	629

**16. Non-current investments****Consolidated**

	Subsidiary companies £000	Investments held by subsidiaries £000	Other fixed asset investments £000	Total £000
<b>At 1 August 2019</b>	-	1,062	1,352	2,414
Market value gain	-	7,922	-	7,922
Impairment	-	(64)	(34)	(98)
<b>At 31 July 2020</b>	<b>-</b>	<b>8,920</b>	<b>1,318</b>	<b>10,238</b>

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**Notes to the Financial Statements for the year ended 31 July 2020**


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

	Subsidiary companies	Investments held by subsidiaries	Other fixed asset investments	Total
	£000	£000	£000	£000
<b>At 1 August 2019</b>	16,794	-	1,352	18,146
Additions	15,162	-	-	15,162
Impairment	(761)	-	(34)	(795)
<b>At 31 July 2020</b>	<b>31,195</b>	<b>-</b>	<b>1,318</b>	<b>32,513</b>

The University is a limited liability partner in Wyvern Asset Management Ltd, which offers venture capital to spin-out companies originating at the Universities of Bristol and Southampton. This investment was revalued as at 31st July 2020 to £966,000 (2019: £1,000,000).

The University has invested £14,500,000 in the University of Southampton Science Park Ltd to provide funding for the building of a replacement Engineering building and fit out - with part funding from the M3 Local Enterprise Partnership and Research England - this income is shown in note 6 - Other Income. USMC Share Holding as at 31/7/20 has been fully impaired at £761,000.

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
<b>Subsidiaries held by the University</b>		
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	Dormant
Southampton International Singapore Limited	100.00	* Dormant
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 and investment 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.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**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 companies, associate and investment companies are domiciled in England and Wales, apart from Southampton Education Consulting (Beijing) Limited, which is domiciled in China.

**17. Investment in associate****Consolidated**

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>At 1 August</b>	<b>138</b>	191
Share of operating loss	<b>(11)</b>	(53)
<b>At 31 July</b>	<b>127</b>	138

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 £127,000 (2019: £138,000) equal to 33% of the net assets at 31 July 2020.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**18. Trade and other receivables**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Amounts falling due within one year:				
Grants from Office for Students and Research England	<b>1,408</b>	6,221	<b>1,408</b>	6,221
Student debtors	<b>1,057</b>	1,151	<b>1,057</b>	1,151
Research grants and contracts	<b>32,961</b>	30,052	<b>32,961</b>	30,052
Trade and other receivables	<b>21,770</b>	23,903	<b>19,813</b>	22,000
Amounts due from group undertakings	-	-	<b>1,156</b>	1,453
Prepayments to group undertakings	-	-	<b>138</b>	106
Other prepayments	<b>10,459</b>	9,979	<b>9,561</b>	9,360
	<b>67,655</b>	71,306	<b>66,094</b>	70,343
Amounts falling due after more than one year:				
Prepayments	<b>2,182</b>	1,416	<b>2,097</b>	1,322
Amounts owed by subsidiary undertakings	-	-	-	6,391
	<b>69,837</b>	72,722	<b>68,191</b>	78,056

30 day payment terms apply to amounts falling due within one year to group undertakings and to trade and other receivables.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**19. Current investments**

	<b>Consolidated and University</b>	
	<b>2020</b>	2019
	<b>£000</b>	£000
Cash on deposit	<b>206,422</b>	209,624
Investment in shares (at fair value)	<b>249,244</b>	213,538
	<b>455,666</b>	423,162

**20. Creditors: amounts falling due within one year**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Bank loans	<b>1,790</b>	2,419	<b>1,305</b>	1,518
Obligations under finance leases	<b>367</b>	343	<b>367</b>	341
Research grant income received in advance	<b>60,037</b>	56,147	<b>60,037</b>	56,147
Social Security and other taxation	<b>15,958</b>	12,285	<b>15,951</b>	12,254
Amounts owed to group undertakings	<b>-</b>	-	<b>252</b>	241
Trade and other creditors	<b>13,976</b>	19,999	<b>12,260</b>	18,673
Accruals and deferred income	<b>54,446</b>	68,144	<b>52,951</b>	66,624
	<b>146,574</b>	159,337	<b>143,123</b>	155,798

30 day payment terms apply to amounts falling due within one year to group undertakings and to trade and other creditors.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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

	Consolidated		University	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans	<b>63,409</b>	65,237	<b>60,761</b>	62,104
Public bond	<b>298,452</b>	298,409	<b>298,452</b>	298,409
Obligations under finance leases	<b>46,816</b>	47,183	<b>46,816</b>	47,183
Accruals and deferred income	<b>3,725</b>	5,436	<b>1,746</b>	3,435
Amounts owed to group undertakings	-	-	<b>72</b>	60
Derivatives	<b>138</b>	208	-	-
	<b>412,540</b>	416,473	<b>407,847</b>	411,191

