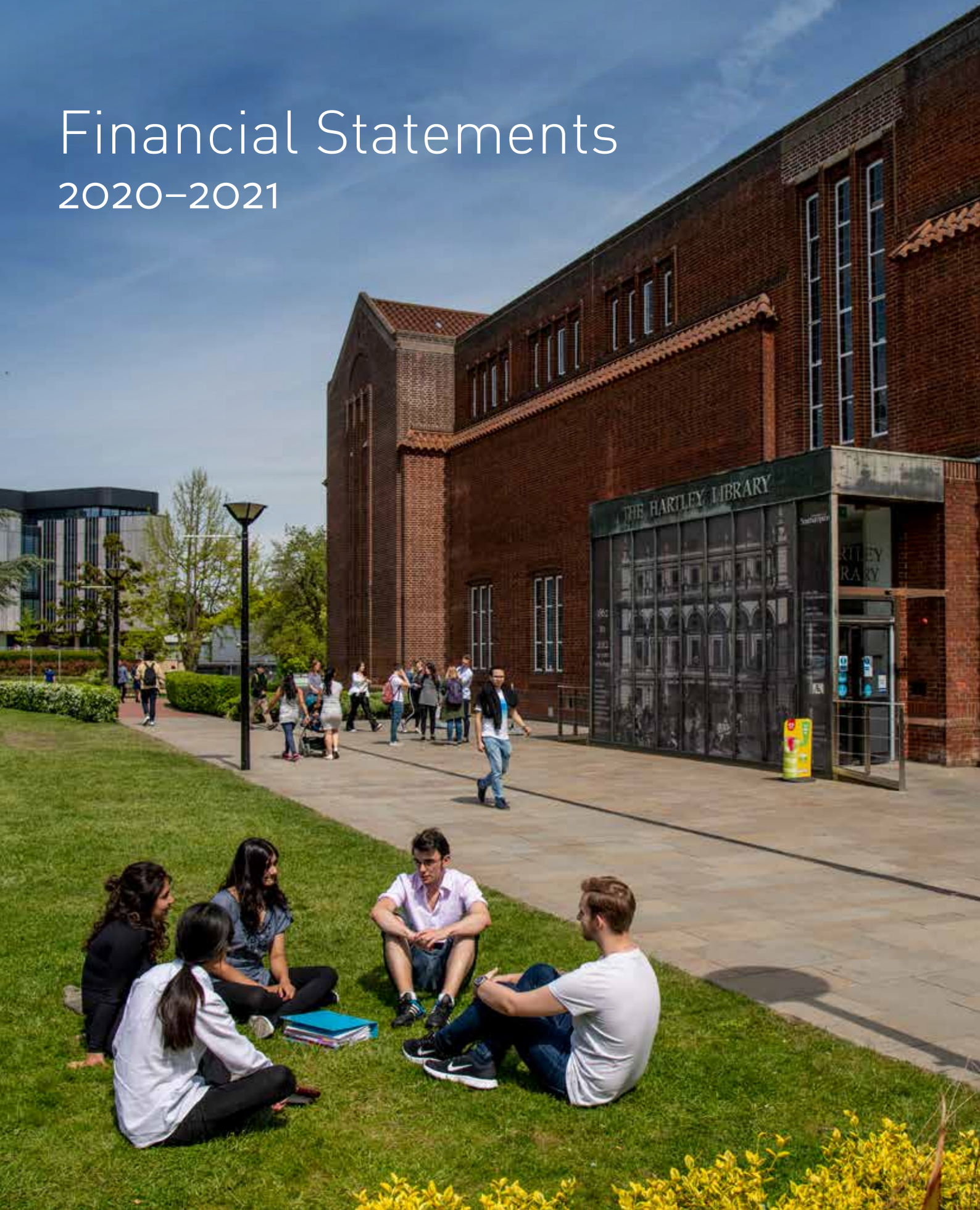


Financial Statements 2020–2021



Consolidated Financial Statements for the year ended 31 July 2021

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HIGHLIGHTS OF THE YEAR



Research in Health Sciences is providing evidence to stimulate debate about safe nurse staffing levels and transforming the care and lives of people with cancer. Most recently, researchers have highlighted the impact of the COVID-19 pandemic on wellbeing and mental health in nurses.



Top 15
in the UK*
77th
in the world**

*Complete University Guide 2022
**QS World Rankings 2022



Photo: LifeLab

Dr Kath Woods-Townsend and her team at LifeLab developed an education programme – COVID-19 Warriors – to help primary school children across the UK protect themselves from the spread of coronavirus.



Renowned leader in electronics and electrical engineering education, Dr Basel Halak, was awarded a prestigious National Teaching Fellowship in 2020 for his outstanding contribution to teaching.



We're proud to back Southampton's bid to be UK City of Culture in 2025 and are leading on the research and evaluation of the consultation phase of the bid.

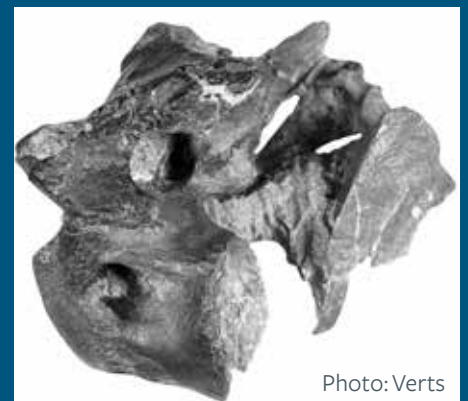


Photo: Verts

PhD student Chris Barker and his team discovered that bones found on the Isle of Wight belong to species of dinosaur previously unknown to science.



Find out more:
www.southampton.ac.uk/researchhighlights

Strategic Report (continued)

Summary – strategy overview

The University of Southampton has maintained its record of delivering high quality teaching, research and enterprise, during another challenging period. Our staff continued to display resilience and agility through the continued global pandemic, and worked hard to keep our whole community safe through support across a range of activities to combat the COVID-19 virus.

Over the course of the year, the focus was on delivery of the ‘Bridging Strategy’ – a plan that centred on continuing to deliver high quality education, research and enterprise through a period of uncertainty. In 2021, the University consulted with stakeholders on a new, refreshed strategy, due for launch in January 2022. The strategy will focus on leveraging off the University’s evident areas of strength and moving forward in our mission as one of the world’s foremost centres of knowledge creation and sharing.

“We are now Top 20 across all major UK university guides and we should all be immensely proud of this remarkable achievement.”

Professor Mark E. Smith,
Vice Chancellor

We continue to see the positive impact of our strategic and operational focus on quality, with improvements in all the major league tables, achieving Top 20 across all three major UK university guides and within the Top 100 internationally. The University improved 6 places in the Guardian to a rank of 17th, with 7 subjects in the top 10, placed 15th overall out of 130 universities in the Complete University Guide and 16th in The Times and Sunday Times Good University Guide. Our growing reputation led to a remarkable rise of 13 places in the Quacquarelli Symonds (QS) World University Rankings 2022, placing the University 77th among the 1,300 universities ranked overall – a climb of 25 places since 2018 and our highest QS ranking in nearly a decade. 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.

The University’s particularly strong research partnerships, public engagement and achievements in entrepreneurial activities have also been recognised in the results of the first-ever Knowledge Exchange Framework (KEF). The KEF has been established by UKRI to increase efficiency and effectiveness in the use of public funding for knowledge exchange (KE) and to further a culture of continuous improvement in universities. Our all-round high

performance in knowledge exchange, combined with our global reputation for innovation and collaboration, is recognised through this exercise which places the University in the top 10 per cent of all universities assessed for ‘Intellectual Property (IP) and commercialisation’, ‘Public and community engagement’ and ‘Working with the public and third sector’. On the basis of the data provided in the KEF, the University has a justifiable claim to be the highest performing university in the exercise.

“I’m delighted to see our knowledge exchange activities recognised so highly amongst England’s universities. It’s clear from the results that our strategy for engagement through research, enterprise and public engagement is creating genuine and positive societal and economic impact.”

Professor Mark Spearing,
Vice President Research & Enterprise

In July, we received the result of the 2021 National Student Survey (NSS), a key indicator of the experience that our final year students have had with us during their undergraduate studies. Across the Russell Group and whole of the higher education sector, the NSS results were lower this year reflecting the challenges caused by the pandemic and the subsequent need for social-distancing, multiple lockdowns and changes to in-person teaching. Although our overall student satisfaction score was lower this year when compared to last, the University saw a strong performance against the Russell Group and sector. Despite the fall the independent and robust benchmarking by the Office for Students showed not only was our overall performance above our benchmark, it was sufficiently so to earn a positive flag - the first time ever we have achieved this. Against the sector, the University rose 19 places to a rank position of 32, highlighting the tremendous efforts of staff to improve the experience of our students.

We received our second set of data using the new Graduate Outcomes methodology in summer 2021. Our internal analysis of the data shows engagement with our central Careers Services (which remained strong during the pandemic) results in higher positive destinations. We pro-actively 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.

The University of Southampton has a strong record of accomplishment in supporting access and participation for students from under-represented groups. The impact of our

commitment to widening access and student success was evidenced in our performance indicators for UK students, where we have performed consistently well in recruiting state school students. In the latest published data, from 2019/20, 87.2% of our undergraduates were from a state school, and 7.5% were from low

participation neighbourhoods. In the last decade, we have also significantly increased our proportion of first-year undergraduate black and minority ethnic students from 11% in 2009/10 to 26% in 2019/20.

Financial Highlights

Total Income £554 million (2019/20 £583m)	Surplus After Tax £18 million (2019/20 £103m)	Total Net Assets £535 million (2019/20 £499m)	Cash and Current Investments £583 million (2019/20 £521m)	Net Cash Inflow £87 million (2019/20 £62m)
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Review of the financial year

The University of Southampton and Subsidiary Undertakings achieved a surplus after tax of £18.2 million in the year to 31 July 2021 (compared to a surplus of £102.7 million for 2019/20). The underlying surplus to 31 July 2021, before actuarial losses from pension schemes and without the Universities Superannuation Scheme (USS) accrual, was £11.4 million (2.1% of income) which compares to an underlying surplus of £38.3 million for 2019/20. The decrease year on year in the underlying surplus was primarily due to the deferral of £16.1 million of tuition fee income from the introduction of a new January 2021 start date for international students, lower overall numbers of international students, and residences refunds of £4.4 million.

The net cash inflow from operating activities in 2020/21 was £86.6 million, an increase of £24.7 million on the prior year. This is a strong performance during a challenging period.

It is a testament to the strong financial management of the University that a surplus was delivered despite revenue decreases of around £24.6 million, related to the pandemic. All areas of the University maintained control on expenditure resulting in steady levels of spend. Total expenditure for the University, not including the decrease in the USS deficit accrual, is £552.4 million, an increase of £3.5 million (0.6%) compared to the prior year.

The combined liability in respect of USS and the University's Pension and Assurance Scheme (PASNAS), have both decreased in the year, from a combined total liability of £282.3 million to £269.7 million as at the 31 July 2021. In October 2021, the 2020 USS actuarial valuation was completed, and includes changes that impact on the fund deficit. Using the new 2020 valuation modeller,

the USS deficit accrual as at 31 July 2021 would have increased by £151.2 million, from £72.6 million to £223.8 million.

Employer contributions to the USS scheme are currently 21.10%, which will increase to 21.40% from 1 October 2021. Employer contributions to the PASNAS scheme are 13.85% plus a contribution to the deficit recovery scheme of 5.1%. Affordability and management of all the pension schemes taken up by University staff, is a high priority for the institution.

Income

Total income decreased by £29.2 million to £554.1 million, with the majority of this movement relating to a decrease in international students and deferral of tuition fee income relating to a January 2021 cohort start date. The national lockdowns in 2020 and 2021 affected negatively on residences income, with refunds totalling £4.4 million given to those students unable to use their allocated accommodation.

Total income from tuition fees and education contracts decreased by £27.5 million (10.3%) from £266.5 million in 2019/20 to £239.0 million in 2020/21. The number of international students decreased on the prior year by 23%, from 7,505 full time equivalent (FTE) to 5,767 FTE. This reflects on-going concerns with global travel, with some students preferring to defer their studies by a year.

In 2020/21, the number of Home/European Union (EU) undergraduate students increased. Overall, the total student population decreased from 21,485 to 20,848 FTE according to our most recent HESA (Higher Education Statistics Agency) student return.

Strategic Report (continued)

Research grants and contracts income remained at prior year level, being £120.1 million for the year. This is a strong result, given the pandemic impacts on research and funding sources. Research income from EU sources decreased by £1.5 million in the year. During the lockdown period, many activities associated with our EU partners were paused and grants suspended because of travel restrictions.

Investment income decreased in the year from £7.8 million to £6.1 million. Income from short-term deposits and investments was negatively impacted by continued low interest rates linked to the reduction in the Bank of England base rate in March 2020 (to 0.10%).

Donations and endowment income decreased from £3.7 million in 2019/20 to £3.0 million. The University has recently invested significantly in a new large-scale donation initiative 'Campaign for Southampton', and increased levels of donations income is anticipated in the future.

Expenditure

Whilst overall expenditure increased by £59.5 million from £486.7 million in 2019/20 to £546.2 million, the result excluding the movement in the USS pension provision is an increase in expenditure of just £3.5 million from £548.9 million in 2019/20 (not including the decrease in USS accrual of £62.2 million) to £552.4 million (not including the decrease in USS accrual of £6.8 million). In light of the on-going pandemic, the University maintained a controlled approach to expenditure and managed costs whilst maintaining high quality teaching, research and enterprise activities.

Staff expenditure, excluding the movement in the USS pension provision, increased by 2.1% from £322.4 million in 2019/20 to £329.1 million. During the year, the University issued a voluntary severance scheme open to all staff. As a result, severance and early retirement payments increased by £7.2 million. Excluding the impact of severance and early retirement payments, underlying staff expenditure decreased by £0.5 million, from £321.3 million in 2019/20 to £320.8 million in 2020/21.

The average headcount for staff in 2020/21 was 5,468, a decrease from 5,594 in 2019/20 and in line with a strategy to control expenditure and align resources to student numbers. Around 50% of staff are entitled to annual pay scale increments of around 3%. During the year, bonuses totalling £2.8m were paid to all members of staff as a thank you for their hard work during the COVID-19 pandemic. From October 2021, the employers' contribution to the USS pension scheme will increase from 21.1% to 21.4%. This

includes a contribution to the deficit recovery scheme which increases from 2% to 6% at this same point. This is currently at the limits of affordability. After the year-end the 2020 valuation was finalised, further information on the post balance sheet impact can be found in note 32.

Other operating expenditure (£176.6 million) remained broadly at prior year levels (£177.2 million), with increases in non-capitalised equipment and consumables offset by reductions in office expenses and travel costs. The latter decreased by £6.9 million compared to the prior year, due to impact of the pandemic on ability to travel.

The University reported £2.6 million relating to impairment of property value in the year, compared to £0.7 million in 2019/20. This partly relates to our Jubilee Sports Hall, which is currently undergoing a multi-million pound redevelopment to significantly enhance the sports and wellbeing facilities for our students, staff and wider Southampton community. Other impairments were made to the lifts at our Mayflower Halls of residence (£1.2 million) and the waterfront campus building we share with the National Oceanography Centre.

Balance Sheet

Despite the continuing challenges of our pension deficits, our total net assets remain strong at £535.1 million, an increase of £35.7 million on the prior year (£499.4 million in 2019/20).

The University has significant funds to ensure the highest quality in our teaching and research facilities. In the year to 31 July 2021, we acquired or constructed capital assets with a value of £36.1 million. Construction work continues to be impacted by the global pandemic; however, the University has focused on developing COVID-19 secure strategic developments whilst maintaining appropriate levels of cash to manage future requirements. £12.0 million was spent in the year on a major refurbishment of our Halls of Residence (Montefiore Blocks A & B). This development was completed on time and to budget, a great result given the challenges of carrying out building works during the pandemic, and provides enhanced accommodation for our students, which is more energy efficient and environmentally sustainable.

During the year, £4.7 million of capital asset additions was recognised by Southampton Science Park in respect of the on-going development of the Future Town Innovation Hub. This is a £14 million initiative jointly funded by the M3 Local Enterprise Partnership (LEP), which brings together research and enterprise activities focusing on energy efficient housing, water conservation, sustainable transport, carbon neutral waste

management and recycling, and improving health outcomes. In April 2017, the University issued an unsecured fixed rate public bond of £300 million, over a 40-year term with a coupon rate of 2.25%. There are no capital repayments to be made over the term of the bond, with full repayment of £298.5 million 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 £47.2 million to £46.8 million and our bank loans have decreased from £65.2 million to £63.2 million reflecting planned repayments. The financing arrangements are held with two commercial banks with final repayments due from 2026 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 £345.6 million net debt as at 31 July 2020 to £298.9 million as at 31 July 2021. However, the net debt does not take into account the investment portfolio held as part of University's treasury management strategy of £473.4 million. If this is taken into account, the overall position is adjusted net funds of £174.5 million, compared to £110.1 million at 31 July 2020.

