Universities Superannuation Scheme Limited

Report and Accounts

for the year ended 31 March 2020

USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

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UNIVERSITIES SUPERANNUATION SCHEME LIMITED

COMPANY INFORMATION

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Ms N J K Mayo
Directors	Professor Sir D S Eastwood (Chair) Dr K J Carter (Deputy Chair and Senior Independent Director) Ms K English Mr D M J Guppy (deceased on 3 December 2019) Professor J L Hutton (appointment terminated 10 October 2019) Mr I R Maybury Mr M R Merton Professor Sir V A Muscatelli Mr M R Poisson Mr S W Spinks Dr S Wharton Mr G Dixon (appointed 1 April 2019) Dame K M Barker (appointed 1 April 2020)
Bankers	Barclays Bank PLC Manchester M2 1HW National Westminster Bank PLC 2-8 Church Street Liverpool L1 3BG
Independent Auditor	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY
Website	uss.co.uk

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2020

The directors submit their strategic report, directors' report and the consolidated financial statements for the year ended 31 March 2020.

Principal activity

Universities Superannuation Scheme Limited ('USSL' or the 'company') is a company incorporated in the United Kingdom on 18 April 1974, which is limited by guarantee and does not have share capital and is the corporate trustee (the 'trustee') of Universities Superannuation Scheme ('USS' or the 'scheme'). The scheme is the principal pension scheme for academic and comparable staff in universities and other higher education institutions in the United Kingdom; it is a hybrid scheme providing both defined benefit ('DB') and defined contribution ('DC') pension benefits to its members.

USS Investment Management Limited ('USSIM') is a wholly-owned subsidiary of the company. Its principal activity is to provide investment management and advisory services to the company. Together these companies are referred to as 'the group'.

The group recovers its costs in accordance with the Scheme Rules generating neither profit nor loss. Accordingly, the group's business model focuses on maximising value for money for the scheme's members and the employers in the scheme.

Review of the business

The 31 March 2018 Valuation of the scheme was finalised during the current financial year on 16 September 2019 and work commenced on the 31 March 2020 Valuation. In preparation for this, the company has carried out a fundamental review of its approach to valuations and engaged extensively with stakeholders. The recommendations from the 'Joint Expert Panel' (JEP), set up initially to review the 2017 Valuation by University and College Union (UCU), on behalf of members, and Universities UK, on behalf of sponsoring employers, have informed this review and subsequent discussions. Prior to the conclusion of the 31 March 2018 Valuation, employer contribution rates increased on 1 April 2019 from 18% to 19.5% and member contributions increased from 8% to 8.8% as per the rates set in the 31 March 2017 Valuation. The subsequent increase on 1 October 2019, was set by the 31 March 2018 Valuation, with employer contributions increasing to 21.1% and member contributions to 9.6%, a lower increase at this date than previously defined under the 31 March 2017 Valuation. Further details of the 2018 Valuation and deficit recovery arrangements can be found in the section below entitled 'Deficit recovery agreement' and details of its impact on the group balance sheet as an employer within the scheme can be found in Note 17.

In the latter part of the year, USS focussed efforts and energies on responding to the impact of the coronavirus pandemic, specifically, in relation to the continued delivery of services to its members and sponsors in the UK Higher Education sector, and to the safety and wellbeing of its employees. USS will remain vigilant and continues to monitor market conditions, and work with its employees, the Higher Education sector and member representatives to consider the most appropriate next steps.

The new authorisation and supervision regime for Master Trusts came into force in October 2018. The code of practice for Master Trusts, sets out minimum standards legally required of trustees' management of schemes which include fit and proper systems and processes, a continuity strategy and financial sustainability. As a multi-employer scheme offering DC benefits, USS falls within the categorisation of a Master Trust, and on 10 May 2019, the scheme received approval from the Pensions Regulator as a Master Trust.

Review of the business (continued)
The board continues to focus on maintaining sustained strong investment performance across the DB and DC investments. The group follows a strategy of in-house investment management where it is cost-effective to do so. For certain areas of investment, the company does not believe it is in the scheme's interests to build capabilities internally, and the current internal versus external mix represents our assessment of the appropriate balance at this time.

Principal risks and uncertainties and key performance indicators

The board's approach to risk management within the group is set out in its risk management framework which defines the board's risk appetite, the types of risks the group is exposed to and the related risk governance arrangements. Risks that could impact on the delivery of business objectives, and the internal control systems that support them, are documented and assessed against risk appetite. Where a risk is found to be at a level greater than the acceptable risk appetite, appropriate remedial actions are developed, implemented and tracked to resolution. This strategic report analyses those risks relevant to the group's performance as a trustee company and investment management subsidiary that generate neither a profit nor a loss.

There are a number of potential risks and uncertainties that could impact the group's long-term performance. The board assesses these risks and uncertainties and takes appropriate action to mitigate where necessary. As noted above, the trustee is regulated by the Pensions Regulator and is also authorised and supervised under the Master Trust regime by the Pensions Regulator. The subsidiary company, USS Investment Management Limited, is regulated by the Financial Conduct Authority (FCA). The board, together with a dedicated team, regularly assesses regulatory developments and ensures compliance with those applicable.

The principal risks, potential impacts and mitigations in place for the group are described below. These risks broadly fall into two categories, firstly those which are direct risks of the group and secondly those which are risks of the scheme and are either managed by the group or could indirectly impact the group's strategy and ability to successfully deliver its obligations.

Principal Risks and Uncertainties which are scheme related and directly impact the group

Service risk
There is a risk that the pension service delivery fails to meet the requisite quality or timeliness standards which may lead to poor or incorrect outcomes for our members. There are robust operational controls and defined service standards and service level metrics in place together with a comprehensive workload forecasting tool, as well as quality control checking and regular training of all staff.

Key performance indicators relating to pension-related service risk can be found within non-financial KPIs on page 7.

Regulatory risk
There is a risk that the group is adversely impacted by changes to policy, legislation or regulation or that the group fails to apply effective oversight of its compliance with such policy, legislation or regulation. This could adversely impact the group's ability to provide investment management and advisory services. Such failures could also lead to additional cost and organisational complexity or fines, compensation costs and censure, as well as damage to stakeholder relationships and reputation.

Principal Risks and Uncertainties which are scheme related and directly impact the group (continued)

Regulatory risk (continued)

The group engages dedicated compliance and legal professionals to assist the board in assessing existing and emerging regulatory initiatives, monitoring changes to, and compliance with, the law and regulations and providing ongoing compliance training. Investment in our risk and control framework reflects the level of focus expected from an investment management provider of our scale and complexity.