**Loans are repayable as follows:**

	Consolidated		University	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans:				
Between one and two years	<b>2,252</b>	2,268	<b>1,237</b>	1,312
Between two and five years	<b>5,343</b>	5,908	<b>3,710</b>	3,731
Over five years	<b>55,814</b>	57,061	<b>55,814</b>	57,061
Due after more than one year	<b>63,409</b>	65,237	<b>60,761</b>	62,104
Due within one year (note 20)	<b>1,790</b>	2,419	<b>1,305</b>	1,518
	<b>65,199</b>	67,656	<b>62,066</b>	63,622
Public bond:				
Over five years	<b>298,452</b>	298,409	<b>298,452</b>	298,409
	<b>298,452</b>	298,409	<b>298,452</b>	298,409

## Notes to the Financial Statements for the year ended 31 July 2020

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

Obligations under finance leases:

	Consolidated		University	
	2020 £000	2019 £000	2020 £000	2019 £000
Between one and two years	396	367	396	367
Between two and five years	1,379	1,280	1,379	1,280
Over five years	45,041	45,536	45,041	45,536
Due after more than one year	<b>46,816</b>	47,183	<b>46,816</b>	47,183
Due within one year (note 20)	367	343	367	341
	<b>47,183</b>	47,526	<b>47,183</b>	47,524

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 in the Statement of Comprehensive Income.

#### Additional information on bank loans:

Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2020 £000	Balance outstanding 2019 £000
University:					
Barclays Bank	1999	2020	fixed	69	344
Barclays Bank	2006	2026	variable	4,144	4,940
Barclays Bank	2006	2036	fixed	7,854	8,338
Barclays Bank	2007	2037	fixed	50,000	50,000
				<b>62,067</b>	63,622
Subsidiaries:					
Santander	2015	2023	fixed	3,134	4,035
				<b>65,201</b>	67,657

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 5.57% to 5.95%, and the variable rate margin is 0.50% over Euribor.

Loans are secured against the general covenant of the University.

The subsidiary loan is secured by a fixed charge over the assets of the Company.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**22. Provisions****Consolidated**

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 29) £000	Maintenance Fund £000	Deferred tax £000	Total Provisions £000
<b>At 1 August 2019</b>	140,985	137,854	321	727	279,887
Increase due to change in discount rate	11,278	-	-	-	11,278
Unwinding of the discount rate	2,284	2,818	-	-	5,102
Deficit contributions paid during the year	(2,795)	-	-	-	(2,795)
Reduction in provision to reflect deficit recovery agreement	(72,933)	-	-	-	(72,933)
Annual Net Service Cost	-	7,867	-	-	7,867
Actuarial loss	-	54,906	-	-	54,906
Utilised in year	-	-	(616)	-	(616)
Additions in year	-	-	673	1,867	2,540
<b>At 31 July 2020</b>	<b>78,819</b>	<b>203,445</b>	<b>378</b>	<b>2,594</b>	<b>285,236</b>

**University**

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 28) £000	Total Provisions £000
<b>At 1 August 2019</b>	140,985	137,854	278,839
Increase due to change in discount rate	11,278	-	11,278
Unwinding of the discount rate	2,284	2,818	5,102
Deficit contributions paid during the year	(2,795)	-	(2,795)
Reduction in provision to reflect deficit recovery agreement	(72,933)	-	(72,933)
Annual Net Service Cost	-	7,867	7,867
Actuarial loss	-	54,906	54,906
<b>At 31 July 2020</b>	<b>78,819</b>	<b>203,445</b>	<b>282,264</b>

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## Notes to the Financial Statements for the year ended 31 July 2020

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### 22. Provisions (continued)

#### 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 29.

Following the completion of the 2018 actuarial valuation, a new plan has been agreed which reduces the number of years for the deficit recovery (to 2028 from 2034) and a reduction in the discount rate (to 0.74% from 1.62%). More detail is given in note 29. As at 31 July 2020 the provision is £78.8 million a reduction of £62.2 million on 2018/19. The impact on the Statement of Comprehensive Income is to increase the 2019/20 surplus by £62.2 million for the change in the ongoing provision.

#### Defined Benefit Obligations

This relates to two defined benefit pension scheme deficits for 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 and HCC schemes as at 31 July 2020. The 2019/20 increase in provision of £65.6 million is the aggregate of the PASNAS and HCC pension scheme obligations. See note 29 for further details.

#### 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 the University of 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. The provision receives additional contributions and is utilised on an ongoing basis as larger repairs are required to the Science Park investment properties.