The pension liability of the University's PASNAS fund has decreased to a deficit of £197.1 million (2019/20 £203.4 million). The main reasons for the decrease in the deficit are the increase in discount rate from 1.4% per annum to 1.6%, reflecting the changes in gilt yields over the year and the changes in expectations for future inflation. A reconciliation of the movement in the scheme deficit can be found in note 29.

The obligation to fund the USS pension scheme deficit has decreased in the period from £78.8 million to £72.6 million as at 31 July 2021. The movement was impacted by an increase in the discount rate from 0.74% to 0.89%, as well as reducing because of deficit contributions paid during the year.

The 2020/21 financial statements have been prepared, and the University has adhered to its USS commitments, in accordance with the outcome of the 2018 valuation. On 31 August 2021, the USS Trustees accepted Joint Negotiating Committee (JNC) recommendations to conclude the 2020 valuation process, with an effective date of 1 October 2021. The current expectation is that the valuation process will not conclude until late 2021 or early 2022. The Trustee has confirmed that, from 1 October 2021, contributions into USS will be 9.8% for members and 21.4% for employers. More information can be found in the Subsequent Event note 32.

Subsidiaries

The University of Southampton Science Park Limited ("The 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 80%, down from 83% in July 2020, reflecting the general economic downturn and change in working practices resulting from the pandemic. The Science Park turnover was £4.5 million (2019/20 £4.7 million) and there was a profit before taxation of £3.1 million (2019/20 £2.4 million).

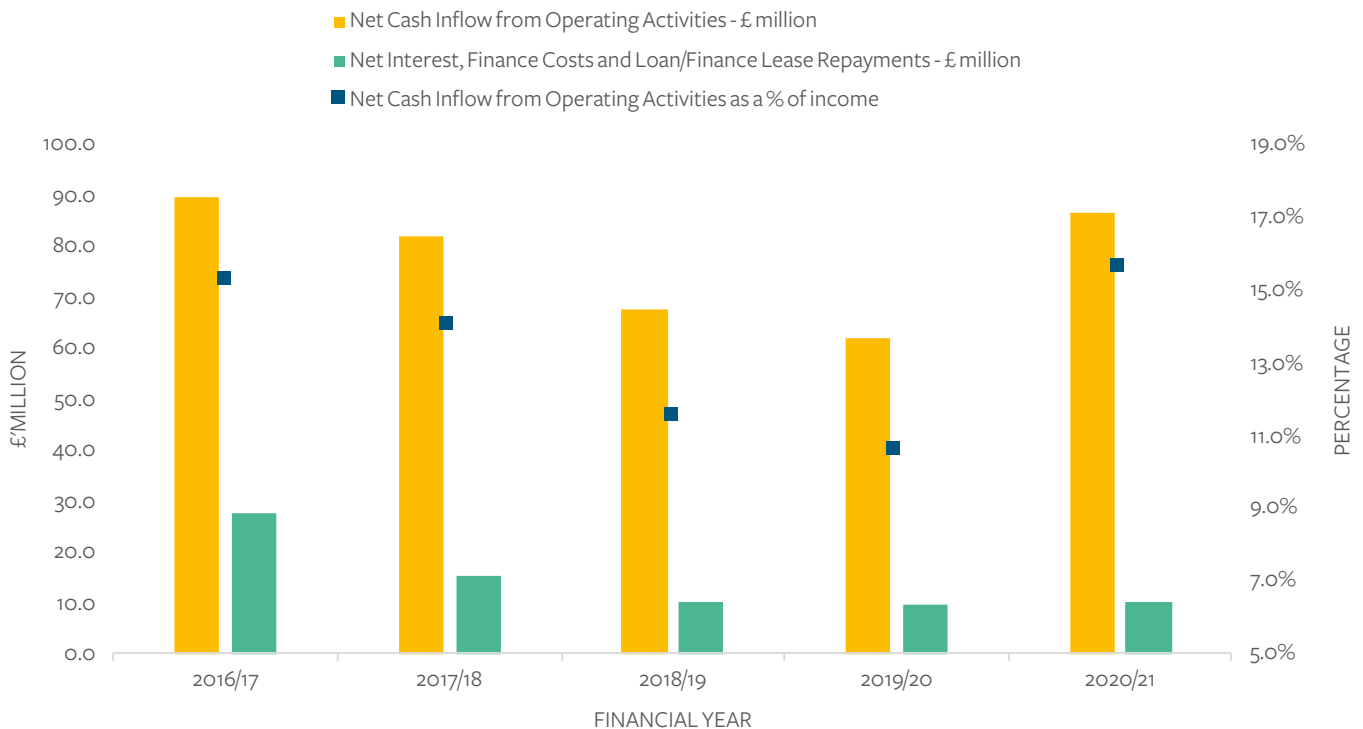
The University's campus in Malaysia, The University of Southampton Malaysia ("UoSM"), has used the pandemic to create new opportunities through quickly moving to an online model of teaching and learning. Whilst UoSM is gradually moving back to a face-to-face teaching model, it intends to maintain the positive learnings that came from the period of operating remotely, particularly where there are benefits to student experience. In late 2021, operations moved to a new full-service campus situated in the vibrant EcoWorld community in Iskandar, where students will be welcomed from next year. This represents an investment and commitment to the region, where new programmes in Business and Finance support an ambitious growth plan.

Strategic Report (continued)

Key financial trend analysis

Net Cash Inflow from Operating Activities – 2016/17 – 2020/21

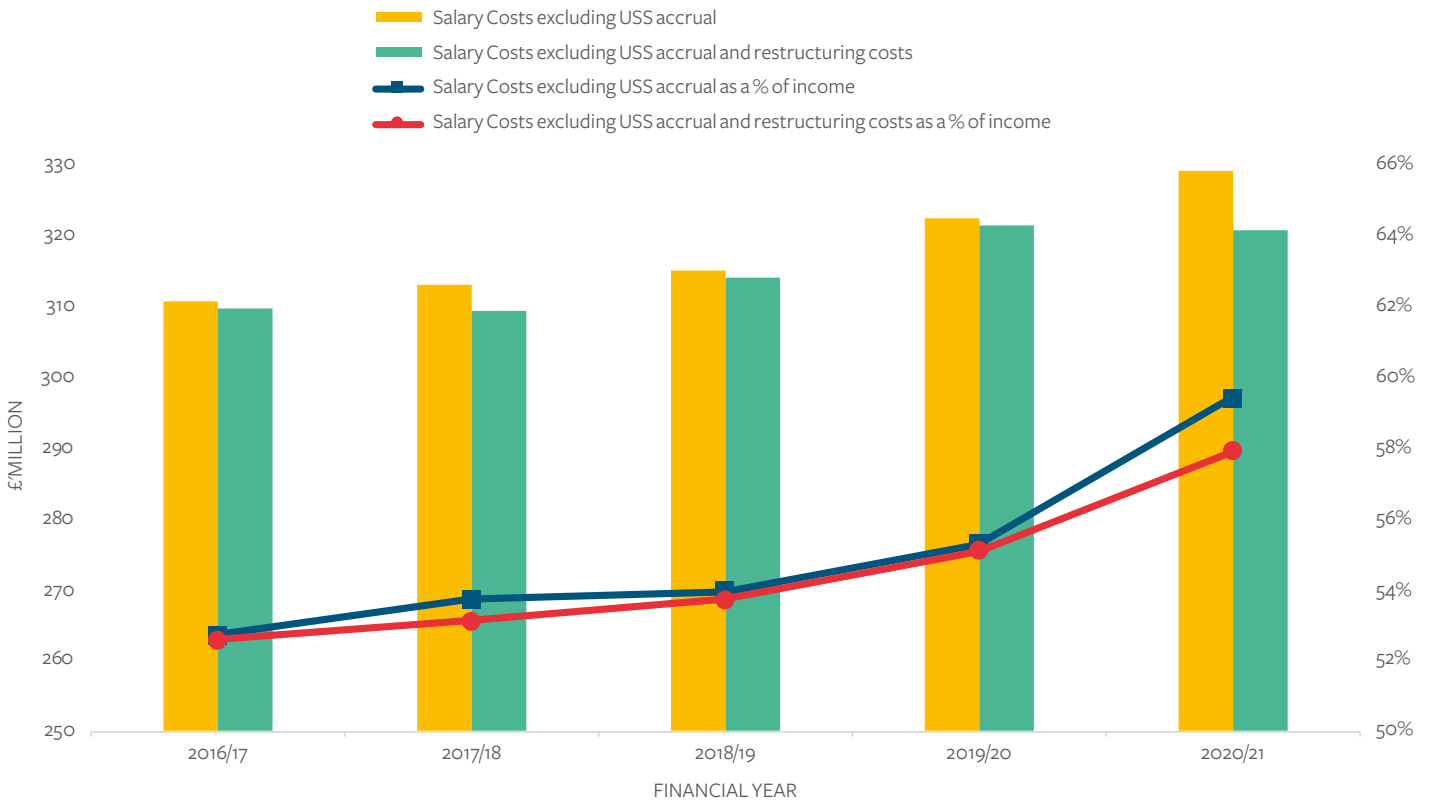
The net cash inflow from operating activities is the amount of cash generated by the University and Subsidiary Undertakings before external financing costs and investment. The net cash inflow from operating activities in 2020/21 was £86.6 million; this is an increase of £24.7million on the prior year and leads to a higher percentage of net cash inflow from operating activities as a % of income.



Salary as a Proportion of Income 2016/17 – 2020/21

Salary costs, as a proportion of income, were 59.4% in 2020/21 (excluding the impact of the USS accrual) which compares to 55.3% in 2019/20. Underlying staff costs (excluding the USS accrual) have increased by £6.7 million in 2020/21 (£322.4 million in 2019/20) which is an increase of 2.1%.

Salary costs, as a proportion of income, were 57.9% in 2020/21 (excluding the impact of the USS accrual and voluntary severance and restructuring costs) which compares to 55.1% in 2019/20. Underlying staff costs (excluding the USS accrual and voluntary severance and restructuring costs) have decreased to £320.8 million in 2020/21 (£321.3 million in 2019/20). This is due to the decreases in income in 2020/21 related to lower number of international students, tuition fee deferrals relating to our January 2021 cohort of PGT students and reductions in turnover from catering and residences linked directly to the pandemic.



Major Financial Risks

During the year, the University focused on recovery, moving through a challenging period of volatility and uncertainty because of the global pandemic. There remained a focus on effective management of costs alongside investment in strategic priorities, in order to deliver long-term sustainability.

The University Executive Board review the risk register as a standing item on its agenda, with the University Council and Audit Committee also reviewing the University risk register at regular intervals. The Council and Audit Committee consider that it is consistent with their knowledge of the University’s activities and addresses the key aspects of the University’s Strategic Plan.

A comprehensive financial risk assessment was considered by Council in setting the 2021/22 University budget. The major risk areas are summarised below:

Area:	Risk:	Mitigating action:
Operating model	A continuation of COVID-19 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 2021/22 include continued strong expenditure management. Mitigation plans are in place to manage significant revenue drops. Longer-term, the University has strong cash balances so is able to invest in alternative proposition delivery methods.

Strategic Report (continued)

Area:	Risk:	Mitigating action:
<p>Student income</p>	<p>Actual student income for 2021/22 may fall below the business plan target, therefore reducing forecast income streams.</p> <p>International students may not be able to commence study due to travel restrictions, relating to COVID-19.</p> <p>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 the Teaching (T) Grant funding. There is a risk that T Grant funding will not adequately replace lost fee income.</p> <p>Any future implementation of all or part of Augar's recommendations may lead to a reduction in student fee income that is not fully offset by replacement funding streams.</p>	<p>2021/22 recruitment above plan achieved through the Confirmation and Clearing strategy, and international admissions process.</p> <p>Expenditure controls and cost cutting initiatives to mitigate against potential revenue decreases.</p> <p>Forecasts assume that the maximum fee will remain at £9,250 throughout; sensitivity testing is done to model impact of fee change on University economy.</p>
<p>Research grants and contracts income</p>	<p>The University may fail to achieve the planned levels of external research funding.</p> <p>Research activity, particularly that involving collaboration with EU partners, may be negatively impacted by on-going effects of the global pandemic.</p>	<p>Maximising research income is a key performance indicator. The Research Strategy and Bridging Strategy KPIs will support delivery.</p> <p>The Government has guaranteed funding for Horizon 2020 research projects for the remainder of the programmes.</p> <p>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.</p>
<p>Staff costs</p>	<p>There is a risk that national pay awards will increase above the assumptions included in the business plan.</p>	<p>Expenditure controls are in place to mitigate against higher than anticipated national pay awards.</p>

Area:	Risk:	Mitigating action:
Pension costs	<p>The escalating cost and volatility of our pension schemes remains one of our highest risks to long-term sustainability.</p> <p>USS pension costs will rise in October 2021 to 9.8% employee and 21.4% employers contributions, totalling 31.2%.</p> <p>Under the 2020 valuation, the deficit contributions increase from 2% to 6.3% in April 2022.</p> <p>If a Benefit Change Deed is not agreed by 28 February 2022, the total employee and employer contributions will increase to 34.7% in April 2022 and step up every 6 months thereafter reaching 57% of salary by October 2025 (we expect that further negotiations or another valuation will have an impact before these increases are rolled out in full). This may lead to increased running costs of the USS scheme for the University and is likely to drive membership down as increasing employee contributions makes the scheme less attractive. It may also lead to increased volatility to the current pension liability on the statement of financial position.</p> <p>Following a 2019 consultation, contributions to the PASNAS scheme increased from 1 January 2020. Further contribution increases are likely in the future.</p>	<p>Pension accounting adjustments are excluded from the Barclays loan covenant calculations.</p> <p>We will closely monitor developments and market conditions. We will model the impact of potential higher contributions through our planning process.</p> <p>The PASNAS scheme was closed to new members from 1 January 2020 and a new defined contribution scheme provided for new eligible staff. The increased cost of future service accrual has been shared with members.</p>
International reputation	<p>Reputational damage results in lower number of international students and an adverse impact to relationships with research and enterprise partners.</p>	<p>Development of international strategy with focus on core relationships and student experience.</p> <p>Continued focus on strong international league table results.</p>
Sustainability	<p>Strong cash flow is required to generate sufficient funding for future capital investment.</p> <p>There is a risk of unexpected expenditure, including increased interest rates or costs related to COVID-19 or Brexit.</p>	<p>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.</p> <p>The University tests business plans against a range of scenarios and manages expenditure through financial controls.</p>

Strategic Report (continued)

Conclusion

During 2020/21, the University continued to deliver strong financial returns during a period of volatility and uncertainty. At the beginning of the year we identified the financial risks related to COVID-19, and took appropriate mitigating actions. Every member of the University of Southampton community played their part in ensuring all aspects of operations continued with our high standards, focusing on the experience of students and the well-being of staff. I was particularly pleased this contribution was recognised with a one-off COVID bonus payment of £600 to all staff at the end of the financial year.

Alongside managing the short-term demands of operating during a global pandemic, the University focused on its long-term strategy. Stakeholders have been asked for their views on how the University can grow from its position of strength, to deliver even more keenly against its mission to change the world for the better. I look forward to seeing the final strategy document published in early 2022, and for delivery of exciting strategic investments and initiatives aligned to our Vice Chancellor's vision.

Over the year, the University has invested strongly in capital programmes linked to student experience, research and enterprise and teaching. Our high levels of cash and investments mean we are in a great position to continue this investment in our estate and infrastructure, and colleagues throughout the organisation are helping to shape our campus through their involvement in advisory groups to key builds.

Our 'major financial risks' table highlights the areas which threaten our long-term financial sustainability and which impact across most of the Higher Education sector. Uncertainty over the future of UK student fee levels and the increasing costs of the USS pension, are key areas which are monitored closely by the University, whilst being somewhat out of our control.

Finally, I reflect on how well the University has performed through 12 months, managing through national lockdowns, vaccine rollouts and continued testing. We are now seeing our campus locations open back up, with students mainly being taught face-to-face from September 2021, and this reconnection within our community is an important factor in our successful transition out of the extreme measures brought about by the pandemic. This is an exciting time for the University of Southampton, and I would like to thank all staff for their continued contribution towards our financial sustainability in challenging circumstances.