The key performance indicator for the year is the completion of the quarterly review process against the company's legal and regulatory obligations ensuring that no significant regulatory issues arise, as well as satisfactory completion of all education and awareness activity by relevant staff.

There were two material breaches which occurred or were identified during the year: the first arising as a result of missing the statutory deadline to agree the scheme's 2018 Valuation; and the second relating to the identification of a failure to send information to members within the stipulated regulatory timescales that occurred in 2018, which has subsequently been addressed through the introduction of additional data and process controls to mitigate the risk of recurrence.

The control environment has remained robust in the year and the business has continued to strengthen controls in an appropriate and diligent manner. The FCA Senior Managers and Certification Regime was fully implemented by December 2019. Investment in the company's risk and control framework reflects the level of focus expected from an investment management provider of our scale and complexity.

Business change risk

The group is exposed to business change risk and specifically its ability to deliver strategic business change effectively. Poorly implemented change programmes can lead to increased costs, unfavourable member experience and reputational damage amongst key stakeholders. To mitigate this risk a team of experienced business change professionals is employed by the group, augmented by further external resources as necessary. In addition, business change governance is closely monitored and controlled with oversight from the group executive committee.

The key performance indicator for the year is to ensure that greater than 81% (2019: 81%) of milestones for change projects are completed in line with deadlines laid out in agreed project plans. 86% (2019: 91%) of milestones were completed in line with deadlines laid out in agreed project plans during the year.

People risk

There is a risk that the group fails to attract and retain sufficient people with the necessary skillsets in the right roles, or to develop an appropriate business culture and management structure. This risk may lead to an inability to provide the necessary resources to achieve successful delivery of the group's strategic priorities, potentially leading to poor investment performance, increased incidence of operational error and failure, and ultimately to reputational damage with key stakeholders.

To mitigate the risk, the group has consistently sought to build and maintain an experienced and talented team. This is supported by clear objective setting linked to the strategic priorities, regular performance and remuneration reviews with reference to appropriate benchmarks, training and development programmes, and employee satisfaction reviews.

Principal Risks and Uncertainties which are scheme related and directly impact the group (continued)

People risk (continued)

The key performance indicator for the year is a measure of employee engagement and training satisfaction levels. The aim of the annual independent employee engagement survey is to measure the levels of alignment with our goals, commitment and motivation. The most recent employee engagement score for the group was 7.5 out of 10, which is in line with the benchmark (2019: in line with benchmark). The supplier and format of results have been changed during the year, therefore, the engagement score itself is not directly comparable to prior year (2019: 81%).

Business disruption risk

There is a risk of prolonged business disruption caused by economic, political or social events such as the outbreak of coronavirus, impacting financial markets, inability to provide critical services due to staff unavailability or supplier failure, and financial hardship across the higher education sector. Physical and infrastructural disruption could lead to adverse impact on operational capacity and controls.

To mitigate this risk, the group has maintained and regularly tested business continuity and disaster recovery plans. These helped to enable full remote working capability for all key teams, to allow continuity of key processes and physical isolation of employees following the coronavirus outbreak. Supplier viability is monitored through the supplier framework processes.

Information and privacy risk

The group is exposed to data risk and the potential failure to protect the confidentiality, integrity or availability of critical data (including personal and commercially sensitive data) held by the group or its suppliers, or that data is accessed without appropriate authorisation.

The impact of this risk may lead to breaches of applicable data protection legislation, potential for regulatory censure or fine, loss of reputation with members and employers and potential monetary loss and remediation costs.

To mitigate this risk the group has implemented certain strategies which include a dedicated information security team, the implementation of appropriate information security and data protection framework and processes, the implementation of appropriate cyber risk controls, the delivery of regular education and awareness training to employees and the ongoing maintenance of the international information security accreditation, ISO 27001.

Stakeholder risk

Ineffective governance or relationship management structures may result in the group failing to engage effectively with its stakeholders. This may lead to an impaired ability to ascertain correctly and respond effectively to the changing needs of employers and members. Employers, or their representative bodies, may no longer view USS as the primary service provider for retirement benefits, or members may no longer want to use USS for their retirement provision.

To mitigate this risk the group holds regular meetings with employers, member representatives and employer representatives, including Universities UK and UCU, which cover matters including valuation, funding, contributions, product development and investment performance. In addition, the group publishes regular updates and explanatory notes for members in relation to developments impacting them and the scheme on its website uss.co.uk.

Principal Risks and Uncertainties which are scheme related and directly impact the group (continued)

Supplier risk

The group is exposed to the risk that a supplier fails to perform a business-critical contracted service and/or a failure to obtain value for money for the scheme. This could arise as a result of an operational failure by a supplier or in the event of a supplier insolvency.

To mitigate this risk the group has access to a dedicated procurement function with responsibility (together with the Group General Counsel and Information Security) for controlling supplier onboarding and ongoing monitoring of key suppliers' performance. The function provides support in taking appropriate remedial actions and ultimately replacement of non-performing suppliers and pursuit of USS entitlements should value for money not be received. Relationship management structures are in place with key suppliers, supported by service-level agreements, performance reporting and incident escalation and resolution protocols.

Principal Risks and Uncertainties which are scheme related and indirectly impact the group

The group is responsible for investment management but neither USSIM nor USSL are the beneficial owner of the underlying assets, which USSL holds as trustee for the scheme. As such, the risks set out below would indirectly impact the group in respect of the quality of the service it provides, but do not impact the group's own financial statements directly.

Defined Benefit Funding risk

There is risk of a deterioration in the financial health of the USS Retirement Income Builder which provides DB benefits resulting from an increase in the net pension deficit or from any decrease in the ability of employers to make contributions. The impact of this risk may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.

To mitigate this risk, the group employs a dedicated funding strategy and actuarial team focussed on the funding of the USS Retirement Income Builder which regularly monitors funding levels, employers' covenant strength and contribution adequacy and liability.

Further details relating the funding of the scheme can be found in Note 17, Deficit recovery liability.

Investment performance risk

The investment portfolio managed by the group is exposed to investment performance risk, which could include the risk of a prolonged period of inadequate investment performance relative to the Reference Portfolio. The Reference Portfolio is a strategic allocation across mainstream asset classes (global equities, UK property, government, corporate and emerging market bonds). The Reference Portfolio is set by the trustee board to be consistent with the scheme's long-term goals and risk appetite. Over the long-term, the Reference Portfolio is expected to generate excess returns relative to the Liability Proxy, a basket of UK gilts, primarily index-linked, approximating the scheme's expected liability cashflows. Our investment strategy and risk management frameworks have meant that the impact of coronavirus on scheme assets has been mitigated relative to the impact on the Reference Portfolio.