#### 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. The requisite provision for deferred tax will be recognised when an investment property is sold.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**23. Endowment reserves****Consolidated**

	Restricted Permanent £000	Unrestricted Permanent £000	Restricted Expendable £000	<b>2020 Total £000</b>	2019 Total £000
<b>At 1 August 2019</b>					
Capital	7,516	2,455	2,161	<b>12,132</b>	12,176
Accumulated income	769	-	140	<b>909</b>	907
	<u>8,285</u>	<u>2,455</u>	<u>2,301</u>	<b>13,041</b>	<u>13,083</u>
New endowments	4	-	-	<b>4</b>	211
Investment income	131	46	40	<b>217</b>	210
Expenditure	(131)	(46)	(48)	<b>(225)</b>	(205)
Net Investment (expenditure)/income	-	-	(8)	<b>(8)</b>	5
Decrease in market value of investments	(102)	(33)	(29)	<b>(164)</b>	(258)
<b>At 31 July 2020</b>	<b>8,187</b>	<b>2,422</b>	<b>2,264</b>	<b>12,873</b>	<b>13,041</b>
<b>Represented by:</b>					
Capital	7,423	2,422	2,125	<b>11,970</b>	12,132
Accumulated income	764	-	139	<b>903</b>	909
	<b>8,187</b>	<b>2,422</b>	<b>2,264</b>	<b>12,873</b>	13,041
<b>Analysis by type of purpose:</b>					
Chair/Lectureships	3,368	-	-	<b>3,368</b>	3,433
Scholarships and bursaries	1,945	-	627	<b>2,572</b>	2,619
Research support	-	-	1,111	<b>1,111</b>	1,105
Prize funds	460	-	147	<b>607</b>	642
Welfare/Hardship	639	-	36	<b>675</b>	642
General	1,775	2,422	343	<b>4,540</b>	4,600
	<b>8,187</b>	<b>2,422</b>	<b>2,264</b>	<b>12,873</b>	<u>13,041</u>
<b>Analysis by asset:</b>					
Current and non-current asset investments				<b>11,961</b>	12,125
Cash and cash equivalents				<b>912</b>	916
				<b>12,873</b>	<u>13,041</u>

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**24. Restricted Reserves**

Reserves with restrictions are as follows:

	<b>Consolidated and University</b>			
	Unspent Capital Grants £000	Donations /Other Restricted Funds £000	<b>2020 Total £000</b>	2019 Total £000
<b>Balances at 1 August 2019</b>	2,276	3,233	<b>5,509</b>	2,017
New grants	1,833	-	<b>1,833</b>	6,532
New donations/other restricted funds	-	6,848	<b>6,848</b>	8,569
Capital grants utilised	(3,371)	-	<b>(3,371)</b>	(4,256)
Expenditure	-	(5,449)	<b>(5,449)</b>	(7,353)
Total restricted comprehensive (expenditure)/income for the year	(1,538)	1,399	<b>(139)</b>	3,492
<b>Balances at 31 July 2020</b>	<b>738</b>	<b>4,632</b>	<b>5,370</b>	5,509

	<b>Consolidated and University</b>	
	<b>2020 Total £000</b>	2019 Total £000
Analysis of donations/other restricted funds by type of purpose:		
Research activities	<b>3,375</b>	4,715
Student support	<b>260</b>	334
Scholarships and bursaries	<b>70</b>	39
Outreach	<b>36</b>	47
Other	<b>1,629</b>	374
<b>Balances at 31 July 2020</b>	<b>5,370</b>	5,509

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**25. Reconciliation of net debt**

	<b>Consolidated</b>	<b>University</b>
	£000	£000
<b>Net debt 1 August 2019</b>	<b>(352,274)</b>	<b>(350,205)</b>
Increase/(decrease) in cash and cash equivalents	3,867	(2,776)
Repayment in loans and finance lease amounts owed	2,736	1,833
Exchange rate gain on currency loans	64	64
Reduction in value of derivatives	70	-
Amortisation of discount on public bond	(43)	(43)
<b>Net debt 31 July 2020</b>	<b>(345,580)</b>	<b>(351,127)</b>
<b>Reduction/(Increase) in net debt</b>	<b>6,694</b>	<b>(922)</b>

	<b>Consolidated</b>		<b>University</b>	
	<b>At 31 July</b>	At 31 July	<b>At 31 July</b>	At 31 July
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Analysis of net debt:				
Cash and cash equivalents	<b>65,392</b>	61,525	<b>56,574</b>	59,350
	<b>65,392</b>	61,525	<b>56,574</b>	59,350
Borrowings: amounts falling due within one year				
Unsecured loans	<b>1,305</b>	1,518	<b>1,305</b>	1,518
Secured loans	<b>485</b>	901	-	-
Obligations under finance leases	<b>367</b>	343	<b>367</b>	341
	<b>2,157</b>	2,762	<b>1,672</b>	1,859
Borrowings: amounts falling due after more than one year				
Obligations under finance lease	<b>46,816</b>	47,183	<b>46,816</b>	47,183
Unsecured loans	<b>60,761</b>	62,104	<b>60,761</b>	62,104
Secured loans	<b>2,648</b>	3,133	-	-
Public Bond	<b>298,452</b>	298,409	<b>298,452</b>	298,409
Derivatives	<b>138</b>	208	-	-
	<b>408,815</b>	411,037	<b>406,029</b>	407,696
<b>Net debt as at 31 July</b>	<b>(345,580)</b>	(352,274)	<b>(351,127)</b>	(350,205)

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## Notes to the Financial Statements for the year ended 31 July 2020

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### 26. 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 2020 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 2020 significant enough to warrant disclosure in the Financial Statements.