Stephen Young
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. The Council is responsible for approving our mission and strategy, monitoring our performance, scrutinising our finances and directing our academic functions, with the latter using the expertise of Senate to provide guidance and assurance. 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 continue to bring the University's mission "to change the world for the better" into sharp and very real focus.

Reflecting on our response to the COVID-19 pandemic

"The way the staff and student community have risen to the challenges of the past year is truly remarkable."

Professor Mark E. Smith,

Vice Chancellor

Over the past year, the University has continued to support the national crisis in a number of ways, from saliva testing and vaccine training to protecting frontline medical staff and beyond. A pioneering protective respirator, developed in Southampton, is being used by healthcare staff treating COVID-19 patients around the country after receiving approval from the regulators. The respirator, known as PeRSo, covers the wearer's head and has a plastic visor to protect their face. It delivers clean air through a High Efficiency Particulate Air (HEPA) filter with belt-mounted fan pack and can be worn throughout a long shift and reused after appropriate cleaning.

Earlier in the year, the University of Southampton's School of Health Sciences played a part in preparations for the mammoth effort to administer the approved COVID-19 vaccines across England. Staff in the School supported Health Education England to organise trainers and technicians to deliver and manage 'new vaccinator' training.

Over the past year and working with University Hospital Southampton NHS Foundation Trust and Southampton City Council, the University led the way on developing a large-scale saliva testing program for COVID-19. Following a successful pilot, the Hampshire and Isle of Wight Saliva Testing Programme now delivers weekly testing in educational, health care and other settings across the region. The University has also worked with Royal Mail on a trial of fully autonomous scheduled drone flights. The trial will see the delivery of Personal Protective Equipment (PPE), COVID testing kits and other mail to the Isles of Scilly via Uncrewed Aerial Vehicles (UAV).

An education programme developed in Southampton to help primary school children protect themselves from the spread of COVID-19 is available to young people across the UK. It is the first programme of its kind to support and deliver public health messaging around the pandemic to primary school aged children. The COVID-19 Warriors programme is an education package that teaches primary school children about the virus, introducing characters who each have super powers that can limit its spread. Developed by specialist primary educators at LifeLab and using puppet characters inspired by designs from children at Mount Pleasant Junior School and Maytree Infant School, the programme is a package of 12 engaging lessons designed for delivery in schools, while also being accessible for home use.

Delivering world class research and enhancing enterprise and knowledge exchange

Research

In addition to helping support the pandemic, our research teams have contributed to public benefit through their activities.

A Memorandum of Understanding (MoU) has been signed by the Maritime and Coastguard Agency (MCA) and the University of Southampton, which will link research projects to top-level work with design, manufacturer and operation of autonomous ships and emissions reduction.

New research has identified potential treatment that could improve the human immune system's ability to search out and destroy cancer cells within the body. Scientists have identified a

Public Benefit (continued)

way to restrict the activity of a group of cells, which regulate the immune system, which in turn can unleash other immune cells to attack tumours in cancer patients.

The theme for 'Earth Day' in April 2021 was 'Restore our Earth'. Researchers at the University of Southampton, and their collaborators and partners around the world, are amongst those working tirelessly to advance our knowledge of the world around us, from the importance of studying a full range of organisms when measuring the impact of environment change, to discovering an upsurge of matter from deep beneath the Earth's crust, just two of several research studies being undertaken at the University.

The University will play a key role in building a new world-leading, high-impact research and innovation centre that will act as the national focal point and international gateway for UK industrial decarbonisation. The Industrial Decarbonisation Research and Innovation Centre (IDRIC) has received £20m from UK Research and Innovation (UKRI). IDRIC will be led by Heriot-Watt University and will work closely with the UK's major industrial clusters to address the challenges of industrial decarbonisation. IDRIC is a diverse community of more than 140 partners, including the University of Southampton, brought together to create the world's first net-zero emissions industrial cluster by 2040 and four low-carbon clusters by 2030.

Enterprise & Knowledge Exchange

We are one of the leading entrepreneurial universities in the UK. As at 31 July 2021, we have over thirty active spinouts, with equity in 23 of these. One of the University's spinouts is Synairgen Plc, which is a drug discovery and development company founded by University of Southampton Professors Sir Stephen Holgate, Donna Davies and Ratko Djukanovic. It develops novel therapies for respiratory disease and its primary drug is an inhaled interferon beta, which is being investigated as a treatment for COVID-19.

We also help new enterprises to get off the ground. Our business incubator at the University's Science Park is currently supporting 16 companies. The work we do in business incubation helps early-stage businesses to raise millions of pounds in investment. We attract investment and new businesses to the area: the number of companies at the Science Park is approaching 100, each providing jobs and opportunities in the region.

Southampton Science Park is also home to Southampton SETSquared. SETSquared is an enterprise partnership between

the Universities of Bath, Bristol, Exeter, Southampton and Surrey, which helps to maximise the entrepreneurial and commercial potential of these five Universities. Ranked the World's Top Business Incubator – Managed by a University, SETSquared has maintained a leadership position since 2015. It has contributed nearly £9bn to the UK economy and has supported 6,500 companies since inception in 2002.

The University is taking part in Ingenuity, a national programme looking to invest over £400,000 in new business ideas that make a difference to the world we live in. Working with three universities in the region, we are progressing ideas to help us drive the region's recovery from coronavirus and help rebuild a better society, economy and climate post-COVID.

Innovative technology developed at the University launched on the world stage in January 2021 at the Consumer Electronics Show (CES). Tech entrepreneurs leading eight start-ups exhibited at the all-digital expo, showcasing pioneering advances from a range of sectors including Artificial Intelligence, Fitness and Wearables, Quantum Computing, Sports Technology, and Sustainability. Future Worlds, the on-campus start-up accelerator at the University, returned to CES for a sixth consecutive year as the UK's only exhibiting university. Eight start-ups from the University interacted with potential customers, investors and tech leaders across the world during the four-day show.

Delivering high quality education and student experience

Education

We offer excellent education in a modern learning environment led by excellent 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. We invest significantly to provide a relevant, flexible education for our students. Our overall student satisfaction score in the 2021 National Student Survey of 79.3% contributed to a rise of 19 places in the sector, reflecting the University's strategy to improve the student experience.

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

Public Benefit (continued)

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. Through the period of lockdown, our student support drop-in continued to provide virtual assistance through a range of specialities.

The University, alongside 31 other UK Universities have joined the new Student Minds University Mental Health Charter Programme. With the effects of COVID-19, student and staff mental health is more important than ever and the new Charter will help shape a future in which everyone can thrive. The University Mental Health Charter Programme, led by Student Minds, was created by thousands of staff and students. The University is committed to making mental health and wellbeing a university-wide priority, providing an environment and culture that supports good mental health, facilitating staff and students to develop understanding and skills to manage and maintain their own wellbeing.

The University is one of the 120 successful Universities in the first applications for the UK Turing Scheme – a new global mobility-funding scheme launched by the UK Government to support students studying and working abroad. It is integral to the UK Government’s post-Brexit vision of a Global Britain and replaces the UK’s participation in the Erasmus+ programme. The scheme’s aims are to improve social mobility and increase accessibility of international opportunities to students studying at UK universities.

Widening participation and outreach

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 per year over a ten-year period to study an undergraduate programme of their choice.

In the 2020/21 academic year, the effects of COVID-19 have continued to be 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

allocated £399,649 through the OLG in the 2020/21 academic year (£208,000 came from university funds, and £191,649 came from the Office for Students Hardship Fund). We also sent out 15,979 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.

The University came away from the NEON Awards 2021 with a commendation in the category of Higher Education Institution of the year. NEON is a professional organisation supporting those involved in widening access to higher education.

Examples of achievements over the past year include the ‘Ignite’ Programme which enables undergraduate students from underrepresented backgrounds to make the most of their studies; a virtual reboot of ‘Learn with US’ an outreach programme for secondary school pupils; and the provision of activity packs made available to thousands of low-income families in the South, aimed at helping children whose education was impacted during lockdown.

The University has also been shortlisted for a UK Social Mobility Award for University of the Year and a Pearson HE Innovate Award for most innovative way of supporting students for the Learn with US Transition Programme, working with students studying an Extended Project Qualification (EPQ), our pre-entry Academic Skills support.

Building sustainable inclusive communities through partnership working**Creating an inclusive University community**

Our Strategic Plan – Equality, Diversity and Inclusion (EDI) - builds on the ambition articulated in the University Strategy; “It matters that we act continually to ensure the University is supportive and inclusive of everyone”. Our EDI mission is to create an inclusive community, and our vision is that this is a community where: students and staff feel welcome; included and supported; intellectually stretched and challenged; and value the diversity of the wider community. As a community we create space and time to engage, listen and learn; actively take steps to understand the impact of our actions and behaviours; value and engage with each other; and lead and influence social change at local and national level.

In January 2021, we re-obtained the Disability Confident Leader

Public Benefit (continued)

(DCL) status – the first University to achieve the DCL status and to show commitment to disability equality. Disability Confident is a Government scheme, developed to help employers make the most of the opportunities provided by employing disabled people. It has three levels of attainment, of which our University has achieved the highest level.

Social impact

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.

We contribute to health and wellbeing in the region and more widely through our research and education programmes and through its links with industry. 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 over 650 nursing students currently enrolled on our pre-registration, undergraduate and postgraduate nursing degrees and diplomas.

Community engagement

The second largest employer in the region, the University provides employment opportunities to over 6,000 people; and is home to more than 21,000 students from over 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.

Together with Solent University, we have endorsed Southampton's bid to become UK City of Culture 2025 by signing up to become official partners in an online ceremony. Both universities will work to make bidding to bring UK City of Culture 2025 to Southampton a part of their ambitions in the coming year.

We have confirmed our commitment to help and support communities in Southampton and the surrounding region by signing a national Civic University Agreement – pledging to form closer links with local people and organisations. We will be joining over 60 other UK universities who are committed to producing similar agreements as part of a national initiative

in response to a key recommendation by the Civic University Commission - an independent inquiry set up by the University Partnerships Programme Foundation to explore how universities can successfully serve their local areas. Through developing its own Civic University Agreement, the University will encourage collaborative action to combat and overcome the challenges facing local communities.

Our sports facilities are well used by local residents and schools. The Jubilee Sports Centre on the Highfield Campus hosts our main indoor facilities; these were refurbished in 2020, increasing the number of disabled facilities, and providing gender-neutral toilets and large enclosed family changing rooms. The Mayflower Gym is our newest gym, which is located in the city centre and available to all members. Wide Lane Sports Ground hosts all our outdoor activities, Performance Sport and the Team Southampton Sport. The University Watersports Centre is next to the Itchen River and is in a prime position for getting out onto the water.

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.

Culture and events

The John Hansard Gallery (JHG) is one of the UK's leading contemporary art galleries. Despite closure due to the pandemic, the gallery continued to deliver a blended programme of work across online and social media platforms, as well as offsite presentations and in-gallery exhibitions when possible. The gallery engaged 45,900 visitors for 7 online video commissions, around 74,000 members of the public experienced 4 off-site projects and over 6,500 visitors came to see two gallery exhibitions during their short runs. Online engagement activity reached 779 direct participants across all ages and communities, including artists' talks, discussions, family activities and community events.

Since October 2020, John Hansard Gallery has been supporting the community-led development of Southampton Black Archives in partnership with community leaders and Southampton City Council. From February to July 2021 Writer in Residence Ella Frears worked with online participants and ran in-gallery workshops and presentations, culminating in the launch of a poetry pamphlet of her work.

Public Benefit (continued)

Located on our Highfield Campus, Turner Sims Concert Hall (TS) responded to the impact of the pandemic by creating and delivering a programme of bespoke online events and livestreamed performances. These included an exclusive broadcast for International Jazz Day featuring saxophonist Denys Baptiste, and a performance of Schubert's Trout Quintet led by David Owen Norris, Head of Classical Performance and Professor of Music at the University. In March 2021, Turner Sims collaborated with Southampton Music Hub, London Sinfonietta, and national music charity Orchestras Live to present a free online concert for schools. 2,300 pupils registered to see the performance, broadcast live from the stage of the concert hall. In April 2021 Turner Sims presented the film premiere of 'Voyages of the Heart', a major work by composer and instrumentalist Tunde Jegede commissioned by Turner Sims in partnership with Southampton City Council as part of Southampton's Mayflower 400 programme. The work involved 25 musicians from a range of backgrounds and disciplines including gospel singers; an operatic choir, a Gaelic singer, and an Indian classical music vocalist. The piece blended these varied styles together to create a multi-layered musical journey reflective of Southampton's multicultural population. Of the 25 musicians involved 22 were from Southampton (of whom 9 were University alumni).

During 2020/21, several online lectures and events have taken place, all streamed with the ability to subtitle the broadcast making the events much more accessible for the public. Examples are those related to COVID-19; Artificial Intelligence and the future of Cancer; Beating Blindness; and The Science behind Sport. Many events were made public/searchable through the Eventbrite booking system, so reach has been much wider. The majority were advertised on social media.

Creating a sustainable organisation

Environmental sustainability is core to our mission. Our ambition is to achieve net zero carbon emissions by 2030, embedding sustainability into everything it does. We have 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.

In the autumn of 2020, we launched our sustainability strategy following consultation with the University community. The strategy sets out the University and Southampton University Student Union's (SUSU) joint ambitions in six clear goals.

These focus on reducing and measuring emissions; ensuring sustainability is part of every University education programme by 2025 and a cornerstone of our research and societal impact; and the implementation of a sustainable and ethical investment policy.

- Goal 1 - Achieve net zero emissions for Scope 1 and Scope 2 by 2030;
- Goal 2 - Measure our total emissions footprint and set targets for Scope 3 emissions reductions;
- Goal 3 - Adopt a value-based approach to reduce emissions from business travel;
- Goal 4 - Ensure that sustainability is a part of every University education programme by 2025;
- Goal 5 - Make sustainability a cornerstone of UoS' research and societal impact; and
- Goal 6 - Implement a sustainable and ethical investment policy.

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.

We were audited in July 2021 as part of a surveillance audit to retain our environmental ISO14001 certification. ISO14001 is the international standard for implementing and operating a successful environmental management system. We 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 was celebrated as part of the SUSU Summer Festival and included species monitoring tours with academic staff around campus, as well as a litter picking stall to encourage students to collect litter from local waterways. We also had our Hedgehog-Friendly Campus team to talk to students and staff about how they can get involved with helping local hedgehogs.

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

Public Benefit (continued)

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 us to reaffirm what matters most and, last year, we 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 demonstrated 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.

Trade Union Facilities Time (Unaudited)

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

The following information has not been audited, and covers the period 1 April 2020 to 31 March 2021:

Trade union representatives and full time equivalents

Trade union representatives:	56.0
FTE trade union representatives:	46.8

Percentage of working hours spent on facility time

0% of working hours:	-
1% to 50% of working hours	56.0
51% to 99% of working hours	-
100% of working hours	-

Total pay bill and facility time costs

Total pay bill	£320,355,000
Total cost of facility time	£198,982
Percentage of pay spent on facility time	0.06%

Paid trade union activities

Hours spent on paid facility time	-
Hours spent on paid trade union activities	100%
Percentage of total paid facility time hours spent on TU activities	-

The following corporate governance statement provides information about the University's governance, management and legal structure during the year ended 31 July 2021 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 eight 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 annually 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.

Corporate Governance (continued)

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.

Pensions Committee considers and makes recommendations to Council regarding pension matters using expert external advisers.

Estates & Infrastructure Committee monitors the University's capital projects and offers advice and support in keeping projects on track for implementation together with input on design and costs.

All of these committees are formally constituted with terms of reference and, with the exception of Remuneration Committee, Pensions Committee and Finance 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>

President and Vice-Chancellor

The President and Vice-Chancellor is the principal academic and administrative officer of the University and has overall responsibility to Council for the executive management of the University. Under the 'Terms and conditions of funding for higher education institutions' between the Office for Students the President and Vice-Chancellor is the designated 'accountable

officer', and in that capacity is required to advise Council on the discharge of all its responsibilities under the terms and conditions of funding.

Statement of Internal Control

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

The internal control system has been in place for the year ended 31 July 2021 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; and
- 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

Corporate Governance (continued)

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 (KPI) on a regular basis and formally reviews retrospective KPI performance annually in July.

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

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

Role of Council in the Preparation of the Financial Statements

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

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

- suitable accounting policies are selected and applied consistently;

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

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

The Council has taken reasonable steps to:

- ensure that funds from 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 may have been 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; and
- 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.

Members of the Council

There are five classes of Council membership.