The impact of this risk may be an increase in the deficit of the defined benefit element of the scheme (USS Retirement Income Builder) or a decrease in the value of members' defined contribution element of the scheme (USS Investment Builder). The former may lead to a requirement to increase defined benefit contributions, amend investment strategy and/or reduce future benefits.

Principal Risks and Uncertainties which are scheme related and indirectly impact the group (continued)

Investment performance risk (continued)

The key performance indicator for DB performance is the 5-year relative outperformance of the implemented portfolio against the Reference Portfolio. The outperformance weighted target is 0.55% on an annualised basis over rolling five-year periods to 31 March, net of applicable costs. As at 31 March 2020, annualised DB outperformance was 0.91% above the Reference Portfolio benchmark over the past 5 years.

The key performance indicator for DC fund performance in the USS Investment Builder is measured on a cumulative asset-weighted basis. On an asset-weighted basis, the USS Investment Builder range has outperformed the benchmark by 0.3%, on an annualised asset-weighted basis, since inception in October 2016 to 31 March 2020.

Further information with more detailed commentary on investment performance risks can be found in the Annual Report and Accounts for the scheme for the year ended 31 March 2020 and the Statement of Investment Principles that are both available on the website (uss.co.uk).

Non-financial KPIs

A range of non-financial KPIs are measured throughout the year, including those in relation to member service, employer service and the metrics associated with staff employed in the business.

Member Service

Members' experiences of USS, of its systems and processes, and of its people are a crucial barometer of our success in managing the scheme. The group has continued to invest in its pensions administration and support function in response to the increasing complexity of the scheme and the regulatory environment.

Some member service highlights for 2019/20 were: coping with a significant increase in workloads whilst meeting all Service Level Agreements, and with direct service related feedback captured for the first time; preparing for the insourcing of the Member Service Desk, which will provide opportunities to enhance the member experience; and enhancing the new joiners and retirement processes and support, both key parts of the service offered to members. In addition to these, in the final quarter of the year, the level of continued service offered following the onset of the coronavirus ensured that USS continued to meet the payments and processing standards members expect, with the only reduction in service being the temporary suspension of new transfers into the scheme. In the 2019 survey carried out during the current financial year, 24% of members rated their overall relationship with USS as 'good' or 'very good' (2018 survey: 31%).

Employer service

The group works closely with employers to deliver an efficient, timely and high-quality service to our members. The group seeks feedback from employers through the daily contact it has with their scheme administrators, through the engagement and relationship management teams and through more formal channels, such as the Institutions' Advisory Panel (IAP) and the Institutions Meeting. In the 2019 survey carried out during the current financial year, 83% of employers rated their overall relationship with USS as 'good' or 'very good' (2018 survey: 80%). The proportion of employers rating their overall relationship with USS as 'very good' has increased by 10% this year to 34%.

It is vital that employers can easily access the support they require from USS to assist them in discharging their administrative obligations in an accurate and timely manner. Following the successful launch of the formal employer training programme in 2018/19, a further 25 training courses have been held for around 230 delegates during 2019/20. Feedback remains extremely positive with 99% of attendees stating that the goals of the course had been met and would be useful in their work.

Value for Money and Effective Cost Control

The group must demonstrate value for money including transparency and accountability when engaging with suppliers since its costs are ultimately recharged to the scheme. This is achieved by working to ensure that expenditure and sourcing decisions are approved before suppliers are engaged, and that cost performance against budgets is monitored on a monthly basis, and against external benchmarks annually. The level of expenses incurred during the year is in accordance with the business plan and budget approved by the board at the start of the year and is deemed to be appropriate relative to the scale and complexity of the scheme.

The operating costs for the year amounted to £158,906,000 (2019: £150,370,000). A summary of total operating costs for the year analysed by nature of expense is as follows:

	2019/20 Total £'000	2018/19 Total £'000
People related expense		
Employee incentives (inclusive of social security)	40,186	23,828
Wages and salaries (inclusive of social security, redundancy and pension costs)	45,640	39,784
Contractor costs	3,384	4,070
Pension deficit funding	(8,926)	14,501
Other personnel costs	3,682	3,983
People related expense	**83,966**	**86,166**
Premises costs	4,398	4,305
Investment costs	34,713	29,693
Other costs	35,829	30,206
Total operating costs	**158,906**	**150,370**

Total operating costs have increased by £8,536,000 (2019: £23,144,000) or 5.7% (2019: 18.2%) year-on-year. The key movements in underlying operating costs are:

Incentives have increased by £16,358,000 (2019: £4,694,000). The increase this year was linked to a £14,805,000 (2019: £1,987,000) increase in charges relating to provisions made in relation to the estimated future payments under long-term incentive plans. The increase in the charge for long-term incentive plans reflected materially higher outperformance against the relevant performance benchmarks for eligible staff and lower leaver rates, along with an increase in leavers who are still entitled to the award and thus where full provision is required in the year of leaving.

Wages and salaries have increased by £5,856,000 (2019: £2,592,000). This reflects an annual inflationary increase, the increase in headcount during the year and also the full year impact of the prior year increase. The increase in employee numbers is discussed below. Further details are shown in notes 5 and 19.

The pension deficit funding credit of £8,926,000 (2019: charge of £14,501,000) relates to the deficit recovery liability (see below).

Long-term incentive plans

The group balance sheet contains a £25,311,000 provision (2019: £8,378,000) which represents the present value of an estimate of future pay-outs and other related costs of the long-term incentive plans (LTIPs): this estimate increased sharply due to material benchmark outperformance during the coronavirus related market volatility of the final quarter. Further details are shown in note 13 to the financial statements.

Deficit recovery agreement
On 16 September 2019, the company finalised the 31 March 2018 Actuarial Valuation and deficit recovery agreement. The recovery plan followed an Actuarial Valuation of the USS Retirement Income Builder (the defined benefit element of the scheme), as at 31 March 2018, which showed a total deficit of £3.6bn. To correct the shortfall, scheme employers' deficit contributions (including the group's as an employer in the scheme) were set at 2% of total uncapped salaries with effective from 1 October 2019, and unless superseded by a further agreement will increase to 6% with effect from 1 October 2021.

The group balance sheet contains a £12,541,000 liability to reflect the discounted cash flow value of the group's share of those revised deficit contributions and which represents the contractual obligation in respect of the group's current and past employee members (2019: £21,217,000, based on the previous deficit contribution rates, as set by the 31 March 2017 Actuarial Valuation, of 5% of total uncapped salaries with effect from 1 April 2020 until 30 June 2034). Further details are shown in note 17 to the financial statements.