Professor Mark E Smith CBE, the University President and Vice-Chancellor, is also a council member of the Engineering and Physical Sciences Research Council (EPSRC). The University received from the EPSRC £34,900,000 in the year to 31 July 2020 for research and training grants. Of this, £4,800,000 was disbursed to other research collaborators and the University received £4,600,000 from other Universities hosting EPSRC funded research but where the University was a collaborator.

Peter Hollins, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board. The University received £11,600,000 in the year to 31 July 2020, the main elements being £6,800,000 contribution to joint salaries, £3,800,000 for research grants and the balance for normal operational activity reimbursements.

Professor Jane Falkingham OBE, is Dean of the Faculty of Social Sciences and a member of the University Executive Board (UEB). She is a Council Member for the Economic and Social Research Council (ESRC). The University received £7,000,000 research

grant income and doctoral training grants from the ESRC in the year to 31 July 2020.

Professor Mandy Fader, Head of School for Health Sciences and a member of UEB, is also a Director of the Wessex Academic Health Science Network Limited. In the year to 31 July 2020 the University received £250,000 from the company mainly for the Centre for Implementation Science and also paid £45,000 to them as collaborators on a research grant and £13,000 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 (AHRC). In the year to 31 July 2020 the University received £935,000 grant income from the AHRC.

Emily Harrison and Olivia Reed were members of Council (Class 5 membership) as representatives of the Students' Union. Olivia Reed (Emily Harrison until June 2020) is President of the Students' Union which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Students' Union receives a grant from the University, an amount of £2,210,000 in 2019/20 (2019: £2,363,000), which is calculated annually according to a methodology agreed between the University and the Students' 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 £4,300,000 to the Institute, of which a balance of £1,800,000 is held under creditors as at 31 July 2020. The University received £638,000 grant income from the Institute in the year to 31 July 2020.

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.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**27. Capital and other commitments**

Provision has not been made for the following capital and other commitments at 31 July 2020:

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Commitments contracted for	<b>25,202</b>	24,417	<b>25,015</b>	24,417
	<b>25,202</b>	24,417	<b>25,015</b>	24,417

**28a. Lease obligations**

At 31 July 2020 the University was committed to making the following payments under non-cancellable operating leases:

**Consolidated**

	Land and buildings	Plant and machinery	<b>2020</b> <b>Total</b>	2019 Total
	£000	£000	<b>£000</b>	£000
Future minimum lease payments due:				
Not later than one year	3,257	625	<b>3,882</b>	3,747
Between one and five years	10,158	581	<b>10,739</b>	12,096
Over five years	13,590	-	<b>13,590</b>	14,955
	<b>27,005</b>	1,206	<b>28,211</b>	30,798

**University**

	Land and buildings	Plant and machinery	<b>2020</b> <b>Total</b>	2019 Total
	£000	£000	<b>£000</b>	£000
Future minimum lease payments due:				
Not later than one year	2,860	625	<b>3,485</b>	3,548
Between one and five years	9,290	581	<b>9,871</b>	10,838
Over five years	13,590	-	<b>13,590</b>	14,935
	<b>25,740</b>	1,206	<b>26,946</b>	29,321

Lease obligations have been calculated to show maximum obligations if lease was broken at the next tenant break option date.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**28b. Lease receivables**

At 31 July 2020 the principal future minimum lease payments receivable under non-cancellable leases are as follows:

**Land and buildings:**

	<b>Consolidated</b>		<b>University</b>	
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Less than one year	<b>6,582</b>	6,537	<b>4,061</b>	4,289
Between one and five years	<b>22,201</b>	19,479	<b>16,016</b>	16,022
More than five years	<b>60,658</b>	61,467	<b>53,048</b>	57,265
	<b>89,441</b>	87,483	<b>73,125</b>	77,576

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. 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). The PASNAS scheme is a defined-benefit scheme. USS is a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. 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 employees.

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, PASNAS and USRF within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

The total pension scheme costs incurred in 2019/20 and 2018/19 for the consolidated group are summarised as follows:

	2019/20			2018/19		
	Employer contributions	Pension accounting adjustment **	Total Cost	Employer contributions	Pension accounting adjustment **	Total Cost
	£000	£000	£000	£000	£000	£000
USS*	<b>34,987</b>	-	<b>34,987</b>	30,565	-	30,565
PASNAS	<b>4,432</b>	<b>7,622</b>	<b>12,054</b>	4,502	8,892	13,394
PASNAS deficit contribution	<b>1,637</b>	-	<b>1,637</b>	1,890	-	1,890
USRF from 1/1/19	<b>749</b>	-	<b>749</b>	147	-	147
USRF PASNAS deficit contribution	<b>318</b>	-	<b>318</b>	63	-	63
NHPS	<b>1,391</b>	-	<b>1,391</b>	1,253	-	1,253
Other pension schemes	<b>444</b>	<b>250</b>	<b>694</b>	754	(345)	409
<b>Total pension cost (note 9)</b>	<b>43,958</b>	<b>7,872</b>	<b>51,830</b>	39,174	8,547	47,721