- Class 1: Officers
- Class 2: Lay members appointed by the Council
- Class 3: Academic members of staff
- Class 4: Non-academic member of staff
- Class 5: Representatives of the Students' Union

Corporate Governance (continued)

Membership for the period 1 August 2020 – 24 November 2021

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 24 Nov 2021	Attendance Aug 2020 – Jul 2021	Membership of other Committees of Council (including joint committees)
Mr P D Greenish CBE	Class 1 Chair	August 2018	July 2024	8/8	Nominations Committee Remuneration Committee Finance Committee
Dame J Macgregor	Class 1 Vice- Chair	August 2018	July 2024	8/8	Remuneration Committee Nominations Committee Pensions Committee
Dr D J Price CBE	Class 1 Treasurer	August 2015	July 2021	8/8	Nominations Committee Remuneration Committee Finance Committee Pensions Committee
Mr S Young	Class 1 Treasurer	August 2021	July 2024	0/0	Remuneration Committee Finance Committee Pensions Committee
Professor M E Smith	Class 1 President and Vice-Chancellor	October 2019		8/8	Nominations Committee Finance Committee
Professor P Wright	Class 1 Senior Vice President	August 2021		0/0	Nominations Committee
Professor A Neill	Class 1 Vice President	August 2020	July 2021	8/8	Nominations Committee
Ms F Barnes	Class 2	November 2016	July 2022	7/8	Finance Committee Nominations Committee
Mr G Hobbs	Class 2	August 2016	July 2022	7/8	Audit Committee
Mr P Hollins	Class 2	April 2016	March 2022	7/8	Remuneration Committee
Mr W Shannon	Class 2	July 2015	July 2022	8/8	Finance Committee Estates & Infrastructure Committee
Dr A Vincent	Class 2	August 2017	July 2023	7/8	Health & Safety Audit and Assurance Committee Remuneration Committee
Ms H Pawlby	Class 2	August 2017	July 2023	8/8	Estates & Infrastructure Committee
Mr S Young	Class 2	March 2019	July 2021	8/8	Finance Committee (from September 2019)

Corporate Governance (continued)

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 24 Nov 2021	Attendance Aug 2020 – Jul 2021	Membership of other Committees of Council (including joint committees)
Dame M Atkins	Class 2	March 2019	July 2022	8/8	Estates & Infrastructure Committee
Baroness S Verma	Class 2	August 2021	July 2024	0/0	
Mr A Thakur	Class 2	August 2021	July 2024	0/0	
Professor J Holloway	Class 3	August 2018	July 2024	8/8	Nominations Committee
Dr V Cardo	Class 3	October 2020	July 2023	7/7	
Professor P Reed	Class 3	March 2016	July 2021	8/8	Nominations Committee
Professor m.c. Schraefel	Class 3	August 2021	July 2024	0/0	
Mr R Cartwright	Class 3	August 2018	July 2021	8/8	
Dr K Vithana	Class 3	August 2021	July 2024	0/0	
Mr A Whitmore	Class 4	August 2020	July 2023	8/8	Estates & Infrastructure Committee
Ms O Reed	Class 5	July 2020	June 2021	7/7	
Mr B Dolbear	Class 5	July 2021	June 2022	1/1	

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

Opinion

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

- **give a true and fair view of the state of the group's and university's affairs as at 31 July 2021 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 and university statement of comprehensive income;
- the consolidated and university statement of financial position;
- the consolidated and university statement of changes in reserves;
- the consolidated statement of cash flows;
- the statement of principle accounting policies;
- the related notes 1 to 32; and
- Supplementary schedule for the US Department of Education, being required by reference to University of Southampton accepting students under the US Department of Education student financial assistance programs.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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.

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

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Capitalisation of expenditure on land and buildings; and • Valuation of the Universities Superannuation Scheme (USS) deficit. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> 🔄 Similar level of risk
Materiality	The materiality that we used for the group financial statements was £7.6m which was determined on the basis of 1.4% of total income.
Scoping	Our full scope audit covered 99% of group income and 88% of group net assets.
Significant changes in our approach	There were no significant changes in our approach in the current year.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the governing body's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the governing body's assessment of the group's and university's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the forecast prepared by management by considering the historical accuracy of previous forecasts, and by assessing whether their assumptions are reasonable given the continued disruption of COVID-19 on the university's operations, including student numbers and occupancy of halls of residence;
- Consideration of the university's financial position, including the size and liquidity of its investment portfolio;
- Recalculation of forecast loan covenant compliance and the amount of headroom thereon;
- Performance of sensitivity analyses to understand whether there are realistic scenarios where the University would have insufficient liquidity to continue its operations; and
- Comparison of post year end performance to forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and university's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the governing body with respect to going concern are described in the relevant sections of this report.

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.

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

Capitalisation of expenditure

Key audit matter description

The Group recognised a total of £32m (2020: £21m) of additions to land and buildings and assets in course of construction in the year to 31 July 2021, 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, as a large part of the capital expenditure relates to refurbishment of existing assets where there is judgment regarding whether spend is enhancing the value of the asset. Inappropriate accounting judgments could be utilised as a method to fraudulently manipulate the financial statements by capitalising amounts which should be recognised as expenditure.

Details of the accounting policies applied are set out in note 1 to the financial statements. Capital expenditure is discussed in the strategic report on page 6.

How the scope of our audit responded to the key audit matter

- We obtained an understanding of the relevant controls over the classification of expenditure on capital projects as capital or revenue in nature.
- We assessed management's accounting policies in this area as to their compliance with FRS 102.
- We tested the appropriateness of the accounting treatment of a sample of additions against the standards set out in FRS 102.
- We assessed whether a sample of the expenditure met the required definitions to be recognised as capital.
- We have assessed whether there were any significant delays in construction, and how the costs of these have been treated.

Key observations

Based on the work performed we are satisfied that the capitalisation of expenditure is materially correct.

Valuation of the Universities Superannuation Scheme (USS) deficit

Key audit matter description

The USS provision has decreased in the year, from £79m in 2020 to £73m as at 31 July 2021. Though this makes the provision less sensitive to changes in assumptions, there is a greater degree of uncertainty associated to key assumptions, in particular 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, management have also used a discount rate of 0.89% (2020: 0.74%).

Details of the USS deficit provision 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 strategic report on page 3, and is defined as a major financial risk on page 9.

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

How the scope of our audit responded to the key audit matter	<ul style="list-style-type: none"> • We obtained an understanding of the relevant controls over the valuation of the USS defined benefit obligation. • We have reviewed the methodology applied in valuing the liabilities recognised with reference to the BUFDG guidance and models. • We have considered the consistency of the key assumptions year on year and challenged the university specific assumptions determined by management by considering the consistency with forecasts, the accuracy of previous assumptions, the potential impact of COVID-19 on the assumptions, and benchmarking the university’s assumptions against the sector. • We have worked with 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. • We have reviewed management’s sensitivity analysis, and have performed further analysis on the sensitivity of the assumptions used by management.
Key observations	Based on the work performed we are satisfied that the valuation of the USS deficit is materially correct.

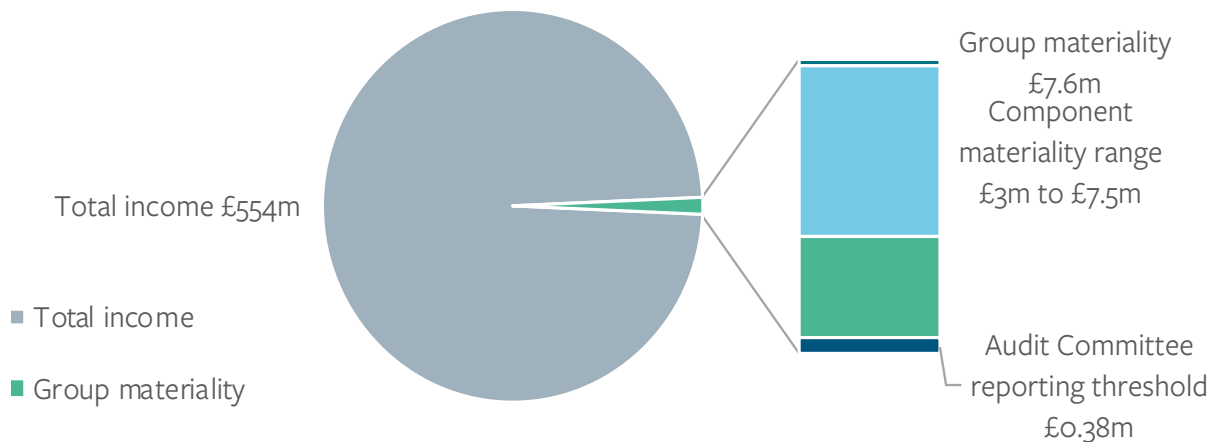
Our application of materiality

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.

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

	Group financial statements	University financial statements
Materiality	£7.6m (2020: £8.2m)	£7.5m (2020: £8.1m)
Basis for determining materiality	1.4% of total income (2020: 1.4% of total income)	
Rationale for the benchmark applied	We use total income as the benchmark for determining materiality as this reflects the underlying performance of the business and is a key metric for users of the financial statements.	



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

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 financial statements	University financial statements
Performance materiality	65% (2020: 65%) of group materiality	65% (2020: 65%) of university materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> • the quality and maturity 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. 	

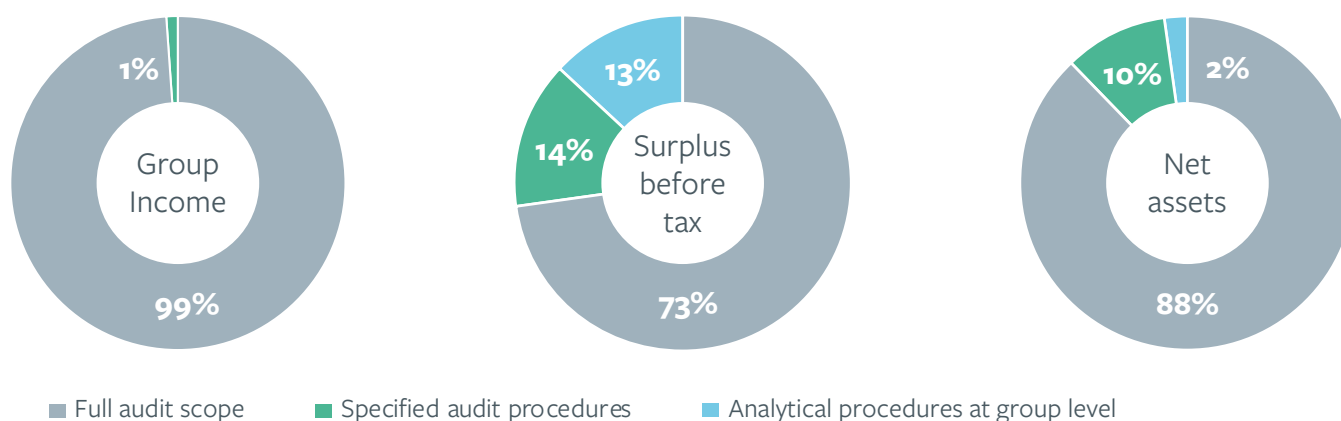
Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £379k (2020: £408k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Component	Component Materiality £m	Scope
University of Southampton	£7.5m (2020: £8.1m)	Full scope audit.
University of Southampton Science Park	£3m (2020: £3.2m)	Audit of account balances, specifically the investment properties and non-current liabilities (borrowings).
Other non-dormant subsidiaries	n/a (2020: n/a)	Analytical procedures at group level.



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

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. The governing body is responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements. 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.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for governing body 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;

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

- the matters discussed among the audit engagement team and 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 frameworks 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 Office for Students "Regulatory Advice 9: Accounts Direction", the requirements of Title 34 CFR (code of financial regulations) 668.172, 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.

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..

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

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 the note 4b 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 12b to the accounts, has been materially misstated.

We have nothing to report in respect of these matters.

Other matters which we are required to address*Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the governing body on 20 February 2018 to audit the financial statements for the year ending 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 July 2018 to 31 July 2021.

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 and the Accounts Direction issued by the Office for Students dated 25 October 2019. 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.



Claire Siviter FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

10 December 2021

Consolidated and University Statement of Comprehensive Income for the year ended 31 July 2021

	Notes	Consolidated		University	
		2021	2020	2021	2020
		£000	£000	£000	£000
Income					
Tuition fees and education contracts	3	239,028	266,472	237,029	264,825
Funding body grants	4	84,153	78,491	84,153	78,491
Research grants and contracts	5	120,076	119,950	119,670	119,434
Other income	6	101,703	106,929	97,757	103,942
Investment income	7	6,140	7,758	6,121	7,996
Donations and endowments	8	2,977	3,744	2,977	3,744
Total income		554,077	583,344	547,707	578,432
Expenditure					
Staff costs excluding movements in the USS deficit funding accrual	9	329,112	322,396	326,807	320,355
Decrease in the USS deficit funding accrual accounted for within staffing costs	9	(6,779)	(64,450)	(6,779)	(64,450)
Staff costs	9	322,333	257,946	320,028	255,905
Other operating expenses	10/12	176,627	177,194	175,555	175,728
Depreciation and amortisation	12	29,476	31,363	29,195	31,098
Interest and other finance costs	11	17,731	20,222	17,972	20,133
Total expenditure		546,167	486,725	542,750	482,864
Surplus before other gains/losses		7,910	96,619	4,957	95,568
Gain on investments		10,782	10,473	7,816	1,790
Gain/(loss) on disposal of fixed assets		558	(1,035)	558	(1,035)
Loss on disposal of current asset investments		-	(1,475)	-	(1,475)
Share of operating deficit in associate		92	(11)	-	-
Surplus before tax		19,342	104,571	13,331	94,848
Taxation	13	(1,164)	(1,867)	-	-
Surplus for the year after tax		18,178	102,704	13,331	94,848
Surplus attributable to the University		18,066	101,429	13,331	94,848
Surplus attributable to non-controlling interest		112	1,275	-	-
		18,178	102,704	13,331	94,848

Consolidated and University Statement of Comprehensive Income for the year ended 31 July 2021 (continued)

	Notes	Consolidated		University	
		2021	2020	2021	2020
		£000	£000	£000	£000
Surplus for the year after tax		18,178	102,704	13,331	94,848
Other comprehensive income					
Actuarial gain/(loss) in respect of pension schemes	29	17,462	(54,906)	17,462	(54,906)
Total comprehensive income for the year		35,640	47,798	30,793	39,942
Represented by :					
Endowment comprehensive income/ (expenditure) for the year		2,014	(168)	2,014	(168)
Restricted comprehensive income/(expenditure) for the year		(194)	(139)	(194)	(139)
Unrestricted comprehensive income for the year		33,708	46,717	28,973	40,249
Non-controlling interest		112	1,388	-	-
		35,640	47,798	30,793	39,942


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


Consolidated and University Statement of Financial Position as at 31 July 2021

	Notes	Consolidated		University	
		As at 31 July 2021 £000	As at 31 July 2020 £000	As at 31 July 2021 £000	As at 31 July 2020 £000
Non-current assets					
Fixed assets	14	741,230	735,679	692,431	694,080
Heritage assets	14	6,035	6,035	6,035	6,035
Intangible assets	15	229	44	229	44
Investments	16	8,307	10,238	40,040	32,513
Share of net assets of associate	17	219	127	-	-
		756,020	752,123	738,735	732,672
Current assets					
Stock		935	775	893	775
Trade and other receivables	18	70,912	69,837	69,197	68,191
Investments	19	473,354	455,666	473,354	455,666
Cash and cash equivalents		109,741	65,392	93,009	56,574
		654,942	591,670	636,453	581,206
Less: Creditors: amounts falling due within one year	20	(193,256)	(146,574)	(188,525)	(143,123)
Net current assets		461,686	445,096	447,928	438,083
Total assets less current liabilities		1,217,706	1,197,219	1,186,663	1,170,755
Creditors: amounts falling due after more than one year	21	(409,087)	(412,540)	(405,497)	(407,847)
Provisions					
Pension provisions	22	(269,729)	(282,264)	(269,729)	(282,264)
Other provisions	22	(3,807)	(2,972)	-	-
Total net assets		535,083	499,443	511,437	480,644
Represented by:					
Restricted Reserves					
Income and expenditure reserve - endowment reserve	23	14,887	12,873	14,887	12,873
Income and expenditure reserve - restricted reserve	24	5,176	5,370	5,176	5,370
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		515,020	481,200	491,374	462,401
Total reserves		535,083	499,443	511,437	480,644

Of the consolidated reserves £1,500,000 (2020: £1,388,000) is attributable to non-controlling interests.