Employee numbers
The people employed by the group are critical to the success of the scheme overall. To deliver value for members and institutions, the trustee board and its executive management must engage employees so as to ensure that the group has the right mix of skills and experience. The group continued to invest in its people during the year which saw average headcount increase from 464 to 488 (2019: 433 to 464) as a result of on-going headcount growth driven by continued investment in our digital platform, to support business improvements and control initiatives and also as part of a shift from contractors to permanent employees.

The Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. New legislation has been introduced to help users of the financial statements better understand how directors have discharged their duty to promote the success of the company, while having regard to the matters set out in section 172(1)(a) to (f) of the CA2006 (s172 factors).

Long-term decision making
The group has a long-term focus and purpose and is a responsible long-term investor. As part of its decision making the board considers the likely consequences of any decision in the long-term for all significant matters discussed. The board regularly discusses strategic issues and considers the impact on the long-term of the group and the scheme it serves.

Business relationships
The group recognises the important role it plays in the Higher Education (HE) sector in the United Kingdom and the critical relationships it has with its members and beneficiaries. The group works closely with employers to deliver an efficient, timely and high-quality service to our members. The group is committed to continuously improving member experience, including delivering communications directly to its member rather than communicating through their employer and a shift to more online services. Members needs are also represented by UCU with whom the group engages with regularly through the Joint Negotiating Committee. The directors provide regular information to employers and members with regards to the performance of the scheme investments, through various communication channels as well as conducting annual employer and member engagement surveys. In addition, members needs are also represented by UCU and employers represented by Universities UK with whom we engage with regularly, particularly on matters relating to the Actuarial Valuations.

The group manages business relationships with suppliers from the onset through a robust supplier onboarding process and continues to monitor critical and key suppliers through regular health-checks. This year the group has strengthened the purchase order and invoice payment process to ensure more timely and accurate payments to suppliers.

Other stakeholders

The directors have also identified employers, employees and regulators as key stakeholders. The group plays a key role in supporting the continued success of the higher education sector, a sector that is of great importance to the UK economy. The group works with more than 300 employers and has more than 450,000 members and so has a significant impact on the wider community by working to help build a secure financial future for our members and their families and support them through their working life and into retirement. The directors provide regular information to employers and members with regards to the performance of the scheme investments through various communication channels as well as conducting annual employer and member engagement surveys. The group has regular engagement with the Pensions Regulator in particular around the 2018 and 2020 Valuations and as part of its ongoing supervision of the scheme.

The group considers all long-term risks to the performance of its investments, including material environmental, ethical, social and corporate governance factors where these have a financial bearing. The trustee's commitment to responsible investment is captured in its statement of Investment Principles, Investment Beliefs, Responsible Investment and Stewardship Code.

Further information on employee engagement is detailed in the Directors' report.

Streamlined energy and carbon report (SECR)

The SECR requirement disclosures below show the impact of the group's operations on the environment and the initiatives undertaken to improve that impact.

		USSL 2019/20	USSIM 2019/20	Total 2019/20
1. UK energy usage				
Electricity[1]	MWh	613	342	955
2. Greenhouse gas emissions				
Electricity[1]	tCO2e	157	87	244
Fuel[2]	tCO2e	6	8	14
Mileage[3]	tCO2e	1	1	2
Total		164	96	260
3. Emissions intensity ratio	FTE[4]	337	151	488
	tCO2e/FTE	0.5	0.6	0.5

1 The electricity data in megawatt hours (MWh) has been taken directly from invoices received from energy providers. The greenhouse gas emissions (GhG) of electricity has been calculated using a conversion factor of 0.2556 as published alongside the SECR guidance. The conversion factor is used to convert this to tonnes of carbon dioxide emissions (tCO2e)

2 The GhG of fuel has been calculated based on the total fuel spend incurred. The miles travelled are calculated using an average price per litre of £1.31 and the miles travelled are calculated using an average miles per gallon of 25. A conversion factor of 0.27450 as published alongside the SECR guidance is then used to calculate total GhG.

3 The GhG of mileage is calculated based on the total mileage claims reimbursed. An average reimbursement of 45p per mile is then used to calculate mileage travelled. A conversion factor of 0.27450 as published alongside the SECR guidance is then used to calculate total GhG.

4 The full time equivalent of staff (FTE) is the monthly average number of employed staff.

Streamlined energy and carbon report (SECR) (continued)
The following energy efficiency initiatives have been put in place and USS is engaging with the Carbon Trust to understand further ways to reduce energy usage:

- a passive infrared sensor (PIR) lighting system has been introduced throughout offices to ensure lights are only used when required;
- heat recovery systems are in place in the offices to reduce heat demands;
- waste management systems have been introduced in the Liverpool office to prevent all waste going to landfill;
- confidential waste bins have been introduced to ensure all waste paper is recycled and other recycling points have been introduced throughout the offices;
- printing waste has been reduced through the use of 'follow me' printing whereby the user confirms on the printer that documents are still required at the point of printing out; and
- single use plastic has been reduced by more than 70% since June 2018.

Business conduct
The group takes seriously the need to maintain a reputation for high standards of business conduct and the need to act fairly between members. The rules, principles, practices and processes by which USS is governed are set out in the USS Governance Framework and the USS Group Code of Conduct provides statements of, and guidance for, behaviours and acceptable business conduct that apply to all USS staff. USS has been confirmed as a Master Trust, reflecting the high standards that are being met by the trustee in running the scheme on behalf of universities and in protecting members' benefits.

This report was approved by the board on 22 July 2020 and signed on its behalf.

By order of the board

Nicola Mayo
Company Secretary

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2020

Directors
The directors who held office during the year or prior to the approval of these financial statements are set out on page 1.

During the year, the company made qualifying third-party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

Future developments
The scheme is undergoing an Actuarial Valuation as at 31 March 2020. Depending on the outcome of this process and consultations with stakeholders, this may impact the scheme and in particular its investment strategies and business development in the future.

Employees
The group is committed to the principles of equal opportunities and eliminating discrimination in every aspect of the work of the organisation.

Policies in place are such that, in respect of the employment of disabled persons, as defined by the Disability Discrimination Act 1995, the group strives to ensure that no individual or group is treated more or less favourably than others or will be disadvantaged by any conditions of employment or requirements that cannot be justified as necessary on operational grounds. That principle is enshrined in the group's recruitment and selection policies. The same principle is applied to the continued employment and training of persons who might become disabled while in the group's employment, and to the training, career development and promotion opportunities provided to disabled persons.