\* The figure for USS employer contributions excludes an amount of £159,000 (2019: £208,000) and the figure for PASNAS employer contributions excludes an amount of £100,000 (2019: £104,000) 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 and includes the exit fee for the former New College scheme due to the retirement of the last remaining member.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

Table of Employer Contribution Rates 2019/20 and 2018/19:

	2019/20	2018/19
	Rate %	Rate %
USS	19.50 to Sept 19 21.10 from Oct 19	18.00 to Mar 19 19.50 from April 19
PASNAS*	12.15 to Dec 2019, 13.85 from Jan 2020	12.15
USRF*	10.00	10.00 scheme began 1/1/19
TPS	16.48	16.48
NHPS	16.18	14.38 to Mar 19 16.18 from April 19
MRCPS	15.90	15.90
HCC (two separate schemes)	31.70 36.90 to Mar 20 38.40 from Apr 20	31.70 36.90
NEST	3.00	3.00

\* PASNAS and USRF there is an additional employers' contribution of 5.1% to contribute to the PASNAS deficit. Since January 2020 the total contribution from these has been capped at £160,000 per month.

Employer contributions in 2020/21 are expected to be:

	Rate %	£000
USS	21.10	34,279
PASNAS	13.85	5,665
PASNAS Deficit Contributions	5.10	1,524
USRF	10.00	851
USRF PASNAS Deficit Contributions	5.10	362
TPS	16.48	29
NHPS	16.18	1,418
MRCPS	15.90	80
HCC	38.40	42
NEST	3.00	100
Total		<u>44,350</u>

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:

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	<b>USS</b>	<b>PASNAS</b>	<b>HCC</b>
Date of valuation	31 March 2018	31 July 2018	31 March 2019
Market valuation of assets	£63,700 million	£225 million	£7,182 million
Past service liabilities	£67,300 million	£263 million	£7,260 million
Deficit of assets	(£3,600) million	(£38) million	(£78) million

The USS and HCC valuations reflect the total assets and liabilities of the schemes, not just the element attributable to the University.

**USS****Significant accounting policies**

The institution participates in Universities Superannuation Scheme. 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 defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income 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) with related expenses being recognised through the Statement of Comprehensive Income.

**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 these financial statements.

The total charged to the Statement of Comprehensive Income and for the employers contributions excluding the FRS102 deficit provision was £35.0 million (2019: £30.6 million).

Deficit recovery contributions due within one year for the institution are £2.8 million (2019: £2.3 million).

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2018 ("the valuation date"), which was carried out using the projected unit method. A valuation as at 31 March 2020 is 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.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

The 2018 valuation was the fifth 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 £63.7 billion and the value of the scheme's technical provisions was £67.3 billion indicating a shortfall of £3.6 billion and a funding ratio of 95%.

The key financial assumptions used in the 2018 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 + 0.14% reducing linearly to CPI – 0.73% Years 11-20: CPI + 2.52% reducing linearly to CPI + 1.55 by year 21 Years 21 +: CPI + 1.55%

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 2018 actuarial valuation. The mortality assumptions used in these figures are as follows:

Mortality base table	<b>2018 valuation</b> <i>Pre-retirement:</i> 71% of AMCoo (duration 0) for males and 112% of AFCoo (duration 0) for females. <i>Post-retirement:</i> 97.6% of SAPS S1NMA "light" for males and 102.7% of RFVoo for females.
Future improvements to mortality	CMI_2017 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:

	<b>2018</b>	<b>2017</b>
Males currently aged 65 (years)	24.4	24.6
Females currently aged 65 (years)	25.9	26.1
Males currently aged 45 (years)	26.3	26.6
Females currently aged 45 (years)	27.7	27.9

A new deficit recovery plan was put in place as part of the 2018 valuation, which requires payment of 2% of salaries over the period 1 October 2019 to 30 September 2021 at which point the rate will increase to 6% until 31 March 2028. The 2020 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	<b>2020</b>	<b>2019</b>
Discount rate	0.74%	1.62%
Average annual pensionable salary growth	1.97%	1.98%

In the year ended 31 July 2019, the liability was based on the previous deficit recovery plan, which required payment of 5% of salaries over the period 1 April 2020 to 30 June 2034.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

The reduction in the term of the deficit recovery plan over a shorter period of time to 2028 (previously to 2034) has given rise to a substantial decrease in the deficit provision which has decreased from £141 million to £79 million as set out in note 22. £ 73 million of this decrease is attributable to the change in the deficit contributions contractual commitment and there is an £11 million increase due to the reduction in the discount rate. See also staff costs note 9 in respect of significant one-off pension costs/gains.