The financial statements were approved by the Council on 24th November 2021, 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

Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2021

Consolidated

	Notes	Income and Expenditure Reserve			Total £000	Non-Controlling Interest £000	Attributable to the University £000
		Endowment £000	Restricted £000	Unrestricted £000			
Balance at 1 August 2019		13,041	5,509	433,095	451,645	113	451,532
(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)
Total Comprehensive (Expenditure)/income for the year		(168)	(139)	48,105	47,798	1,275	46,523
Balance at 1 August 2020		12,873	5,370	481,200	499,443	1,388	498,055
Surplus from the Statement of Comprehensive Income		2,014	(194)	16,358	18,178	112	18,066
Other comprehensive income	29	-	-	17,462	17,462	-	17,462
Total Comprehensive Income for the year		2,014	(194)	33,820	35,640	112	35,528
Balance at 31 July 2021		14,887	5,176	515,020	535,083	1,500	533,583

Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2021 (continued)**University**

	Notes	Income and Expenditure Reserve			Total
		Endowment	Restricted	Unrestricted	
		£000	£000	£000	
Balance at 1 August 2019		13,041	5,509	422,152	440,702
(Deficit)/surplus from the Statement of Comprehensive Income		(168)	(139)	95,155	94,848
Other comprehensive expenditure	29	-	-	(54,906)	(54,906)
Total Comprehensive (Expenditure)/income for the year		(168)	(139)	40,249	39,942
Balance at 1 August 2020		12,873	5,370	462,401	480,644
Surplus from the Statement of Comprehensive Income		2,014	(194)	11,511	13,331
Other comprehensive income	29	-	-	17,462	17,462
Total Comprehensive Income for the year		2,014	(194)	28,973	30,793
Balance at 31 July 2021		14,887	5,176	491,374	511,437

Consolidated Statement of Cash Flows for the year ended 31 July 2021

	Year ended 31 July 2021	Year ended 31 July 2020
	£000	£000
Cash flow from operating activities before tax		
Surplus before taxation	19,342	104,571
Adjustment for non-cash items		
Depreciation and amortisation	29,476	31,363
Gain on investments	(10,782)	(10,473)
Impairment of investments	187	64
Increase in stock	(160)	-
Increase in trade and other receivables	(2,727)	(1,753)
Increase/(decrease) in creditors	45,897	(16,220)
Increase/(decrease) in pension provision	4,927	(51,481)
Increase in other provisions	835	1,924
Exchange rate loss/(gain) on loans	295	(64)
Gain on revaluation of investment property	(1,651)	(1,154)
Gain on financial instruments	(357)	(70)
Share of operating (surplus)/deficit in associate	(92)	11
Adjustment for investing or financing activities		
Investment income	(6,140)	(7,758)
New endowments	(36)	(4)
Capital grant income	(7,260)	(1,833)
Interest payable	14,416	14,362
Loss on the disposal/write down of fixed assets	1,582	2,280
Net cash inflow from operating activities before taxation	87,752	63,765
Taxation	(1,164)	(1,867)
Net Cash Inflow from operating activities after taxation	86,588	61,898

Consolidated Statement of Cash Flows for the year ended 31 July 2021

	Year ended 31 July 2021	Year ended 31 July 2020
	£000	£000
Cash flows from investing activities		
Capital grants receipts	8,531	6,638
Payments made to acquire tangible assets	(36,443)	(25,336)
Payments made to acquire intangible assets	(185)	(2)
Proceeds from disposal of tangible assets	1,110	50
Proceeds from disposal of fixed asset investments	2,261	-
Net investment in current investments	(7,423)	(29,918)
Investment income	6,521	7,591
Net cash outflow from investing activities	(25,628)	(40,977)
Cash flows from financing activities		
Interest paid	(14,370)	(14,322)
New endowments	36	4
Repayment of amounts borrowed	(1,909)	(2,393)
Capital element of finance lease repayments	(368)	(343)
Net cash outflow from financing activities	(16,611)	(17,054)
Increase in cash and cash equivalents in the year	44,349	3,867
Cash and cash equivalents at beginning of the year	65,392	61,525
Cash and cash equivalents at end of the year	109,741	65,392
Increase in cash and cash equivalents in the year	44,349	3,867

Notes to the Financial Statements for the year ended 31 July 2021

1. Statement of principal accounting policies

Going Concern

The impact of the global COVID-19 pandemic on the University and its subsidiaries, along with downside scenario planning, has been reviewed by Council as part of the Budget Report in July 2021. 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 £345.6 million net debt as at 31 July 2020 to £298.9 million as at 31 July 2021. However, the net debt does not take into account the investment portfolio held as part of University's treasury management strategy of £473.4 million. If this is taken into account, the overall position is adjusted net funds of £174.5 million, compared to £110.1 million at 31 July 2020. 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.

The University's activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and Public Benefit Statement.

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 under section 3.3 of the SORP (1.12(b) of FRS 102) to not produce a cash flow statement for the University in its separate financial statements. A group cash flow statement is provided on page 37.

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.

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.

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.

A 20% non-controlling interest exists in Southampton Asset Management Ltd, a subsidiary company. 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.

d. Income recognition

Grant funding

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

Notes to the Financial Statements for the year ended 31 July 2021

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), National Employment

Notes to the Financial Statements for the year ended 31 July 2021

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.

i. Fixed assets

Fixed assets, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes

Notes to the Financial Statements for the year ended 31 July 2021

expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Fixtures, fittings and equipment purchased by the University and costing less than £25,000 per individual items or group of related items is written off in the year of acquisition. All other items of fixtures, fittings and equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Depreciation

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Freehold buildings:	50 years
Leasehold land and buildings:	50 years
Fixtures, fittings and equipment:	3 - 10 years

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the statement of comprehensive income.

Impairment

A review for potential indicators of impairment is carried out at each reporting date. If events or changes in circumstances indicate that the carrying amount of the property, plant and equipment may not be recoverable, a calculation of the impact is completed and arising impairment values charged against the asset and to the SOCIE.

Investment properties

Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income.

Within investment properties is capitalised lease premiums and associated costs which represent premiums paid by the Company in respect of land on long leases (99 years and over). These are included at historic cost and depreciated on a straight-line basis over the term of the lease. Any revaluation is held within Investment Leasehold and Freehold Property.

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 are stated at historical cost less accumulated amortisation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Intangible assets purchased by the University and costing less than £25,000 per individual items or group of related items is written off in the year of acquisition. All other items of fixtures, fittings and equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Amortisation

Amortisation on intangible assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The University generally amortises intangible assets 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 8 years).

Notes to the Financial Statements for the year ended 31 July 2021

Software in progress is accounted for at cost, based on the value of the direct costs incurred to 31 July. They are not depreciated until they are ready for use.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the statement of comprehensive income.

Impairment

A review for potential indicators of impairment is carried out at each reporting date. If events or changes in circumstances indicate that the carrying amount of the intangible assets may not be recoverable, a calculation of the impact is completed and arising impairment values charged against the asset and to the SOCIE.

I. 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

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.

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 31 July.

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

n. 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.

o. 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.

p. 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 University's 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

Notes to the Financial Statements for the year ended 31 July 2021

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 this is measured at fair value through the Statement of Comprehensive Income. This value has been calculated by the bank from propriety models.

A review for potential indicators of impairment is carried out at each reporting date. If events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, a calculation of the impact is completed and arising impairment values charged against the asset and to the SOCIE.

q. 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.

r. 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.

s. 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 2021

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 Comprehensive Income and Expenditure was calculated using a discount rate of 0.89% and an estimate of the changes in staffing levels and pay increases.

This resulted in a £62.2 million reduction of the provision to £78.8 million (2019: £141 million) as at 31 July 2020 and a further reduction to the provision of £6.2 m to £72.6m as at 31 July 2021. Details of the movements in the provision are included in note 22 to the accounts.

After the statement of financial position date, the 2020 actuarial valuation was completed with an effective date of 1 October 2021. This states that from the 1 October 2021 deficit contributions will increase from 2% to 6% as planned but will rise again from 1 April 2022 to 6.3% for the length of the recovery plan until 31 March 2038.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £151.2m to £223.8m.

If a Benefit Change Deed is not agreed by 28 February 2022, the total deficit contributions will change to 3% in October 2022, increasing by 3% every 6 months until October 2025 where deficit contributions will remain at 20% until 31 July 2032.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £273.8m to £346.4m.

This is considered to be a non-adjusting post balance sheet event and no adjustment has been made with respect to the 2020/21 provision within the financial statements as a result of the completion of the 2020 valuation.

Judgement

Discount Rate

The discount rate used in the calculation of the provision is 0.89%. 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 £72.6m of a change to the discount rate:

- A 0.5% increase in the discount rate would increase the credit to the Statement of Comprehensive Income by £1.4 million and reduce the 2020/21 provision by £1.4million to a total provision of £71.2 million.
- A 0.5% decrease in the discount rate would reduce the credit to the Statement of Comprehensive Income by £1.5 million and increase the 2020/21 provision by £1.5 million to a total provision of £74.1 million.

Estimates

Staffing Levels and Pay Increases

In addition to the discount rate and deficit recovery rate and 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 £72.6 million (assuming the

Notes to the Financial Statements for the year ended 31 July 2021

same discount rate of 0.89% and deficit recovery period to 31 March 2028 and additional employer's deficit contributions of 2% to September 2021 and 6% from October 2021 to March 2028):

Pay increases

- an increase of 1% per annum in the pay increase assumptions would reduce the credit to the Statement of Comprehensive Income by £2.9 million and increase the 2020/21 provision by £2.9 million to a total provision of £75.5 million.
- a decrease of 1% per annum in the pay increase assumptions would increase the credit to the Statement of Comprehensive Income by £2.8 million and reduce the 2020/21 provision by £2.8 million to a total provision of £69.8 million.

Staffing levels

- an increase of 1% per annum in the staffing level assumptions would reduce the credit to the Statement of Comprehensive Income by £3.0 million and increase the 2020/21 provision by £3.0 million to a total of £75.6 million.
- a decrease of 1% per annum in the staffing level assumptions would increase the credit to the Statement of Comprehensive Income by £2.9 million and reduce the 2020/21 provision by £2.9 million to a total of £69.7 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 actuaries which is based on a number of assumptions. These include the future cash flows of the Schemes, a discount rate of 1.6% (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 3.5% (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 increase the credit to the Statement of Comprehensive Income by £55 million and reduce the 2020/21 provision from £197 million to £142 million.
- a decrease of 0.5% in the discount rate would reduce the credit to the Statement of Comprehensive Income by £66 million and increase the 2020/21 provision from £197 million to £263 million.
- an increase of 0.5% per annum in the salary increase assumptions would reduce the credit to the Statement of Comprehensive Income by £22 million and increase the 2020/21 provision to a total provision of £219 million.
- a decrease of 0.5% per annum in the salary increase assumptions would increase the credit to the Statement of Comprehensive Income by £19 million and decrease the 2020/21 provision to a total provision of £178 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 6.11%. The following sensitivity analysis outlines the potential impact on the valuation of the leasehold property assets of £45.6 million:

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% (5.86%), the value of the Science Park would increase by £0.7 million to £46.3 million.
- If the yield were to increase by 0.25% (6.36%), the value of the Park would reduce by £3.0 million to £42.6 million.

Notes to the Financial Statements for the year ended 31 July 2021

3. Tuition fees and education contracts

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Full-time home/EU students	125,020	124,595	125,020	124,595
Full-time international students	85,496	110,951	83,497	109,304
Part-time home/EU students	2,459	2,971	2,459	2,971
Part-time international students	277	272	277	272
Research training support grants	18,118	18,362	18,118	18,362
Special and short course fees	7,658	9,321	7,658	9,321
	239,028	266,472	237,029	264,825

Included in the above is £3,370,000 (2020: £4,197,000) 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.

During the year the University has received £16.1m of income from international students starting in January 2021. The income has not been recognised in the Statement of Comprehensive Income and is recognised as deferred income within creditors on the Statement of Financial Position (see note 20).

4a. Funding body grants

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Recurrent grants:				
Office for Students and Research England	70,407	70,792	70,407	70,792
National College for Teaching and Leadership	-	10	-	10
Specific grants:				
Office for Students and Research England	6,486	5,856	6,486	5,856
Capital grants	7,260	1,833	7,260	1,833
	84,153	78,491	84,153	78,491

Notes to the Financial Statements for the year ended 31 July 2021

In accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 our finance policies (see page 39 - d. 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 £607,000 (2020: £471,000) and Government Capital grants of £1,386,000 (2020: £4,804,000) 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.

4b. Details of grant and fee income

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

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Recurrent Grants				
Office for Students	17,544	17,899	17,544	17,899
Research England - QR	50,028	50,798	50,028	50,798
Research England - GCRF	2,835	2,095	2,835	2,095
National College for Teaching and Leadership	-	10	-	10
NHS Teaching Contract	3,370	4,197	3,370	4,197
Specific Grants				
Higher Education Academic Subject Centres (NCOP)	1,021	1,107	1,021	1,107
Higher Education Innovation Fund	4,259	4,051	4,259	4,051
Capital grant	7,260	1,833	7,260	1,833
Grant income from other bodies	1,206	698	1,206	698
Fee income for taught awards	200,038	225,135	198,039	223,488
Fee income for research awards	27,962	27,819	27,962	27,819
Fee income from non-qualifying courses	7,658	9,321	7,658	9,321
Total grant and fee income	323,181	344,963	321,182	343,316

Fee income is stated net of waivers and discounts.

Notes to the Financial Statements for the year ended 31 July 2021

5. Research grants and contracts

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Income:				
UK Research councils	51,520	46,587	51,520	46,587
UK based charities	14,341	16,123	14,323	16,123
UK Central/Local Government, health authorities and hospitals	22,686	21,361	22,675	21,353
UK industry, commerce and public corporations	6,293	7,396	5,999	7,017
EU Government bodies	13,287	14,217	13,287	14,217
EU other sources	2,888	3,505	2,876	3,475
Other overseas sources	8,164	10,185	8,120	10,111
Other sources	897	576	870	551
	120,076	119,950	119,670	119,434

In accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 our finance policies (see page 39 - d. 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 £66.4 million (2020: £60 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 £12.5 million (2020: £28.3 million) relates to government funded research grants.

6. Other income

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Residences, catering and conferences	23,082	31,578	23,082	31,578
Consultancies, trading and services rendered	39,941	39,575	37,535	38,711
Health authorities	11,929	11,158	11,929	11,158
Capital grants	115	-	115	-
Other income	26,636	24,618	25,096	22,495
	101,703	106,929	97,757	103,942

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 full year 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 £19,000 (2020: £800,000) from the Coronavirus Job Retention Scheme.

Notes to the Financial Statements for the year ended 31 July 2021

7. Investment income

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Investment income on endowments	192	218	192	218
Other investment income	5,948	7,540	5,929	7,778
	6,140	7,758	6,121	7,996

8. Donations and endowments

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
New endowments	36	4	36	4
Donations with restrictions	2,279	2,919	2,279	2,919
Unrestricted donations	662	821	662	821
	2,977	3,744	2,977	3,744

9. Staff costs

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Staff costs:				
Salaries and wages	244,117	245,342	242,114	243,546
Social Security costs	24,771	24,151	24,545	24,068
Pension costs excluding movements in USS provision	51,958	51,830	51,889	51,668
Severance and early retirement	8,266	1,073	8,259	1,073
	329,112	322,396	326,807	320,355
Decrease in USS pension provision	(6,779)	(64,450)	(6,779)	(64,450)
Total cost including USS pension provision	322,333	257,946	320,028	255,905

Notes to the Financial Statements for the year ended 31 July 2021

9. Staff costs (continued)

	Consolidated		University	
	2021	2020	2021	2020
	Number	Number	Number	Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:				
Education, research and enterprise	2,584	2,637	2,556	2,615
Management, specialist and administrative	2,114	2,164	2,079	2,130
Technical and experimental	344	352	341	350
Community and operational	426	441	420	434
	5,468	5,594	5,396	5,529

Emoluments of the President and Vice-Chancellor**Professor Mark E Smith CBE from 1st October 2019**

	2021	2020
	£000	£000
Salary	288	239
Supplement in lieu of pension	20	7
Taxable benefits	1	4
Non-taxable benefits	-	4
	309	254
USS employer contributions	18	36
USS Scheme deficit recovery charge (2.0%) - non-contributory	4	1
	331	291

Professor Mark Spearing (interim Vice-Chancellor, start date 9th March 2020 until 30th September 2019)

	2021	2020
	£000	£000
Salary	-	35
	-	35
Employers pension contributions	-	5
	-	40

Notes to the Financial Statements for the year ended 31 July 2021

9. Staff costs (continued)

Salary

At the date of this report Professor Mark Smith, who joined the University on 1st October 2019, was paid a full year equivalent salary of £287,000 and an additional one off bonus payment of £600 as paid to all members of staff (2020: £287,000). Until 31 March 2020 he was a full member of the Universities Superannuation Scheme (USS). From 1 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 £22,000 during the year, including the required deficit recovery charge from 1 April 2020.