Arrangements are in place to provide employees with information on matters of concern to them which are likely to affect their interests. This is normally achieved by consultation with staff representatives and/or the union with the outcomes being communicated to all employees in the most appropriate manner.

The business plan and group objectives are an important part of the process of setting objectives for staff, so that a common awareness on the part of all employees of the financial and economic factors affecting the performance of the group can be achieved.

Statement of directors' responsibilities
The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Statement of directors' responsibilities (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the result of the company and the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The group's business activities, together with the principal risks and uncertainties are set out in the Strategic Report. As highlighted on page 2, the company is the trustee of the scheme and makes neither a profit nor a loss. The group receives reimbursement for all of its expenditure from the scheme which has sufficient resources to continue supporting the activities of USSL and its subsidiary USSIM. There are no factors of which the directors are aware that would materially impact the ability of the group or company to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis. Further details are provided in note 1c.

Political donations

No political donations were made during the year (2019: none).

Employee engagement

Attracting, retaining and rewarding the best talent helps us to deliver the quality of service, outstanding support, and value for money our stakeholders expect from us. The remuneration framework is designed to ensure the group has access to those with the right mix of skills and expertise to deliver its long-term priorities and value for money for members.

Through the current coronavirus pandemic the wellbeing of staff has been a high priority whilst the group implemented remote working capability, to allow continuity of key processes and surveys of staff opinion have been taken during this period.

As is discussed above in the Principal Risks, the group carries out an annual engagement survey to understand and act on the views of staff.

The annual engagement survey received an 88% participation rate and an engagement score of 7.5 out of 10 which was in line with the benchmark of 7.5. This year the board has appointed a designated Non-Executive Director to further represent the interests of our employees.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

Provision of information to auditor
The directors confirm that:

- in so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor
Under section 487(2) of the Companies Act 2006, Ernst & Young LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members of the company or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 22 July 2020 and signed on its behalf.

By order of the board

Nicola Mayo
Company Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Opinion

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2020 which comprise Statement of Income and Retained Earnings, Balance Sheet, Cash Flow Statement and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the company's affairs as at 31 March 2020 and of the group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. The directors are responsible for the other information.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSITIES SUPERANNUATION SCHEME LIMITED (CONTINUED)

Other information

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 12 and 13, the directors are 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 directors determine 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 directors are responsible for assessing the group's and the company'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 directors either intend to liquidate the group or the company or to cease operations, or have 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNIVERSITIES SUPERANNUATION SCHEME LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

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 Financial Reporting Council's website at www.frc.org.uk. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ashley Coups
Senior Statutory Auditor for and on behalf of Ernst and Young LLP, Statutory Auditor, Chartered Accountants
London, 22 July 2020

GROUP STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £'000	2019 £'000
Turnover	3	159,456	150,587
Operating expenses	19	(158,906)	(150,370)
Operating profit	4	**550**	**217**
Finance costs – unwinding of discount	13, 17	(550)	(217)
Result on ordinary activities before and after taxation		**-**	**-**

All activities relate to continuing operations in both the current and prior year.

There are no items of other comprehensive income in the current or previous financial year.

The notes on pages 21 to 39 form part of these financial statements.

BALANCE SHEETS AS AT 31 MARCH 2020
Company registration number: 01167127

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
FIXED ASSETS					
Intangible fixed assets	7	2,356	3,888	2,356	3,888
Tangible fixed assets	8	1,951	2,377	1,731	2,062
Investment in subsidiary undertakings	9	-	-	921	921
		4,307	6,265	5,008	6,871
CURRENT ASSETS					
Debtors due within one year	10	78,503	59,200	76,521	56,797
Cash at bank and in hand		4,076	4,171	1	-
		82,579	63,371	76,522	56,797
Creditors: amounts falling due within one year	11	(41,081)	(32,881)	(71,761)	(49,646)
NET CURRENT ASSETS		41,498	30,490	4,761	7,151
TOTAL ASSETS LESS CURRENT LIABILITIES		45,805	36,755	9,769	14,022
Creditors: amounts falling due after more than one year	12	(6,110)	(5,369)	-	-
Provision for liabilities	13	(27,154)	(10,169)	(3,244)	(3,057)
Deficit recovery liability	17	(12,541)	(21,217)	(6,525)	(10,965)
NET ASSETS AND RESERVES		-	-	-	-

The notes on pages 21 to 39 form part of these financial statements.

The company has taken advantage of the exemption allowed under s408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The company's result for the year was £nil (2019: £nil) as its costs are recharged in full to the scheme.

The financial statements were approved by the board of directors on 22 July 2020 and were signed on its behalf by:

Professor Sir David Eastwood
Chair

Dr Kevin Carter
Senior Independent Director and Deputy Chair

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

		Group		Company	
	Note	2020 £'000	2019 £'000	2020 £'000	2019 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	14	337	1,477	433	608
INVESTING ACTIVITIES					
Purchase of intangible fixed assets	7	(315)	(558)	(315)	(558)
Purchase of tangible fixed assets	8	(117)	(106)	(117)	(50)
NET CASH USED IN INVESTING ACTIVITIES		(432)	(664)	(432)	(608)
NET (DECREASE) / INCREASE IN CASH		(95)	813	1	-
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		4,171	3,358	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4,076	4,171	1	-

The notes on pages 21 to 39 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

a) Basis of preparation

The company, which is incorporated in the United Kingdom and limited by guarantee and does not have share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as trustee of the scheme. The address of the registered office is given on page 1. The nature of the group's operations and principal activity are set out on page 2.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The functional currency of the group is pounds sterling because that is the currency of the primary economic environment in which the group operates.

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and previous financial year.

b) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary USS Investment Management Limited drawn up to 31 March. All intercompany balances and transactions have been eliminated on consolidation.

