Statement of Principal Accounting Policies and Estimation Techniques

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standards FRS102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS102.

The financial statements conform to guidance published by the Higher Education Funding Council for England.

In preparing the separate financial statements of the University, advantage has been taken of the following disclosure exemptions available in FRS102:

- No cash flow statement has been presented for the University.
- Disclosures in respect of the University’s financial instruments have not been presented, as equivalent disclosures have been provided in respect of the group as a whole.

2. BASIS OF ACCOUNTING

The consolidated financial statements include the financial statements of the University and its subsidiary undertakings for the financial year to 31 July 2017. These are Sussex Innovation Centre Development Limited, Sussex UH Limited, Sussex Estates and Facilities LLP, Sussex Innovation Centre Management Limited, Sussex UH ESR Holding Limited and Sussex UH ESR Intermediate Limited.

The consolidated financial statements do not include the income and expenditure of the Students’ Union as the University does not exert control or dominant influence over policy decisions. The Students’ Union is an independent charity with separate control.

3. INCOME RECOGNITION

Grant funding including funding council block grant, 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 have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Sale of goods and services receipts are credited to the income and expenditure account at the time of supply to the customers or when the terms of the contract have been satisfied.

Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments are non-exchange transactions without performance related conditions.

Donations and endowments with donor-imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Investment income and appreciation of endowments and investments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms or any other restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

1. Restricted donations – the donor has specified that the donation must be used for a particular objective.
2. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
3. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets.
4. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.
Statement of Principal Accounting Policies and Estimation Techniques (continued)

**AGENCY ARRANGEMENTS**

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

**4. EMPLOYMENT BENEFITS**

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

**5. 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 finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

Minimum 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.

**6. SERVICE CONCESSION ARRANGEMENTS**

Fixed assets held under service concession arrangements are recognised on the Balance Sheet at the present value of the minimum lease payments when the assets are bought into use with a corresponding financial liability.

Payments under the service concession arrangement are allocated between service costs, finance charges and financial liability repayments to reduce the financial liability to nil over the life of the arrangement.

**7. OPERATING LEASES**

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

**8. TAXATION**

The University is an exempt charity within the meaning of Part 3 of the Charities Act 2011, and, as such, is a charity within the meaning of Section 506 (1) of the Income and Corporation Taxes Act 1988. The University is recognised as a charity by HM Revenue & Customs. 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 section 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 any other commercial organisation.

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

**9. ACCOUNTING FOR RETIREMENT BENEFITS**

The two principal pension schemes for the University’s staff are the Universities Superannuation Scheme (USS) and the University of Sussex Pension and Assurance Scheme (USPAS). The schemes are defined benefit schemes, which are externally funded. Each fund is valued every three years by professionally qualified independent actuaries.

The USS is a multi-employer scheme for which it is not possible to identify the assets and liabilities to University at members 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.
Statement of Principal Accounting Policies and Estimation Techniques (continued)

**DEFINED CONTRIBUTION PLAN**

A defined contribution plan is a post-employment benefit plan under which the University pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

**DEFINED BENEFIT PLAN**

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, 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 should recognise a liability for its obligations under defined benefit plans net of plan assets. This 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 plan.

**10. FOREIGN CURRENCY**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in Surplus or Deficit for the financial year.

**11. FIXED ASSETS**

Fixed assets are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Land and buildings that had been revalued to fair value on or prior to the date of transition to the 2015 SORP are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

No depreciation is charged on assets in the course of construction and a full charge for the year is made for assets brought into use during the year. No charge for depreciation is made in the year in which an asset is disposed of.

**LAND AND BUILDINGS**

Freehold land is not depreciated; freehold buildings are depreciated over their expected useful economic life of 50 years and improvements to buildings over 20 years. Leasehold land with an unexpired term of more than 50 years is not amortised. Leasehold land with an unexpired term of 50 years or less and leasehold buildings are amortised over the term of the lease up to a maximum of 50 years.

**EQUIPMENT**

Equipment, including computers and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

- general equipment – 5 years
- equipment acquired for specific research projects – 3 years
- structural equipment – 10 years.

Where buildings and equipment are acquired with the aid of specific grants, the assets are capitalised and depreciated in accordance with the policy set out above, with the related grant credited to income in accordance with the performance model for capital grants.

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

**BORROWING COSTS**

Borrowing costs are recognised as expenditure in the period in which they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset, where they are capitalised.
12. FINANCIAL INSTRUMENTS

Financial assets are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities are classified according to the substance of the financial instrument’s contractual obligations, rather than the financial instrument’s legal form. Financial liabilities are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

13. STOCKS

Stock is held at the lower of cost and net realisable value.

14. REPAIRS AND MAINTENANCE

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred.

15. CASH AND CASH EQUIVALENTS

Cash includes cash in hand, 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. They include term deposits, government securities and loan stock held as part of the treasury management activities. They exclude any such assets held as endowment asset investments.

16. 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 an outflow of economic benefits will be required to settle the obligation

(c) a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

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

17. ACCOUNTING FOR JOINT VENTURES

The University accounts for its share of transactions from its jointly controlled operation, in the Brighton and Sussex Medical School, in the Consolidated Statement of Comprehensive Income and the Balance Sheet.

18. INTRA-GROUP TRANSACTIONS

Gains or losses on any intra-group transactions are eliminated in full, on consolidation. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity.

19. RESERVES

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund that 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.
In preparing these financial statements, the Council have made the following judgements:

- Determine whether leases entered into by the University either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.

- Determine whether there are indicators of impairment of the University’s tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset.

- The critical underlying assumptions in relation to the estimate of the University of Sussex Pension and Assurance Scheme defined benefit scheme obligation such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense.

- The underlying assumptions in relation to the estimate of the present value of the obligation in respect of the funding deficit plan for the USS pension scheme such as the salary inflation over the period of the funding deficit plan and the discount rate to be used.

- The determination as basic financial instruments of loan agreements that contain compensation clauses.

Other key sources of estimation uncertainty:

- Tangible fixed assets (note 3) are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Trade debtors (note 5): the estimate for receivables relates to the recoverability of the balances outstanding at year-end. A review is performed on an individual debtor basis to consider whether each debt is recoverable.