Professor Mark Spearing was interim President and Vice-Chancellor alongside his substantive role as Vice-President Research and Enterprise between 9 March 2019 and 30 September 2019 following the retirement of Sir Christopher Snowden on 8 March 2019 and the start date of Professor Mark Smith on the 1 October 2019. For the period covered by this report (1 August 2019 to 30 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)

	2021		2020	
	Basic Pay	Total Remuneration	Basic Pay	Total Remuneration
Professor Mark Smith	9.0	9.3	9.6	10.2
Professor Mark Spearing	n/a	n/a	7.1	7.1
Median salary (for reference)	£31,866	£35,654	£30,046	£34,303

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

	2021		2020	
	Basic Pay	Total Remuneration	Basic Pay	Total Remuneration
Professor Mark E Smith	8.0	8.2	8.1	8.3
Professor Mark Spearing	n/a	n/a	6	5.8
Median salary (for reference)	£35,845	£40,474	£35,513	£42,084

Taxable benefits

In common with other senior post holders, the University provided Professor Mark Smith with single membership of a healthcare scheme to help ensure his availability for work, at a cost of £925 for the period from 1 August 2020 to 31 July 2021.

For the better performance of his official duties, and as required by contract, Professor Mark Smith 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 temporarily vacated the official residence on 27 March 2020 and this arrangement continued for the remainder of the previous and current financial year. These living arrangements incurred a taxable benefit of £494 in 2021 (2020: £3,175) and a non-taxable benefit of £256 based on market rental prices (2020: £4,290).

Notes to the Financial Statements for the year ended 31 July 2021

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.

	2021		2020	
	Headcount	All Staff FTE	Headcount	All Staff FTE
£100,000 - £104,999	45	30.7	44	30.5
£105,000 - £109,999	18	11.1	51	28.5
£110,000 - £114,999	37	19.8	15	10.6
£115,000 - £119,999	8	5.5	6	6.0
£120,000 - £124,999	5	3.8	1	1.0
£125,000 - £129,999	4	3.5	7	5.5
£130,000 - £134,999	4	4.0	4	4.0
£135,000 - £139,999	3	1.2	3	1.9
£140,000 - £144,999	3	3.7	2	1.8
£145,000 - £149,999	1	1.0	1	1.0
£150,000 - £154,999	-	-	-	-
£155,000 - £159,999	2	2.0	2	2.0
£160,000 - £164,999	-	-	-	-
£165,000 - £169,999	-	-	-	-
£170,000 - £174,999	-	-	-	-
£175,000 - £179,999	1	1.0	-	-
£180,000 - £184,999	1	1.0	1	0.6
£185,000 - £189,999	-	-	2	1.3
£190,000 - £194,999	1	0.3	-	-
none between £195,000 and £284,999				
£285,000 - £289,999	1	1.0	1	0.8
Total	134	89.4	140	95.5

Notes to the Financial Statements for the year ended 31 July 2021

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

Aggregate payments for voluntary severance for 282 (2020: 45) members of staff was £8,266,000 (2020: £1,073,000).

Aggregate payments for redundancy at the end of fixed term contracts and any associated payments for 139 (2020: 90) members of staff was £348,000 (2020: £218,000).

Salaries and wages, emoluments of the 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 12.2 (2020: 11.4) full time equivalent members of UEB. The positions are:

President and Vice-Chancellor
 Chief Operating Officer
 Senior Vice-President Academic (New role in the current financial year)
 Vice-President Research and Enterprise
 Vice-President Education
 Executive Director of Finance and Planning
 Executive Director of Human Resources
 Executive Director of Student Experience (New member of the UEB in the current financial year)
 Deans of Faculties

	2021	2020
	£000	£000
Key management personnel compensation	2,467	2,346

Notes to the Financial Statements for the year ended 31 July 2021

10. Other operating expenses

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Non-capitalised equipment	23,487	19,055	23,414	18,982
Impairment of property value	2,566	694	2,566	694
Impairment of intercompany debtors	-	-	796	-
Consumables and laboratory expenditure	18,826	17,001	18,776	16,966
Office expenses and professional fees	37,570	38,771	35,947	37,139
Travel costs	2,132	8,982	2,058	8,861
Repairs, refurbishment and scheduled maintenance	17,645	16,297	16,293	14,885
Heat, light, water and power	8,505	8,885	8,480	8,857
Books and periodicals	5,710	5,704	5,709	5,703
Bursaries, fellowships, scholarships and prizes	25,426	26,408	25,415	26,399
External agencies and staff secondments	12,444	10,338	12,346	10,256
Rents, rates and hire of facilities	9,700	9,617	9,683	9,749
Catering supplies	403	1,627	364	1,541
Conference fees	443	1,982	460	1,995
Grant to Students' Union	2,445	2,339	2,445	2,339
Other expenses	9,325	9,494	10,803	11,362
	176,627	177,194	175,555	175,728

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 two (2020: eight) lay members of Council were £2,770 (2020: £2,700), representing reimbursement of travel and other expenses incurred in attending Council and related meetings, and representing the University in the UK and overseas.

Notes to the Financial Statements for the year ended 31 July 2021

10. Other operating expenses (continued)

Other operating expenses include our external auditors remuneration:

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Deloitte:				
In respect of the annual external audit	200	160	156	117
In respect of other services	114	118	114	118

Other services includes £97,000 (2020: £113,000) 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 (2020: £12,000) for the year ended 31 July 2021.

Other operating expenses include operating lease rentals as follows:

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Land and buildings	3,551	3,337	3,376	3,139
Other	633	663	633	663

11. Interest and other finance costs

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Loan interest	3,524	3,519	3,408	3,360
Bond interest	6,792	6,792	6,792	6,792
Finance lease interest	4,100	4,051	4,100	4,051
Exchange rate gain on currency loans	(205)	(64)	(205)	(64)
Exchange rate loss on subsidiary	500	892	500	892
Increase in fair value of financial instrument	(357)	(70)	-	-
Net charge on pension schemes	3,377	5,102	3,377	5,102
	17,731	20,222	17,972	20,133

Notes to the Financial Statements for the year ended 31 July 2021

12a. Analysis of expenditure by activity

Consolidated	Staff costs	Depreciation and amortisation	Other operating expenses	Interest and other finance costs	2021 Total	2020 Total
	£000	£000	£000	£000	£000	£000
Academic departments	163,573	2,882	19,905	-	186,360	188,810
Academic services	20,941	2,592	21,499	-	45,032	39,944
Research grants and contracts	58,269	2,511	21,221	-	82,001	84,603
Residences, catering and conferences	6,093	4,386	16,445	2,805	29,729	28,087
Premises	10,591	16,409	28,538	-	55,538	52,855
Administration and central services	29,117	565	13,494	(284)	42,892	40,740
General educational expenditure	7,653	1	39,609	-	47,263	50,331
Consultancies, trading and services rendered	20,532	130	10,686	43	31,391	34,546
Other activities	12,343	-	5,230	14,584	32,157	28,975
Other Operating Expenditure Total Excluding USS Pension Provision	329,112	29,476	176,627	17,148	552,363	548,891
(Decrease)/Increase in USS Pension Provision	(6,779)	-	-	583	(6,196)	(62,166)
Total Other Operating Expenditure including USS Pension Provision	322,333	29,476	176,627	17,731	546,167	486,725
University	Staff costs	Depreciation and amortisation	Other operating expenses	Interest and other finance costs	2021 Total	2020 Total
	£000	£000	£000	£000	£000	£000
Academic departments	162,732	2,850	19,851	-	185,433	188,013
Academic services	20,880	2,592	21,333	-	44,805	39,731
Research grants and contracts	58,269	2,506	20,877	-	81,652	84,140
Residences, catering and conferences	6,093	4,386	16,445	2,805	29,729	28,087
Premises	10,591	16,382	28,468	-	55,441	53,101
Administration and central services	28,496	459	13,120	-	42,075	39,953
General educational expenditure	7,447	1	39,310	-	46,758	49,619
Consultancies, trading and services rendered	19,956	19	9,807	-	29,782	32,364
Other activities	12,343	-	6,344	14,584	33,271	30,022
Other Operating Expenditure Total Excluding USS Pension Provision	326,807	29,195	175,555	17,389	548,946	545,030
(Decrease)/Increase in USS Pension Provision	(6,779)	-	-	583	(6,196)	(62,166)
Total Other Operating Expenditure including USS Pension Provision	320,028	29,195	175,555	17,972	542,750	482,864

Notes to the Financial Statements for the year ended 31 July 2021

12b. Access and Participation Expenditure

	2021	2020
Consolidated and University	£000	£000
Access Investment	1,691	1,589
Financial Support	7,756	8,376
Disability Support (excluding expenditure included in the two categories above)	460	471
Research and Evaluation	137	49
	10,044	10,485

These costs are included within note 12 and include salaries of £1,639,000 (2020: 1,424,000).

The published access and participation plan can be found at www.southampton.ac.uk/about/governance/access-agreement.page

13. Taxation

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Analysis of tax charge:				
UK Corporation Tax	266	-	-	-
Deferred Tax	898	1,867	-	-
	1,164	1,867	-	-

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Recognised in the Statement of Comprehensive Income:				
Current tax				
Current tax expense	266	-	-	-
Current tax expense	266	-	-	-
Deferred tax				
Origination and reversal of timing differences	898	1,867	-	-
Deferred tax expense	898	1,867	-	-
Total tax expense	1,164	1,867	-	-

Notes to the Financial Statements for the year ended 31 July 2021

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
Cost or valuation							
At 1 August 2020	731,923	165,038	14,907	38,243	159,177	6,035	1,115,323
Additions at cost	1,978	2,011	28,456	58	3,565	-	36,068
Transfers at cost	5,644	-	(11,562)	1,006	4,912	-	-
Gain on revaluation	-	-	-	1,651	-	-	1,651
Disposals at cost	(217)	-	-	-	(244)	-	(461)
Impairments and write-downs	(486)	(2,080)	-	-	-	-	(2,566)
At 31 July 2021	738,842	164,969	31,801	40,958	167,410	6,035	1,150,015
Depreciation							
At 1 August 2020	(167,718)	(68,050)	-	(216)	(137,625)	-	(373,609)
Charge for year	(17,102)	(3,354)	-	(15)	(9,005)	-	(29,476)
Eliminated on disposal	92	-	-	-	243	-	335
Impairments and write-downs	-	-	-	-	-	-	-
At 31 July 2021	(184,728)	(71,404)	-	(231)	(146,387)	-	(402,750)
Net book value							
At 31 July 2021	554,114	93,565	31,801	40,727	21,023	6,035	747,265
At 1 August 2020	564,205	96,988	14,907	38,027	21,552	6,035	741,714

Notes to the Financial Statements for the year ended 31 July 2021

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
Cost or valuation						
At 1 August 2020	731,923	162,652	13,963	156,853	6,035	1,071,426
Additions at cost	1,978	2,011	22,754	3,494	-	30,237
Transfers at cost	5,644	-	(10,556)	4,912	-	-
Disposals at cost	(217)	-	-	(158)	-	(375)
Impairments and write-downs	(486)	(2,080)	-	-	-	(2,566)
At 31 July 2021	738,842	162,583	26,161	165,101	6,035	1,098,722
Depreciation						
At 1 August 2020	(167,718)	(67,821)	-	(135,772)	-	(371,311)
Charge for year	(17,102)	(3,308)	-	(8,785)	-	(29,195)
Eliminated on disposal	92	-	-	158	-	250
Impairments and write-downs	-	-	-	-	-	-
At 31 July 2021	(184,728)	(71,129)	-	(144,399)	-	(400,256)
Net book value						
At 31 July 2021	554,114	91,454	26,161	20,702	6,035	698,466
At 1 August 2020	564,205	94,831	13,963	21,081	6,035	700,115

At 31 July 2021, freehold land and buildings included £93,604,000 (2020: £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 £47,655,000 (2020: £49,000,000), with accumulated depreciation of £6,513,000 (2020: £5,717,000) and a net book value of £41,142,000 (2020: £43,283,000).

Included in the balances for leasehold land and buildings is expenditure of £27,900,000 (2020: £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

Notes to the Financial Statements for the year ended 31 July 2021

14. Fixed assets (continued)

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

Impairments of £2,566,000 (2020: £1,194,000) have been recognised in the Statement of Comprehensive Income for the year within Other Operating Expenses. These comprise costs on assets requiring significant expenditure to restore them to an acceptable standard

The investment property, University of Southampton Science Park, has been valued as at 31 July 2021 by a RICS registered external valuer in accordance with the RICS valuation - Global Standards 2017. The investment leasehold and free hold property has been valued on the basis of net present value of the guaranteed future rental stream from existing leases.

The outbreak of COVID-19, declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel, movement, and operational restrictions have been implemented by many countries. In some cases, “lockdowns” have been applied to varying degrees and to reflect further “waves” of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation date.

The net historical cost of investment property (including grants receivable in respect of assistance with construction of an Incubator Unit) at 31 July 2021 amounted to £33,179,833 (2020: £32,093,081), including interest capitalised of £445,032 (2020: £445,032). The investment property is held for use in operating leases.

In addition to the above expenditure on fixed assets a further £39,468,000 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

Notes to the Financial Statements for the year ended 31 July 2021

14. Fixed assets (continued)

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 <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 2020/21.

15. Intangible assets**Consolidated and University**

	Software £000	Software in progress £000	Total £000
Cost or valuation			
At 1 August 2020	15,894	44	15,938
Additions at cost	-	185	185
At 31 July 2021	15,894	229	16,123
Amortisation			
At 1 August 2020	(15,894)	-	(15,894)
Charge for year	-	-	-
At 31 July 2021	(15,894)	-	(15,894)
Net book value			
At 31 July 2021	-	229	229
At 1 August 2020	-	44	44

Notes to the Financial Statements for the year ended 31 July 2021

16. Non-current investments**Consolidated**

	Subsidiary companies	Investments held by subsidiaries	Other fixed asset investments	Total
	£000	£000	£000	£000
At 1 August 2020	-	8,920	1,318	10,238
Disposals	-	(2,448)	-	(2,448)
Market value gain	-	704	-	704
Impairment	-	-	(187)	(187)
At 31 July 2021	-	7,176	1,131	8,307

University

	Subsidiary companies	Investments held by subsidiaries	Other fixed asset investments	Total
	£000	£000	£000	£000
At 1 August 2020	31,195	-	1,318	32,513
Additions	9,976	-	-	9,976
Impairment	(2,262)	-	(187)	(2,449)
At 31 July 2021	38,909	-	1,131	40,040

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 31 July 2021 to £779,000 (2020: £966,000).

During the year, the University purchased shares in USMC Sdn Bhd (Malaysia) for £2,262k. The USMC Share Holding was fully impaired as at 31 July 2021.

During the year, the University made a further investment in The University of Southampton Science Park Limited of £7.7m, £6.7m of which relates to Future Towns Innovation Hub, of which £4.7m has been spent to date with the project still under construction at year end.

During the year, the University disposed of its investment in Southampton Innovations Limited which was dissolved on 20 July 2021. At the date of dissolution the investment had been fully impaired.

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%:

Notes to the Financial Statements for the year ended 31 July 2021

Subsidiaries held by the University	Percentage holding	Nature of activity
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 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.

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**

	2021	2020
	£000	£000
At 1 August	127	138
Share of operating surplus/(loss)	92	(11)
At 31 July	219	127

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 £219,000 (2020: £127,000) equal to 33% of the net assets at 31 July 2021.

Notes to the Financial Statements for the year ended 31 July 2021

18. Trade and other receivables

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Amounts falling due within one year:				
Grants from Office for Students/Research England	19	1,408	19	1,408
Student debtors	2,437	1,057	2,437	1,057
Research grants and contracts	30,871	32,961	30,871	32,961
Trade and other receivables	24,005	21,770	22,047	19,813
Amounts due from group undertakings	-	-	926	1,156
Prepayments to group undertakings	-	-	112	138
Other prepayments	11,439	10,459	10,755	9,561
	68,771	67,655	67,167	66,094
Amounts falling due after more than one year:				
Prepayments	2,141	2,182	2,030	2,097
	70,912	69,837	69,197	68,191

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

Notes to the Financial Statements for the year ended 31 July 2021

19. Current investments

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Cash on deposit	214,240	206,422	214,240	206,422
Investment in shares (at fair value)	259,114	249,244	259,114	249,244
	473,354	455,666	473,354	455,666

20. Creditors: amounts falling due within one year

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Bank loans	2,211	1,790	1,196	1,305
Obligations under finance leases	395	367	395	367
Research grant income received in advance	66,388	60,037	66,388	60,037
Social Security and other taxation	15,684	15,958	15,407	15,951
Amounts owed to group undertakings	-	-	170	252
Trade and other creditors	23,507	13,976	22,190	12,260
Accruals and deferred income	85,071	54,446	82,779	52,951
	193,256	146,574	188,525	143,123

30 day payment terms apply to group undertakings and to trade and other creditors.