The company owns the share capital of a number of investment vehicles which aid the efficient administration of those scheme investments. Their results have not been consolidated into these financial statements because they are considered to be assets of the scheme. Details of these entities may be obtained by writing to the Company Secretary of Universities Superannuation Scheme Limited, Ms N Mayo, at Royal Liver Building, Liverpool, L3 1PY.

c) Going concern

In performing their going concern assessment, the directors have reviewed the principal risks and uncertainties facing the group as set out on pages 3-7. The group's fundamental objective and purpose is to manage the day-to-day administration of the scheme and therefore the main risks from a going concern perspective relate to the ability of the company to continue to administer the scheme. These risks identified are not considered to be of a magnitude which casts significant doubt on the group's ability to continue as a going concern. The group receives reimbursement for all of its expenditure from the scheme which has sufficient resources to continue supporting the activities of USSL and its subsidiary USSIM. The directors have reviewed the cash flow forecasts of the group, including the scheme, for a period of 12 months after the date of signing these financial statements and in doing so have considered the impact of coronavirus. Coronavirus has brought about increased market uncertainty, however, the directors consider the group to be operationally resilient. There have been no material operational incidents or losses post year end. Consequently, the financial statements have been prepared on the going concern basis.

d) Turnover

Turnover from the recharge of costs to the scheme is recognised when the corresponding expenditure has been incurred and therefore the services provided under the scheme rules which state that all costs and expenses of managing and administering the scheme incurred by the trustee company during the year are to be paid out by the scheme. Turnover is stated net of VAT and is recognised when the significant risks and rewards are considered to have been transferred. Turnover is recorded at the fair value of the consideration received or receivable.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

e) Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the group is expected to benefit. This period is between three and seven years and reflects the expected useful economic lives of the assets concerned. Amortisation is charged to the profit and loss account and is included within operating expenses. Provision is made for any impairment.

f) Intangible assets – software licences

Separately acquired licences are included at cost and amortised in equal annual instalments over the licence period, which is the shorter of their licence period or their estimated useful economic life. Provision is made for any impairment.

g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The expected useful economic life of an asset commences when the asset is ready to be used as required. The principal annual rates used for this purpose are:

Leasehold improvement	Over the life of the lease
Computer equipment	33⅓%
Office equipment	15%

h) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

i) Retirement benefits

The group 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 group 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 group therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme.

Since the group has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the group 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 profit and loss account.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

j) Provisions
A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured reflecting the directors' best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the liability, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from the scheme, a receivable is recognised as an asset since it is virtually certain that reimbursement will be received and can be measured reliably. Amounts that the group has provided for are explained in more detail in note 13.

k) Long-term incentive plans
The group issues cash settled long-term incentive plans to certain employees. The long-term incentive plans are measured at their present value using an appropriate discount rate. The present value is measured by estimating future scheme performance in comparison to the hurdle rates for each plan. Each plan is individually assessed, on an annual basis for the likelihood of future payments. This assessment is based on the expected achievement of annualised investment outperformance relative to pre-determined benchmarks over the applicable multi-year periods. The likelihood of payment is also dependent on the continued employment of employees eligible for the awards and requires an estimation of the number of relevant employees that will leave employment before the end of the plan. The present value of the amount that is likely to be paid is charged to the profit and loss account in equal instalments over the vesting period. Both the investment outperformance and the staff retention rates are reviewed annually, and the provision is reassessed.

l) Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

m) Value Added Tax (VAT)
The group is registered for Value Added Tax activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment management activities. The unrecovered VAT element is charged within operating expenses.

n) Investment in subsidiary
Investment in subsidiary is stated at cost, less any provision for impairment.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in profit and loss in the period in which the estimate is revised.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Deficit recovery liability
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.

ii) Capitalisation of development costs as intangible assets
Costs were incurred during the current year to develop and build new technology. The enhanced capability results in economic benefit to the group by reducing external operating costs over the economic life, or by providing a new service to the scheme's participating employers. In light of the accounting policy to capitalise internal development costs, management was required to consider the appropriate treatment for these costs.

In making its judgement, the directors considered the detailed criteria for the capitalisation of development costs set out in FRS 102 Section 18 Intangible assets other than goodwill and, in particular, the point at which such projects were determined to have moved into the development phase, the measurement of directly attributable costs and the estimation of expected economic benefits. The directors are satisfied that the relevant criteria have been met, the costs are reliably measured and that capitalisation of the costs in the current year is appropriate, in conjunction with recognition of an appropriate allowance for amortisation over the useful economic life.

iii) Provision for dilapidation costs
Provision is made for dilapidation costs where the lease requires the reinstatement of the property to its original condition upon finalisation of the lease contract. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

In making its judgement, the directors considered the detailed criteria for the provision of dilapidation costs set out in FRS 102 Section 21 Provisions and Contingencies and, in particular, whether the group has an obligation at the reporting date as a result of a past event; it is probable (i.e. more likely than not) that the group will be required to transfer economic benefits in settlement; and the amount of the obligation can be estimated reliably. The directors are satisfied that the criteria have been met, the dilapidation costs are reliably measured and that provision of the dilapidation costs in the current year is appropriate, in conjunction with recognition of the unwind of the discount rate included within finance costs over the life of each lease.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key source of estimation uncertainty

i) Deficit recovery liability assumptions

On 16 September 2019 a deficit recovery agreement was concluded between the scheme and its members, which included the company and its direct subsidiary. Determining the liability for future contributions requires an estimation of the present value of future cash flows which depends on the percentage of contributions which will be attributed to deficit elimination along with future salary inflation and the identification of a suitable discount rate. In determining the appropriate liability, the directors have considered the assumptions used in the recovery plan and the last completed Actuarial Valuation as at 31 March 2018. Changes in the numbers of participating employees are reflected in the year in which they occur. The deficit recognised at 31 March 2020 is £12,541,000 (2019: £21,217,000). Further disclosures relating to the pension deficit liability can be found in note 17.

ii) Provisioning for long-term incentive plans

Determining the liability for future payment of incentive arrangements requires an estimation of future scheme performance in comparison to the hurdle rates and the number of plans that will vest. The calculation requires the application of a suitable discount rate in order to calculate the present value. The estimated value of future payments was assessed for each plan by modelling the potential achievement of annualised investment outperformance relative to pre-determined benchmarks over the applicable multi-year periods and estimating expected staff retention rates. The liability recognised at 31 March 2020 is £25,311,000 (31 March 2019: £8,378,000). Given the performance achieved to date, the outperformance hurdles set in the plans, and the fact that future outperformance cannot be guaranteed, it is considered that the provision reflects the best estimate of the present value of the amount to be paid out in relation to employees' services rendered up to 31 March 2020. Further disclosures relating to long term incentive plans can be found in note 13.

iii) Provision for dilapidation costs

Determining the provision for future dilapidation costs requires an estimation of the present value of future cash flows which involves estimating the price per square foot of the property at current prices adjusted for future price inflation and other reasonable factors along with the identification of a suitable discount rate. These provisions are estimates and the timing of future cash flows is dependent on future events. Changes in assumptions based on new information will be accounted for in the period when such determination is made. The carrying amount of the provision at 31 March 2020 is £1,843,000 (2019: £1,791,000).

3 TURNOVER

All turnover in the current and prior year relates to amounts recharged to the scheme under the scheme rules.

4 OPERATING PROFIT

Operating profit is stated after charging:

	Note	2020 £'000	2019 £'000
Amortisation of other intangible assets	7	1,847	1,831
Depreciation of tangible fixed assets	8	543	665
Operating lease rentals		2,318	2,104

A detailed breakdown of operating expenses is included in note 19.