A further full valuation as at 31 March 2020 is currently underway. As the valuation has only recently commenced there is still work to be done agreeing the technical provisions assumptions, the extent of future investment risk, the duration of the deficit period and the level of deficit contributions. Rule changes in respect of strengthening the employer covenant are also in progress including restrictions on employer exits, debt monitoring and pari passu arrangements. The valuation must be completed by 30 June 2021. However it is generally anticipated that there will be a significant increase in the deficit provision as at 31 July 2021 (assuming the valuation is completed by then).

As at 31 March 2020, USS had 204,753 active members and the University had 3,998 active members participating in the scheme at 31 July 2020.

The total employer contributions for the year were £34,987,000 (2019: £30,565,000) which includes £3,018,000 (2019: £2,779,000) of contributions outstanding at the Statement of Financial Position date, payable in August 2020.

**USRF**

The University of Southampton Retirement Fund (USRF) was opened on 1st January 2019 to new members after PASNAS was closed to new members from that date. The scheme is operated by Royal London Mutual Insurance Society Limited as a defined contribution scheme. The costs charged to the Statement of Comprehensive Income represent the contributions payable to the scheme for the year. An additional employers' contribution of 5.1% is also paid to PASNAS towards the pension deficit.

The number of members of the scheme employed by the University as at 31 July 2020 was 374.

The total employer contributions for the year were £1,067,000 (2019: £210,000) which includes £107,000 (2019: £53,000) of contributions outstanding at the Statement of Financial Position date, payable in August 2020.

**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 Statement of Comprehensive Income 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 2020 was TPS 3; NHPS 129 and MRCPS 4.

The total pension costs due for the University and contributions outstanding at the Statement of Financial Position date were:

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	Pension cost		Outstanding at 31 July	
	2020	2019	2020	2019
	£000	£000	£000	£000
NHPS	<b>1,391</b>	1,253	<b>115</b>	(31)
TPS	<b>28</b>	19	<b>2</b>	3
MRCPS	<b>79</b>	97	<b>7</b>	6

**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 £133,000 (2019: £131,000) which includes £8,000 (2019: £12,000) of contributions outstanding at the Institutional Statement of Financial Position date of 31st July 2020, payable in August 2020.

The number of members of this scheme as at 31 July 2020 was 1,318.

**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).

The number of members of the scheme employed by the University as at 31 July 2020 was 1,527.

The total employer contributions for the year were £6,069,000 (2019: £6,392,000) which includes £510,000 (2019: £513,000) of contributions outstanding at the Statement of Financial Position date of 31st July 2020, payable in August 2020.

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2018 and indicated that the scheme's assets represented 85% of the technical provisions corresponding to a deficit of £38,508,000. 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. The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	<b>31 July 2020</b>	<b>31 July 2019</b>
Increase in salaries	3.00% pa	3.00% pa
Increase in pensions – pre 1 Oct 2010 (CPI)	2.30% pa	2.60% pa
Increase in pensions – post 1 Oct 2010 (CPI max 2.5%)	1.80% pa	1.95% pa
Discount rate	1.40% pa	2.10% pa
Inflation (RPI)	3.10% pa	3.60% pa
Inflation (CPI)	2.30% pa	2.60% pa

The changes in the above financial assumptions – particularly the decrease in the discount rate - have had a negative impact on the overall scheme deficit of £65.5 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	22.6	24.0
Female	24.9	26.3

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

	<b>Value 31 July 2020</b>	Value 31 July 2019	Value 31 July 2018
	<b>£000</b>	£000	£000
Gilts	<b>39,346</b>	36,792	31,496
Multi Asset Credit	<b>35,643</b>	34,340	31,496
Equities	<b>83,848</b>	95,661	92,240
Target return funds & cash	<b>51,361</b>	56,415	49,494
Property	<b>34,916</b>	22,075	20,248
<b>Total</b>	<b>245,114</b>	245,283	224,974

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Analysis of the amount shown in the Institution Statement of Financial Position</b>		
Scheme assets	<b>245,114</b>	245,283
Scheme liabilities	<b>(448,481)</b>	(383,137)
Deficit in the scheme – net pension liability recorded within pension provisions (note 22)	<b>(203,367)</b>	(137,854)
<b>Analysis of the amount charged to staff costs within operating surplus</b>		
Current service cost	<b>(14,725)</b>	(13,481)
Past service cost	-	(1,906)
Total operating charge	<b>(14,725)</b>	(15,387)
<b>Analysis of the amount charged to interest payable within operating surplus</b>		
Expected return on scheme assets	<b>5,137</b>	6,291
Interest cost	<b>(7,958)</b>	(8,764)
Net finance cost	<b>(2,821)</b>	(2,473)
<b>Analysis of other comprehensive income</b>		
(Losses)/Gains on assets	<b>(3,998)</b>	14,604
Experience gains on liabilities	<b>2,893</b>	5,780
Losses from changes to demographic assumptions	-	(1,751)
Losses from changes to financial assumptions	<b>(53,965)</b>	(53,332)
Charge to other comprehensive income	<b>(55,070)</b>	(34,699)
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year	<b>(137,854)</b>	(91,790)
Movement in the year:		
Current service cost	<b>(13,791)</b>	(15,387)
Contributions	<b>6,169</b>	6,495
Net finance cost	<b>(2,821)</b>	(2,473)
Loss recognised in other comprehensive income	<b>(55,070)</b>	(34,699)
Deficit in scheme at end of year	<b>(203,367)</b>	(137,854)
<b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	<b>245,283</b>	224,974
Employer contributions	<b>6,169</b>	6,495
Employee contributions	<b>2,530</b>	2,437
Benefits paid (net of expenses)	<b>(8,603)</b>	(7,851)
Administration costs	<b>(1,404)</b>	(1,667)
Interest on assets	<b>5,137</b>	6,291
(Loss)/return on scheme assets	<b>(3,998)</b>	14,604
Assets at end of year	<b>245,114</b>	245,283