Notes to the Financial Statements for the year ended 31 July 2021

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

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Bank loans	61,017	63,409	59,383	60,761
Public bond	298,494	298,452	298,494	298,452
Obligations under finance leases	46,420	46,816	46,420	46,816
Accruals and deferred income	3,091	3,725	1,120	1,746
Amounts owed to group undertakings	-	-	80	72
Derivatives	65	138	-	-
	409,087	412,540	405,497	407,847

Loans are repayable as follows:

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Bank loans:				
Between one and two years	2,830	2,252	1,196	1,237
Between two and five years	3,232	5,343	3,232	3,710
Over five years	54,955	55,814	54,955	55,814
Due after more than one year	61,017	63,409	59,383	60,761
Due within one year (note 20)	2,211	1,790	1,196	1,305
	63,228	65,199	60,579	62,066
Public bond:				
Over five years	298,494	298,452	298,494	298,452
	298,494	298,452	298,494	298,452

Notes to the Financial Statements for the year ended 31 July 2021

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

Obligations under finance leases:

	Consolidated		University	
	2021 £000	2020 £000	2021 £000	2020 £000
Between one and two years	426	396	426	396
Between two and five years	1,486	1,379	1,486	1,379
Over five years	44,508	45,041	44,508	45,041
Due after more than one year	46,420	46,816	46,420	46,816
Due within one year (note 20)	395	367	395	367
	46,815	47,183	46,815	47,183

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 2021 £000	Balance outstanding 2020 £000
University:					
Barclays Bank	1999	2020	fixed	-	68
Barclays Bank	2006	2026	variable	3,208	4,144
Barclays Bank	2006	2036	fixed	7,371	7,854
Barclays Bank	2007	2037	fixed	50,000	50,000
				60,579	62,066
Subsidiaries:					
Santander	2015	2023	fixed	2,649	3,133
				63,228	65,199

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 0.75% 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.

Notes to the Financial Statements for the year ended 31 July 2021

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
At 1 August 2020	78,819	203,445	378	2,594	285,236
Decrease due to change in discount rate	(3,437)	-	-	-	(3,437)
Unwinding of the discount rate	583	2,794	-	-	3,377
Deficit contributions paid during the year	(3,342)	-	-	-	(3,342)
Annual Net Service Cost	-	8,329	-	-	8,329
Actuarial loss	-	(17,462)	-	-	(17,462)
Utilised in year	-	-	(520)	-	(520)
Additions in year	-	-	457	898	1,355
At 31 July 2021	72,623	197,106	315	3,492	273,536

University

	Obligation to fund deficit on USS Pension £000	Defined benefit obligations (note 29) £000	Total Provisions £000
At 1 August 2020	78,819	203,445	282,264
Decrease due to change in discount rate	(3,437)	-	(3,437)
Unwinding of the discount rate	583	2,794	3,377
Deficit contributions paid during the year	(3,342)	-	(3,342)
Annual Net Service Cost	-	8,329	8,329
Actuarial loss	-	(17,462)	(17,462)
At 31 July 2021	72,623	197,106	269,729

Notes to the Financial Statements for the year ended 31 July 2021

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 fund 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.

As at 31 July 2021 the provision is £72.6 million a reduction of £6.2 million on 2019/20. The impact on the Statement of Comprehensive Income is to increase the 2020/21 surplus by £6.2 million.

After the statement of financial position date, the 2020 actuarial valuation was completed with an effective date of 1 October 2021. This states that from the 1 October 2021 deficit contributions will increase from 2% to 6% as planned but will rise again from 1 April 2022 to 6.3% for the length of the recovery plan until 31 March 2038. If a Benefit Change Deed is not agreed by 28 February 2022, the total deficit contributions will change to 3% in October 2022, increasing by 3% every 6 months until October 2025 where deficit contributions will remain at 20% until 31 July 2032. More detail is given in note 29.

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 2021. The 2020/21 decrease in provision of £6.3 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 the 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 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.

Notes to the Financial Statements for the year ended 31 July 2021

23. Endowment reserves

Consolidated

	Restricted Permanent £000	Unrestricted Permanent £000	Restricted Expendable £000	2021 Total £000	2020 Total £000
At 1 August 2020					
Capital	7,423	2,422	2,125	11,970	12,132
Accumulated income	764	-	139	903	909
	<u>8,187</u>	<u>2,422</u>	<u>2,264</u>	12,873	13,041
New endowments	36	-	-	36	4
Investment income	117	40	35	192	217
Expenditure	(83)	(40)	(45)	(168)	(225)
Net investment income/(expenditure)	34	-	(10)	24	(8)
Decrease in market value of investments	1,216	394	344	1,954	(164)
	<u>9,473</u>	<u>2,816</u>	<u>2,598</u>	14,887	12,873
At 31 July 2021					
Represented by:					
Capital	8,678	2,816	2,460	13,954	11,970
Accumulated income	795	-	138	933	903
	<u>9,473</u>	<u>2,816</u>	<u>2,598</u>	14,887	12,873
Analysis by type of purpose:					
Chair/Lectureships	3,884	-	-	3,884	3,368
Scholarships and bursaries	2,258	-	733	2,991	2,572
Research support	-	-	1,287	1,287	1,111
Prize funds	564	-	168	732	607
Welfare/Hardship	730	-	43	773	675
General	2,037	2,816	367	5,220	4,540
	<u>9,473</u>	<u>2,816</u>	<u>2,598</u>	14,887	12,873
Analysis by asset:					
Current and non-current asset investments				13,951	11,961
Cash and cash equivalents				936	912
				<u>14,887</u>	12,873

Notes to the Financial Statements for the year ended 31 July 2021

24. Restricted Reserves

Reserves with restrictions are as follows:

	Consolidated and University			
	Unspent Capital Grants £000	Donations /Other Restricted Funds £000	2021 Total £000	2020 Total £000
Balances at 1 August 2020	738	4,632	5,370	5,509
New grants	5,454	-	5,454	1,833
New donations/other restricted funds	-	5,763	5,763	6,848
Capital grants utilised	(5,934)	-	(5,934)	(3,371)
Expenditure	-	(5,477)	(5,477)	(5,449)
Total restricted comprehensive income/(expenditure) for the year	(480)	286	(194)	(139)
Balances at 31 July 2021	258	4,918	5,176	5,370

	Consolidated and University	
	2021 Total £000	2020 Total £000
Analysis of donations/other restricted funds by type of purpose:		
Research activities	3,087	3,375
Student support	305	260
Scholarships and bursaries	50	70
Outreach	50	36
Other	1,684	1,629
Balances at 31 July 2021	5,176	5,370

Notes to the Financial Statements for the year ended 31 July 2021

25. Reconciliation of net debt

	Consolidated		University	
	£000		£000	
Net debt 1 August 2020	(345,580)		(351,127)	
Increase in cash and cash equivalents	44,349		36,435	
Reduction in loans and finance lease amounts owed	2,134		1,650	
Exchange rate loss on currency loans	205		205	
Reduction in value of derivatives	73		-	
Amortisation of discount and fees on public bond	(42)		(42)	
Net debt 31 July 2021	(298,861)		(312,879)	
Reduction in net debt	46,719		38,248	

	Consolidated		University	
	At 31 July	At 31 July	At 31 July	At 31 July
	2021	2020	2021	2020
	£000	£000	£000	£000
Analysis of net debt:				
Cash and cash equivalents	109,741	65,392	93,009	56,574
	109,741	65,392	93,009	56,574
Borrowings: amounts falling due within one year				
Unsecured loans	1,196	1,305	1,196	1,305
Secured loans	1,015	485	-	-
Obligations under finance leases	395	367	395	367
	2,606	2,157	1,591	1,672
Borrowings: amounts falling due after more than one year				
Obligations under finance lease	46,420	46,816	46,420	46,816
Unsecured loans	59,383	60,761	59,383	60,761
Secured loans	1,634	2,648	-	-
Public Bond	298,494	298,452	298,494	298,452
Derivatives	65	138	-	-
	405,996	408,815	404,297	406,029
Net debt	(298,861)	(345,580)	(312,879)	(351,127)

Notes to the Financial Statements for the year ended 31 July 2021

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 2021 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 2021 significant enough to warrant disclosure in the Financial Statements.

Professor Mark E. Smith, 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 £37,100,000 in the year to 31 July 2021 for research and training grants. Of this, £3,300,000 was disbursed to other research collaborators and the University received £6,200,000 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 £18,600,000 in the year to 31 July 2021, the main elements being £7,100,000 contribution to joint salaries, £6,400,000 for research grants and the balance for normal operational activity reimbursements.

Professor Jane Falkingham, 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 £8,400,000 research grant income and doctoral training grants from the ESRC in the year to 31 July 2021. Of this, £900,000 was disbursed to other research collaborators and the University received £500,000 from other Universities hosting ESRC funded research but where the University was a collaborator.

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 2021 the University received £175,000 from the company mainly for the Centre for Implementation Science and also paid £64,000 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 2021 the University received £2,000,000 grant income from the AHRC. Of this, £250,000 was disbursed to other research collaborators and the University received £250,000 from other Universities hosting AHRC funded research but where the University was a collaborator.

Olivia Reed and Ben Dolbear were members of Council (Class 5 membership) as representatives of the Students' Union. Ben Dolbear (Olivia Reed until June 2021) 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 £2,320,000 in the year to 31 July 2021 (2020: £2,210,000), 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.

Notes to the Financial Statements for the year ended 31 July 2021

26. Related party transactions (continued)

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 £3,600,000 to the Institute, of which a balance of £875,000 is held under creditors as at 31 July 2021. The University received £831,000 grant income from the Institute in the year to 31 July 2021.

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.

27. Capital and other commitments

Provision has not been made for the following capital and other commitments at 31 July 2021:

	Consolidated		University	
	2021	2020	2021	2020
	£000	£000	£000	£000
Commitments contracted for	39,468	25,202	28,161	25,015
	39,468	25,202	28,161	25,015

28. Lease obligations**Total rentals payable under operating leases**

At 31 July 2021 the University was committed to making the following payments under non-cancellable operating leases:

Consolidated	Land and	Plant and	2021	2020
	buildings	machinery	Total	Total
	£000	£000	£000	£000
Future minimum lease payments due:				
Not later than one year	2,750	581	3,331	3,882
Between one and five years	8,580	-	8,580	10,739
Over five years	15,219	-	15,219	13,590
	26,549	581	27,130	28,211

Notes to the Financial Statements for the year ended 31 July 2021

28. Lease obligations (continued)**University**

	Land and buildings £000	Plant and machinery £000	2021 Total £000	2020 Total £000
Future minimum lease payments due:				
Not later than one year	2,971	581	3,552	3,485
Between one and five years	8,779	-	8,779	9,871
Over five years	15,345	-	15,345	13,590
	27,095	581	27,676	26,946

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

Total rentals receivable under operating leases

At 31 July 2021 the principal future minimum lease payments receivable under non-cancellable leases are as follows:

Land and buildings:

	Consolidated		University	
	2021 £000	2020 £000	2021 £000	2020 £000
Less than one year	6,416	6,582	3,972	4,061
Between one and five years	21,437	22,201	16,444	16,016
More than five years	55,355	60,658	48,897	53,048
	83,208	89,441	69,313	73,125

Notes to the Financial Statements for the year ended 31 July 2021

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 1 January 2019. The University of Southampton Retirement Fund (USRF), a defined contribution scheme, commenced from 1 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 and PASNAS within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

The total pension scheme costs incurred in 2020/21 and 2019/20 for the consolidated group are summarised as follows:

	2020/21			2019/20		
	Employer contributions	Pension accounting adjustment **	Total Cost	Employer contributions	Pension accounting adjustment **	Total Cost
	£000	£000	£000	£000	£000	£000
USS*	35,245	-	35,245	34,987	-	34,987
PASNAS*	3,745	8,337	12,082	4,432	7,622	12,054
PASNAS deficit contribution	1,379	-	1,379	1,637	-	1,637
USRF from 1/1/19	1,040	-	1,040	749	-	749
USRF PASNAS deficit contribution	443	-	443	318	-	318
NHPS	1,445	-	1,445	1,391	-	1,391
Other pension schemes	334	(10)	324	444	250	694
Total pension cost (note 9)	43,631	8,327	51,958	43,958	7,872	51,830

* The figure for USS employer contributions excludes an amount of £110,000 (2020:£159,000) and the figure for PASNAS employer contributions excludes an amount of £71,000 (2020: £100,000) 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 31 July. The pension accounting adjustment on Other pension schemes is the balance after independent valuation of the HCC pension scheme.

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

Table of Employer Contribution Rates 2020/21 and 2019/20:

	20/21	19/20
	Rate %	Rate %
USS	21.10	19.50 to Sept 19 21.10 from Oct 19
PASNAS*	13.85	12.15 to Dec 2019, 13.85 from Jan 2020
USRF*	10.00	10.00
TPS	16.48	16.48
NHPS	16.18	16.18
MRCPS	15.90	15.90
HCC (two separate schemes)	31.70	31.70
	38.40	36.90 to Mar 20 38.40 from Apr 20
NEST	3.00	3.00

* Within the PASNAS and USRF schemes is an additional employers' contribution 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 2021/22 are expected to be:

	Rate %	£000
USS	21.40	37,038
PASNAS	13.85	2,793
PASNAS Deficit Contributions	5.10	1,028
USRF	10.00	931
USRF PASNAS Deficit Contributions	5.10	475
TPS	16.48	8
NHPS	16.18	1,648
MRCPS	15.9	49
HCC	38.4	42
NEST	3.00	144
Total		<u>44,156</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.

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

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

	USS	PASNAS	HCC
Date of valuation	31 March 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 University 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 University 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 University therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Consolidated Statement of Comprehensive Income represents the contributions payable to the scheme. Since the University has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the University 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 Consolidated 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 Consolidated Statement of Comprehensive Income and Expenditure for the employers contributions excluding the FRS 102 deficit provision was £35.2 million (2020: £35.0 million).

Deficit recovery contributions due within one year for the University are £3.3 million (2020: £2.8 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.

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

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

The 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.

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%
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.

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	2018 valuation Pre-retirement: 71% of AMCoo (duration 0) for males and 112% of AFCoo (duration 0) for females. Post-retirement: 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:

	2018 valuation	2017 valuation
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 2021 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2021	2020
Discount rate	0.89%	0.74%
Average annual pensionable salary growth	3.76%	3.84%

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

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 Comprehensive Income and Expenditure was calculated using a discount rate of 0.89% and an estimate of the changes in staffing levels and pay increases.

This resulted in a £62 million reduction of the provision to £79 million (2020: £141 million) as at 31 July 2020 and a further reduction of the provision to £72.6m as at 31 July 2021. Details of this provision are included in note 22 to the accounts.

After the statement of financial position date, the 2020 actuarial valuation was completed with an effective date of 1 October 2021. This states that from the 1 October 2021 deficit contributions will increase from 2% to 6% as planned but will rise again from 1 April 2022 to 6.3% for the length of the recovery plan until 31 March 2038.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £151.2m to £223.8m.

If a Benefit Change Deed is not agreed by 28 February 2022, the total deficit contributions will change to 3% in October 2022, increasing by 3% every 6 months until October 2025 where deficit contributions will remain at 20% until 31 July 2032.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £273.8m to £346.4m.

This is considered to be a non-adjusting post balance sheet event and no adjustment has been made with respect to the 2020/21 provision within the financial statements as a result of the completion of the 2020 valuation.

As at 31 March 2020, USS had 204,753 active members and the University had 3,703 active members participating in the scheme at 31 July 2021.

The total employer contributions for the year were £35,245,000 (2020: £34,987,000) which includes £2,929,000 (2020: £3,018,000) of contributions outstanding at the Institutional Statement of Financial Position date, payable in August 2021.

USRF

The University of Southampton Retirement Fund (USRF) was opened on 1 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 income and expenditure account 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 2021 was 473.

The total employer contributions for the year were £1,483,000 (2020: £1,067,000) which includes £142,000 (2020: £107,000) of contributions outstanding at the Institutional Statement of Financial Position date, payable in August 2021.

NHPS/TPS/MRCPS

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

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

The number of members of these schemes employed by the University as at 31 July 2021 was TPS 1; NHPS 118 and MRCPS 8.

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

	Pension cost		Outstanding at 31 July	
	2021	2020	2021	2020
	£000	£000	£000	£000
NHPS	1,445	1,391	137	115
TPS	15	28	1	2
MRCPS	64	79	4	7

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 £123,000 (2020: £133,000) which includes £12,000 (2020: £8,000) of contributions outstanding at the Institutional Statement of Financial Position date of 31 July 2021, payable in August 2021.