The analysis of auditor's remuneration is as follows:

	2020 £'000	2019 £'000
Fees payable to the company's auditors for the statutory audit of the company's annual accounts	21	20
Fees payable in respect of the statutory audit of the subsidiary	51	46
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	278	272
Total audit fees	350	338

There were audit related assurance services provided to the subsidiary company, USS Investment Management Limited, during the year of £nil (2019: £4,000).

The analysis of total non-audit fees is as follows:

	2020 £'000	2019 £'000
Tax advisory services	66	77
Other assurance services	161	65
Total non-audit fees	227	142

5 STAFF COSTS

The average monthly number of employees was:

	Group 2020 Number	Group 2019 Number	Company 2020 Number	Company 2019 Number
Investment management and support	165	160	19	20
Pensions professionals and support	154	133	154	133
Project management	24	31	20	27
Group shared services	145	140	144	138
	488	464	337	318

Staff costs for the above persons were:

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Wages and salaries	34,498	31,088	18,009	15,815
Employee incentives	35,392	21,260	3,123	2,646
Social security costs	8,959	6,641	2,465	2,065
Pension costs	5,189	4,109	2,729	2,124
Deficit recovery (release)/ charge	(8,926)	14,501	(4,566)	7,356
Redundancy costs	1,788	514	358	230
	76,900	78,113	22,118	30,236

Group employee incentives are split between long-term incentive plans £18,815,000 (2019: £5,806,000) and bonuses £16,577,000 (2019: £15,454,000). Company employee incentives are split between long-term incentive plans £730,000 (2019: £644,000) and bonuses £2,393,000 (2019: £2,002,000).

Movements in the long-term incentive plan provision have resulted in a charge to group wages and salaries of £18,815,000 (2019: £5,806,000) and to social security costs of £2,596,000 (2019: £800,000), giving a total charge to the profit and loss account of £21,411,000 (2019: £6,606,000). Movements in the long-term incentive plan provision have resulted in a charge to company wages and salaries of £730,000 (2019: £644,000) and to social security costs of £100,000 (2019: £88,000), giving a total charge to the profit and loss account of £830,000 (£732,000). For further details of the provision see note 13.

As a result of changes in the USS deficit recovery plan, included in the 2018 Valuation, the group's deficit recovery liability decreased reflecting changes in the percentage employer contribution and increased length of time over which the recovery plan exists (see note 17). Revisions to the benefit arrangements have decreased the group deficit recovery liability and therefore pension costs by £8,926,000 (2019: increase of £14,501,000) in the year. The impact in the company was to decrease the deficit recovery liability and therefore pension costs by £4,566,000 (2019: increase of £7,356,000) in the year.

6 DIRECTORS' EMOLUMENTS AND EXPENSES

	2020 £'000	2019 £'000
Total emoluments of the directors of the company:		
Fees (non-executive directors)	615	587

	2020	2019
The number of company directors who:		
are members of the USS defined benefit scheme as at 31 March	4	7

Directors' membership of the scheme, whether deferred, pensioner or active is through their past or present employment with the other scheme member institutions.

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of the company and their legal responsibilities.

The emoluments for duties to the company of the highest paid director were £91,000 (2019: £90,000). No pension contributions have been made on behalf of directors in either the current or preceding year.

There is one director who also serves as a director of the subsidiary company, USS Investment Management Limited, who received £51,000 (2019: one director received £49,850) in connection with their directorship of the subsidiary.

The group considers members of the Group Executive Committee to be key management personnel. Such individuals are not trustee company directors and their remuneration is not included within the directors' disclosures above. Additional information is set out below in respect of the Group Executive Committee.

	2020 £'000 Paid in year	2019 £'000 Paid in year
Total emoluments of the Group Executive Committee:		
Salary and other emoluments excluding long-term incentives	3,414	3,438
Amounts receivable under long-term incentive schemes	664	867
	4,078	4,305

6 DIRECTORS' EMOLUMENTS AND EXPENSES (CONTINUED)

	2020	2019
The number of Group Executive Committee members who:		
At 31 March are members of the USS defined benefit scheme	4	6
Received payment under a long-term incentive scheme	3	3

7 INTANGIBLE FIXED ASSETS

Group

	Patents and licences £'000	Development costs £'000	Total £'000
Cost			
At 1 April 2019	2,390	8,205	10,595
Additions	9	306	315
At 31 March 2020	2,399	8,511	10,910
Accumulated depreciation			
At 1 April 2019	2,199	4,508	6,707
Charge for year	46	1,801	1,847
At 31 March 2020	2,245	6,309	8,554
Net book value			
At 31 March 2020	154	2,202	2,356
At 31 March 2019	191	3,697	3,888

7 INTANGIBLE FIXED ASSETS (CONTINUED)

Company

	Patents and licences £'000	Development costs £'000	Total £'000
Cost			
At 1 April 2019	2,390	7,923	10,313
Additions	9	306	315
At 31 March 2020	2,399	8,229	10,628
Accumulated depreciation			
At 1 April 2019	2,199	4,226	6,425
Charge for year	46	1,801	1,847
At 31 March 2020	2,245	6,027	8,272
Net book value			
At 31 March 2020	154	2,202	2,356
At 31 March 2019	191	3,697	3,888

8 TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2019	3,214	3,625	2,063	8,902
Additions	-	110	7	117
At 31 March 2020	3,214	3,735	2,070	9,019
Accumulated depreciation				
At 1 April 2019	1,495	3,405	1,625	6,525
Charge for year	169	212	162	543
At 31 March 2020	1,664	3,617	1,787	7,068
Net book value				
At 31 March 2020	1,550	118	283	1,951
At 31 March 2019	1,719	220	438	2,377

Company

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2019	3,214	3,625	459	7,298
Additions	-	110	7	117
At 31 March 2020	3,214	3,735	466	7,415
Accumulated depreciation				
At 1 April 2019	1,495	3,405	336	5,236
Charge for year	169	212	67	448
At 31 March 2020	1,664	3,617	403	5,684
Net book value				
At 31 March 2020	1,550	118	63	1,731
At 31 March 2019	1,719	220	123	2,062

9 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company
	£'000
At 1 April 2019 and 31 March 2020	921

On 1 October 2012, 920,643 ordinary shares of £1 were issued to the company by USS Investment Management Limited incorporated in England and Wales, which is 100% owned directly. The principal activity of USS Investment Management Limited is to provide investment management services to the company. The registered address of USS Investment Management Limited is Royal Liver Building, Liverpool, L3 1PY.