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Analysis of movement in present value of liabilities</b>		
Liabilities at beginning of year	<b>(383,137)</b>	(316,764)
Current service cost	<b>(13,791)</b>	(13,481)
Past service cost	-	(1,906)
Interest on scheme liabilities	<b>(7,958)</b>	(8,764)
Employee contributions	<b>(2,530)</b>	(2,437)
Benefits paid	<b>10,007</b>	9,518
Actuarial experience gain on liabilities	<b>2,893</b>	5,780
Changes in assumptions underlying the present value of the scheme liabilities	<b>(53,965)</b>	(55,083)
Liabilities at end of year	<b>448,481</b>	383,137

	<b>2020</b>	2019	2018
<b>History of experience gains and losses</b>			
Experience (Losses)/gains on assets in excess of interest (£000)	<b>(3,998)</b>	14,604	9,611
Percentage of scheme assets	<b>(1.6%)</b>	6.0%	4.3%
Experience gains/(losses) on liabilities (£000)	<b>2,893</b>	5,780	(292)
Percentage of scheme liabilities	<b>0.1%</b>	1.5%	0.1%

**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 2020	31 July 2019
Increase in salaries	3.30% pa	3.80% pa
Increase in pensions	2.30% pa	2.30% pa
Discount rate	1.40% pa	2.10% pa
CPI inflation	2.30% pa	2.30% 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	23.0	24.7
Female	25.5	27.2

## Notes to the Financial Statements for the year ended 31 July 2020

### 29. Pension Schemes (continued)

The number of active members of this scheme employed by the University as at 31 July 2020 was 2. The University exited part of the HCC scheme as at April 2020 attributable to the New College part due to the retirement of the last active member. The pension provision includes an accrual for an additional employer contribution of £124,000 in relation to the exit debt arising following the University's exit of this part of the scheme.

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

	<b>Value 31 July 2020 £000</b>	Value 31 July 2019 £000	Value 31 July 2018 £000
Equities	<b>2,208</b>	5,322	4,960
Government bonds	<b>835</b>	1,821	1,802
Property	<b>245</b>	636	546
Corporate bonds	<b>-</b>	-	86
Cash	<b>64</b>	168	164
Other	<b>662</b>	893	242
<b>Total</b>	<b>4,014</b>	8,840	7,800

#### Analysis of the amount shown in the Institution Statement of Financial Position

Scheme assets	<b>4,014</b>	8,840
Scheme liabilities	<b>(4,092)</b>	(7,670)
Adjustment in respect of FRS 102 section 28.22	<b>-</b>	(1,170)
(Deficit)/Nil balance in the scheme – net pension liability recorded within pension provisions (note 22)	<b>(78)</b>	-

#### Analysis of the amount charged to staff costs within operating surplus

Current service cost	<b>(51)</b>	(50)
Past service cost	<b>-</b>	(30)
Settlement costs	<b>(607)</b>	-
<b>Total operating charge</b>	<b>(658)</b>	(80)

#### Analysis of the amount charged to interest payable within operating surplus

Expected return on scheme assets	<b>163</b>	230
Interest on scheme liabilities	<b>(139)</b>	(190)
<b>Net finance cost</b>	<b>24</b>	40

#### Analysis of other comprehensive income

(Loss)/gain on assets	<b>(779)</b>	250
Loss on liabilities	<b>(227)</b>	(600)
Adjustment in respect of FRS102 Section 28.22	<b>1,170</b>	-
<b>Total amount recognised in other comprehensive income</b>	<b>164</b>	(350)

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**29. Pension Schemes (continued)**