The number of members of this scheme as at 31 July 2021 was 236.

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 2021 was 1250.

The total employer contributions for the year were £5,124,000 (2020: £6,069,000) which includes £310,000 (2020: £510,000) of contributions outstanding at the Institutional Statement of Financial Position date of 31 July 2021, payable in August 2021.

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

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

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:

	31 July 2021	31 July 2020
Increase in salaries	3.00% pa	3.00% pa
Increase in pensions – pre 1 Oct 2010 (CPI)	3.10% pa	2.30% pa
Increase in pensions – post 1 Oct 2010 (CPI max 2.5%)	2.20% pa	1.80% pa
Discount rate	1.60% pa	1.40% pa
Inflation (RPI)	3.50% pa	3.10% pa
Inflation (CPI)	3.10% pa	2.30% pa

The changes in the above financial assumptions – the increase in the discount rate and pensions offset by an increase in inflation - have had a positive impact on the overall scheme deficit of £6.3 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	22.7	24.1
Female	25.0	26.4

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

	Value 31 July 2021	Value 31 July 2020	Value 31 July 2019
	£000	£000	£000
Gilts	73,644	39,346	36,792
Multi Asset Credit	-	35,643	34,340
Equities	130,294	83,848	95,661
Target return funds & cash	39,654	51,361	56,415
Property	39,654	34,916	22,075
Total	283,246	245,114	245,283

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

	2021	2020
	£000	£000
Analysis of the amount shown in the Institution Statement of Financial Position		
Scheme assets	283,246	245,114
Scheme liabilities	(480,352)	(448,481)
Deficit in the scheme – net pension liability recorded within pension provisions (note 22)	(197,106)	(203,367)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	(16,021)	(14,725)
Past service cost	(75)	-
Total operating charge	(16,096)	(14,725)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	3,415	5,137
Interest cost	(6,209)	(7,958)
Net finance cost	(2,794)	(2,821)
Analysis of other comprehensive income		
Gains/(losses) on assets	37,041	(3,998)
Experience gains on liabilities	2,370	2,893
Losses from changes to financial assumptions	(22,018)	(53,965)
Charge to other comprehensive income	17,393	(55,070)
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(203,367)	(137,854)
Movement in the year:		
Current service cost	(13,462)	(13,791)
Contributions	5,124	6,169
Net finance cost	(2,794)	(2,821)
Gain/(loss) recognised in other comprehensive income	17,393	(55,070)
Deficit in scheme at end of year	(197,106)	(203,367)
Analysis of movement in fair value of fund assets		
Assets at beginning of year	245,114	245,283
Employer contributions	5,124	6,169
Employee contributions	4,349	2,530
Benefits paid (net of expenses)	(10,247)	(8,603)
Administration costs	(1,550)	(1,404)
Interest on assets	3,415	5,137
Return/(loss) on scheme assets	37,041	(3,998)
Assets at end of year	283,246	245,114

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

	2021	2020
	£000	£000
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(448,481)	(383,137)
Current service cost	(13,462)	(13,791)
Past service cost	-	-
Interest on scheme liabilities	(6,209)	(7,958)
Employee contributions	(4,349)	(2,530)
Benefits paid	11,797	10,007
Actuarial experience gain on liabilities	2,370	2,893
Changes in assumptions underlying the present value of the scheme liabilities	(22,018)	(53,965)
	<hr/> (480,352) <hr/>	<hr/> (448,481) <hr/>

	2021	2020	2019
History of experience gains and losses			
Experience gains on assets in excess of interest (£000)	37,041	(3,998)	14,604
Percentage of scheme assets	13.1%	(1.6%)	6.0%
Experience gains/(losses) on liabilities (£000)	2,370	2,893	5,780
Percentage of scheme liabilities	0.1%	0.1%	1.5%

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 2021	31 July 2020
Increase in salaries	3.6% pa	3.3% pa
Increase in pensions	2.6% pa	2.3% pa
Discount rate	1.7% pa	1.4% pa
CPI inflation	2.6% pa	2.3% pa

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

	Retiring today	Retiring in 20 years
Male	23.1	24.8
Female	25.5	27.3

The number of active members of this scheme employed by the University as at 31 July 2021 was 2.

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

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

	Value 31 July 2021 £000	Value 31 July 2020 £000	Value 31 July 2019 £000
Equities	2,713	2,208	5,322
Government bonds	801	835	1,821
Property	291	245	636
Cash	47	64	168
Other	834	662	893
Total	4,686	4,014	8,840

	2021 £000	2020 £000
Analysis of the amount shown in the Institution Statement of Financial Position		
Scheme assets	4,686	4,014
Scheme liabilities	(4,055)	(4,092)
Adjustment in respect of FRS 102 section 28.22	(631)	-
Nil/(Deficit) balance in the scheme – net pension liability recorded within pension provisions (note 22)	-	(78)

Analysis of the amount charged to staff costs within operating surplus

Current service cost	(50)	(51)
Past service cost	-	-
Settlement costs	-	(607)
Total operating charge	(50)	(658)

Analysis of the amount charged to interest payable within operating surplus

Expected return on scheme assets	56	163
Interest on scheme liabilities	(57)	(139)
Net finance (credit)/cost	(1)	24

Analysis of other comprehensive income

Gain/(loss) on assets	653	(779)
Gain/(loss) on liabilities	47	(227)
Adjustment in respect of FRS 102 Section 28.22	(631)	1,170
Total amount recognised in other comprehensive income	69	164

Notes to the Financial Statements for the year ended 31 July 2021

29. Pension Schemes (continued)

	2021	2020
	£000	£000
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(78)	-
Movement in the year:		
Current service cost	(50)	(51)
Settlement cost	-	(607)
Employer contributions	60	413
Net finance (credit)/cost	(1)	3
Gain recognised in other comprehensive income	69	164
	<hr/>	<hr/>
Deficit in scheme at end of year	-	(78)
	<hr/>	<hr/>
Analysis of movement in fair value of fund assets		
Assets at beginning of year	4,014	8,840
Employer contributions	60	413
Employee contributions	9	9
Benefits paid	(106)	(267)
Interest on assets	56	163
Return/(loss) on scheme assets	653	(800)
Settlements	-	(4,344)
	<hr/>	<hr/>
Assets at end of year	4,686	4,014
	<hr/>	<hr/>
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(4,092)	(7,670)
Current service cost	(50)	(51)
Settlement costs	-	3,737
Interest on scheme liabilities	(57)	(139)
Employee contributions	(9)	(9)
Benefits paid	106	267
Actuarial experience gain/(loss) on liabilities	47	(227)
	<hr/>	<hr/>
Liabilities at end of year	(4,055)	(4,092)
	<hr/>	<hr/>

Based on the present values of the fund assets and fund liabilities at the reporting date, the scheme had a surplus of £631,000 at 31 July 2021. In line with the guidance provided by section 28.22 of FRS 102, this surplus has not been recognised.

Notes to the Financial Statements for the year ended 31 July 2021

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	
		2021 £000	2020 £000	2021 £000	2020 £000
Financial assets:					
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Investments in unit trusts	23	13,951	11,961	13,951	11,961
Other investments	19 and 23	245,163	237,283	245,163	237,283
Investment in ordinary shares	16	7,176	8,920	-	-
<i>Equity instruments measured at cost less impairment</i>					
Non-current asset investments	16	1,131	1,318	1,131	1,318
<i>Measured at undiscounted amount receivable</i>					
Trade and other receivables	18	26,461	24,235	25,541	23,572
		293,882	283,717	285,786	274,134

Notes to the Financial Statements for the year ended 31 July 2021

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

	Note	Consolidated		University	
		2021 £000	2020 £000	2021 £000	2020 £000
<i>Measured at fair value through the Statement of Comprehensive Income</i>					
Derivative financial liabilities	21	65	138	-	-
<i>Measured at amortised cost</i>					
Loans payable	21	408,537	410,834	405,888	407,701
<i>Measured at undiscounted amount payable</i>					
Trade and other creditors and amounts owed to group undertakings	20	23,507	13,976	22,360	12,512
		432,109	424,948	428,248	420,213

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

	Note	Consolidated		University	
		2021 £000	2020 £000	2021 £000	2020 £000
<i>Interest income and (expense)</i>					
Total income for financial assets at amortised cost	7	6,140	7,758	6,121	7,996
Total interest expense for financial liabilities at amortised cost	11	(14,416)	(14,362)	(14,300)	(14,203)
		(8,276)	(6,604)	(8,179)	(6,207)
<i>Fair value gains and (losses)</i>					
On financial assets measured at fair value through the Statement of Comprehensive Income		10,782	10,473	7,816	1,790
On derivative financial liabilities	11	357	70	-	-
		11,139	10,543	7,816	1,790

Notes to the Financial Statements for the year ended 31 July 2021

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

	At 1 August 2020 £000	Consolidated and University			At 31 July 2021 £000
		Income received £000	Disbursements £000	Returned to NCTL £000	
Student training bursaries	102	2,707	(2,570)	(117)	122
	102	2,707	(2,570)	(117)	122

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

After the statement of financial position date, the 2020 actuarial valuation was completed with an effective date of 1 October 2021. This states that from the 1 October 2021 deficit contributions will increase from 2% to 6% as planned but will rise again from 1 April 2022 to 6.3% for the length of the recovery plan until 31 March 2038.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £151.2m to £223.8m.

If a Benefit Change Deed is not agreed by 28 February 2022, the total deficit contributions will change to 3% in October 2022, increasing by 3% every 6 months until October 2025 where deficit contributions will remain at 20% until 31 July 2032.

This would have an impact of increasing the provision as at 31 July 2021 of £72.6m by £273.8m to £346.4m.

This is considered to be a non-adjusting post balance sheet event and no adjustment has been made with respect to the 2020/21 provision within the financial statements as a result of the completion of the 2020 valuation.

Notes to the Financial Statements for the year ended 31 July 2021

S1 Supplementary schedule for the U.S. Department of Education

As instructed by the Federal Student Aid - An Office of the U.S. Department of Education, the University's audited financial statements must include a supplementary schedule.

As required under 34 CFR §668.172 and Section 2 of Appendix A or B to Subpart L of Part 668, a proprietary, private non-profit, or foreign school must include a Financial Responsibility Supplemental Schedule (Supplemental Schedule) as part of any audited financial statements submissions to the Department on or after July 1, 2020.

The supplementary schedule is required to use nomenclature from United States Generally Accepted Accounting Practice (US GAAP). However, the recognition and measurement basis throughout this note is consistent with FRS102 and the Higher Education SORP. We have included the UK GAAP naming conventions (as included in the financial statements and notes) in the second column of the below table.

Primary Reserve Ratio			2021	2020
			£000	£000
Page	Line item/related disclosures	Expendable Net Assets		
34	Consolidated Statement of Financial Position - Income and expenditure reserve - unrestricted	Net assets without donor restrictions	515,020	481,200
34	Consolidated Statement of Financial Position - Income and expenditure reserve - endowment reserve and restricted reserve	Net assets with donor restrictions	20,063	18,243
71	Note 23 of the Financial Statements - Endowment reserves - Restricted Permanent	Net assets with donor restrictions: restricted in perpetuity	(9,473)	(8,187)
-	Not Applicable	Annuities with donor restrictions	-	-
71	Note 23 of the Financial Statements - Endowment reserves - Restricted Expendable	Term endowments with donor restrictions	(2,598)	(2,264)
-	Not Applicable	Life income funds with donor restrictions	-	-
62	Note 15 of the Financial Statements - Intangible assets - Software in progress	Intangible assets - Other intangible assets	(229)	(44)
-	Not Applicable	Intangible assets - Goodwill	-	-
59	Note 14 of the Financial Statements - Fixed assets (excluding Leasehold, land and buildings)	Property, Plant and equipment, net (includes Construction in progress)	(653,700)	(644,726)
59	Note 14 of the Financial Statements - Fixed assets - Leasehold, land and buildings	Lease right-of-use of asset pre-implementation	(91,554)	(96,988)
34	Consolidated Statement of Financial Position - Pension provisions	Post-employment and pension liabilities	269,729	282,264
66,67	Notes 20 and 21 of the Financial Statements - Creditors: Bank loans, Public bond	Long-term debt - for long term purposes pre-implementation	361,722	363,651
-	Not Applicable	Long-term debt - for long term purposes post-implementation	-	-
66,67	Notes 20 and 21 of the Financial Statements - Creditors: Obligations under finance leases	Lease right-of-use of asset liability pre-implementation"	46,815	47,183
-	Not Applicable	Unsecured related party receivable	-	-
			455,795	440,332

Notes to the Financial Statements for the year ended 31 July 2021

S1 Supplementary schedule for the U.S. Department of Education (continued)

			2021	2020
			£000	£000
Page	Line item/related disclosures	Total Expenses and Losses:		
32	Consolidated Statement of Comprehensive Income - Staff costs excluding movements in the USS deficit funding accrual	Total expenses without donor restrictions	329,112	322,396
32	Consolidated Statement of Comprehensive Income - Depreciation and amortisation, other operating expenses and Interest and other finance costs	Total expenses without donor restrictions	223,834	228,779
33	Consolidated Statement of Comprehensive Income - Actuarial loss in respect of pension schemes	Other components of net periodic pension costs	-	54,906
32	Consolidated Statement of Comprehensive Income - Loss on disposal of fixed assets	Sale of fixed assets, losses	-	1,035
32	Consolidated Statement of Comprehensive Income - Share of operating deficit in associate	Other non-operating losses	-	11
32	Consolidated Statement of Comprehensive Income - Loss on disposal of current asset investments	Other non-operating losses	-	1,475
-	Not Applicable	Pension-related changes other than net periodic costs	-	-
			552,946	608,602
Equity Ratio				
			2021	2020
			£000	£000
Page	Line item/related disclosures	Modified Net Assets		
34	Consolidated Statement of Financial Position - Income and expenditure reserve - unrestricted	Net assets without donor restrictions	515,020	481,200
34	Consolidated Statement of Financial Position - Income and expenditure reserve - endowment reserve and restricted reserve	Net assets with donor restrictions	20,063	18,243
62	Note 15 of the Financial Statements - Intangible assets - Software in progress	Intangible assets - Other intangible assets	(229)	(44)
-	Not Applicable	Intangible assets - Goodwill	-	-
-	Not Applicable	Unsecured related party receivable	-	-
			534,854	499,399

Notes to the Financial Statements for the year ended 31 July 2021

S1 Supplementary schedule for the U.S. Department of Education (continued)

			2021	2020
			£000	£000
Page	Line item/related disclosures	Modified Assets		
34	Consolidated Statement of Financial Position - Non-current assets, Current assets	Total Assets	1,410,962	1,343,793
59	Note 14 of the Financial Statements - Fixed assets - Leasehold, land and buildings	Lease right-of-use of asset pre-implementation	(91,554)	(96,988)
62	Note 15 of the Financial Statements - Intangible assets - Software in progress	Intangible assets - Other intangible assets	(229)	(44)
-	Not Applicable	Intangible assets - Goodwill	-	-
-	Not Applicable	Unsecured related party receivable	-	-
			1,319,179	1,246,761
Net Income Ratio			2021	2020
			£000	£000
Page	Line item/related disclosures	Change in Net Assets Without Donor Restrictions		
33	Consolidated Statement of Comprehensive Income - Unrestricted comprehensive income for the year and non-controlling interest	Change in Net Assets Without Donor Restrictions	33,820	48,105
			33,820	48,105

Notes to the Financial Statements for the year ended 31 July 2021

S1 Supplementary schedule for the U.S. Department of Education (continued)

			2021	2020
			£000	£000
		Total Revenue without Donor Restrictions and Gains without Donor Restrictions		
32	Consolidated Statement of Comprehensive Income - Total income	Total Operating Revenue and Other Additions	554,077	583,344
32	Consolidated Statement of Comprehensive Income - Gain on investments	Investments, net of annual spending, gain	10,782	10,473
33	Consolidated Statement of Comprehensive Income - Actuarial gain in respect of pension schemes	Other components of net periodic pension costs	17,462	-
32	Consolidated Statement of Comprehensive Income - Share of operating surplus in associate	Other non-operating gains	92	-
32	Consolidated Statement of Comprehensive Income - Gain on disposal of fixed assets	Sale of fixed assets, gains	558	-
	Less restricted (income)/expenditure	Less restricted (income)/expenditure		
33	Consolidated Statement of Comprehensive Income - Endowment comprehensive (income)/expenditure for the year and restricted comprehensive (income)/expenditure for the year	Change in Net Assets With Donor Restrictions	(1,820)	307
			581,151	594,124

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