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of the year	-	-
Movement in the year:		
Current service cost	<b>(51)</b>	(50)
Past service cost	-	(30)
Settlement cost	<b>(607)</b>	-
Employer contributions	<b>413</b>	810
Net finance credit	<b>3</b>	10
Gain/(Loss) recognised in other comprehensive income	<b>164</b>	(740)
Deficit in scheme at end of year	<b>(78)</b>	-
<b>Analysis of movement in fair value of fund assets</b>		
Assets at beginning of year	<b>8,840</b>	7,800
Employer contributions	<b>413</b>	810
Employee contributions	<b>9</b>	10
Benefits paid	<b>(267)</b>	(260)
Interest on assets	<b>163</b>	230
(Loss)/return on scheme assets	<b>(800)</b>	250
Settlements	<b>(4,344)</b>	-
Assets at end of year	<b>4,014</b>	8,840
<b>Analysis of movement in present value of liabilities</b>		
Liabilities at beginning of year	<b>(7,670)</b>	(7,050)
Current service cost	<b>(51)</b>	(50)
Past service cost	-	(30)
Settlement costs	<b>3,737</b>	-
Interest on scheme liabilities	<b>(139)</b>	(190)
Employee contributions	<b>(9)</b>	(10)
Benefits paid	<b>267</b>	260
Actuarial experience loss on liabilities	<b>(227)</b>	(600)
Liabilities at end of year	<b>(4,092)</b>	(7,670)

Based on the present values of the fund assets and fund liabilities at the reporting date, the scheme had a deficit of £78,000 at 31 July 2020. This value has been accrued for and recognised in the pension reserve.

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**30. 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:

	Note	Consolidated		University	
		2020 £000	2019 £000	2020 £000	2019 £000
<b>Financial assets:</b>					
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Investments in unit trusts	23	<b>11,961</b>	12,125	<b>11,961</b>	12,125
Other investments	19 and 23	<b>237,283</b>	201,413	<b>237,283</b>	201,413
Investment in ordinary shares	16	<b>8,920</b>	1,062	-	-
<i>Equity instruments measured at cost less impairment</i>					
Non-current asset investments	16	<b>1,318</b>	1,352	<b>1,318</b>	1,352
<i>Debt instruments measured at amortised cost</i>					
Long-term loans receivable	18	-	-	-	6,391
<i>Measured at undiscounted amount receivable</i>					
Trade and other receivables	18	<b>24,235</b>	31,275	<b>23,572</b>	30,931
		<b>283,717</b>	247,227	<b>274,134</b>	252,212

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**Notes to the Financial Statements for the year ended 31 July 2020**


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

		<b>Consolidated</b>		<b>University</b>	
		<b>2020</b>	2019	<b>2020</b>	2019
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Derivative financial liabilities	21	<b>138</b>	208	-	-
<i>Measured at amortised cost</i>					
Loans payable	21	<b>410,834</b>	413,591	<b>407,701</b>	409,555
<i>Measured at undiscounted amount payable</i>					
Trade and other creditors*	20	<b>13,976</b>	19,999	<b>12,512</b>	18,914
		<b>424,948</b>	433,798	<b>420,213</b>	428,469

\* 2019 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:

		<b>Consolidated</b>		<b>University</b>	
		<b>2020</b>	2019	<b>2020</b>	2019
	Note	<b>£000</b>	£000	<b>£000</b>	£000
<i>Interest income and (expense)</i>					
Total income for financial assets at amortised cost	7	<b>7,758</b>	7,867	<b>7,996</b>	8,190
Total interest expense for financial liabilities at amortised cost	11	<b>(14,362)</b>	(14,276)	<b>(14,203)</b>	(14,086)
		<b>(6,604)</b>	(6,409)	<b>(6,207)</b>	(5,896)
<i>Fair value gains and (losses)</i>					
On financial assets measured at fair value through the Statement of Comprehensive Income		<b>10,473</b>	1,225	<b>1,790</b>	(2,330)
On derivative financial liabilities	11	<b>70</b>	65	-	-
		<b>10,543</b>	1,290	<b>1,790</b>	(2,330)

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**Notes to the Financial Statements for the year ended 31 July 2020**


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**31. National College for Teaching and Leadership (NCTL) bursaries**

	<b>At 1 August 2019 £000</b>	<b>Consolidated and University</b>			<b>At 31 July 2020 £000</b>
		Income received £000	Disbursements £000	Returned to NCTL £000	
Student training bursaries	296	2,517	(2,272)	(439)	<b>102</b>
	296	2,517	(2,272)	(439)	<b>102</b>

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.

**32. Subsequent Event**

In September 2020, the Trustee of the USS Pension Scheme (USS) launched a consultation with Universities UK on key aspects of the scheme's 2020 valuation. The scope of this exercise covers a wide range of potential outcomes - reflecting issues still to be resolved on employer support as well as uncertainties for the higher education sector and financial markets in general - but, based on the proposals put forward, the Trustees have indicated that the fund's deficit at 31 March 2020 could range from between £9.8bn and £17.9bn.

This would represent a significant deterioration from the £3.6bn deficit established under the 2018 valuation (and against which the current recovery plan is set) and a return to the levels of shortfall experienced under the previous 2017 valuation (£11.8bn).

At this stage, an outcome is far from agreed and the USS Trustee has until 30 June 2021 to conclude the valuation. As an early indication of the scale of impact though, it has been estimated that the cost of continuing to offer current benefits in this context could reach between 40.8% to 67.9% of payroll. However, this is range is purely an illustration and is before any other measures are considered to reduce the deficit and is still being widely debated across the sector and by the Trustee of the Pension Scheme. For the 2019-20 financial year however, this is considered a non-adjusting event.

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