10 DEBTORS DUE WITHIN ONE YEAR

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Amounts due from related party (scheme)	74,787	55,174	74,787	55,174
Prepayments	3,285	3,839	1,469	1,573
Other debtors	431	187	265	50
	78,503	59,200	76,521	56,797

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Amounts due to subsidiary undertaking	-	-	52,829	35,736
Accrued expenditure	18,862	13,628	14,844	11,523
Other creditors	9,109	6,128	2,016	589
Social security and other taxation	13,110	13,125	2,072	1,798
	41,081	32,881	71,761	49,646

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2020 £'000	**2019 £'000**	**2020 £'000**	**2019 £'000**
Other creditors	5,369	4,717	-	-
Social security and other taxation	741	652	-	-
	6,110	5,369	-	-

An accrual of £5,369,000 (2019: £4,717,000) has been made for the long-term element of deferred remuneration obligations. Where the variable element of an individual's remuneration package exceeds a certain threshold, a percentage is not paid to the employee for a further three years and is subject to continued employment conditions. The thresholds and percentages are deferral of 30% of the bonus earned if the total bonus is over £50,000; 40% over £200,000 and 50% over £400,000. The deferred remuneration is also adjusted in line with scheme performance over the deferral period.

13 PROVISION FOR LIABILITIES AND CHARGES

The table below sets out the movement in the provision for liabilities and charges since 31 March 2019:

Reconciliation of group provision

	£'000 Dilapidation	**£'000** LTIP	**£'000** Total
As at 1 April 2019	1,791	8,378	10,169
Charged to profit and loss account	20	21,411	21,431
Utilisation of provision	-	(4,478)	(4,478)
Unwind of the discount (included in finance costs)	32	-	32
As at 31 March 2020	1,843	25,311	27,154

Reconciliation of company provision

	£'000 Dilapidation	**£'000** LTIP	**£'000** Total
As at 1 April 2019	1,791	1,266	3,057
Charged to profit and loss account	20	830	850
Utilisation of provision	-	(695)	(695)
Unwind of the discount (included in finance costs)	32	-	32
As at 31 March 2020	1,843	1,401	3,244

13 PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)

Long-term incentive plans

The objective of the plans, which are awarded annually, is to ensure that a significant portion of the remuneration payable to key employees is aligned with the long-term performance of the scheme.

The key assumptions are shown below:

	2020	2019
Vesting period	4 or 5 years	3, 4 or 5 years
Liability due within one year- £'000	£11,878	£2,386
Assumed leaver rate over vesting period	16% or20%	30%
Discount rate	2.50%	1.64%

The leaver rate assumption has decreased in the year to reflect observed leaver rates, and the provision calculation approach has been amended to apply an annual expected attrition rate rather than a single rate across the life of a plan.

The discount rate is based on the effective yield of A-rated bonds.

Awards are forfeited if the employee leaves during the vesting period, unless deemed to be a good leaver under the provisions of each plan. The impact of making full provision for the future estimated obligations for good leavers in the current year, inclusive of national insurance, is £6.0m (2019: £nil).

Dilapidation

The carrying amount of the provision at 31 March 2020 is £1,843,000 (2019: £1,791,000). The provision is expected to be utilised on the finalisation of each lease between the next five to nine years.

The key assumptions are shown below:

	2020	2019
Risk adjusted discount rate	2.59%	1.64%
Inflation	2.00%	3.00%
Length of lease	5 or 9 years	2, 7 or 11 years
Range of price per square foot (on a lease-by-lease basis)	£15.00 - £33.54	£20.00 - £32.00

14 NOTES TO THE CASH FLOW STATEMENT

Reconciliation of net cash flows from operating activities

	Group		Company	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Operating profit	550	217	300	131
(Decrease)/ increase in creditors	(253)	17,776	17,407	18,549
Increase in provisions	16,953	1,997	155	381
Increase in debtors	(19,303)	(21,009)	(19,724)	(20,767)
Amortisation of intangible assets	1,847	1,831	1,847	1,752
Depreciation of tangible assets	543	665	448	562
Net cash flows from operating activities	337	1,477	433	608

15 OPERATING LEASE ARRANGEMENTS

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group and company Land and buildings		Group and company Other	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Less than one year	1,936	2,062	13	67
Between two and five years	8,246	6,523	-	14
Over five years	4,792	8,373	-	-
Total	14,974	16,958	13	81

16 CONTINGENT LIABILITIES AND ASSETS

During the normal course of business, the scheme enters into derivative transactions which are reflected in the scheme's financial statements. As a consequence of the clearing arrangements in respect of these transactions, certain charges have been granted by the company. No liability is expected to arise as a result of these charges.

The group engages a third party to provide support for pension administration services. In May 2020, a commercial issue was raised by the third party regarding the utilisation of licenses and associated fees not invoiced. The group is in the process of investigating the issue and, at the time of signing the accounts, it is not possible to estimate the financial effect, or the timing of any possible outflows given the limited nature of the supporting evidence and explanations received to date.

17 DEFICIT RECOVERY LIABILITY

The table below sets out the movement in the liability since 31 March 2019:

	Group £'000	Company £'000
As at 1 April 2019	21,217	10,965
Credit to profit and loss account (in staff costs)	(8,926)	(4,566)
Utilisation of liability	(268)	(142)
Unwinding of discount (in finance costs)	518	268
As at 31 March 2020	12,541	6,525

Deficit recovery contributions due within one year for the group are £576,000 (2019: £nil).

Deficit recovery contributions due within one year for the company are £300,000 (2019: £nil).

The latest available complete Actuarial Valuation of the Retirement Income Builder is at 31 March 2018 (the valuation date), which was carried out using the projected unit method. A Valuation as at 31 March 2020 is underway but not yet complete.

17 DEFICIT RECOVERY LIABILITY (CONTINUED)

Since the group cannot identify its share of USS Retirement Income Builder (DB) assets and liabilities, the following disclosures reflect those relevant for those assets and liabilities as a whole.

The 2018 Valuation was the fifth Valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the Valuation date, the value of the assets of the scheme was £63.7 billion and the value of the scheme's technical provisions was £67.3 billion indicating a shortfall of £3.6 billion and a funding ratio of 95%.

The key financial assumptions used in the 2018 Valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI +0.14% reducing linearly to CPI –0.73% Years 11-20: CPI + 2.52% reducing linearly to CPI + 1.55% by year 21 Years 21 +: CPI + 1.55%

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on analysis of the scheme's experience carried out as part of the 2018 Actuarial Valuation. The mortality assumptions used in these figures are as follows:

	2018 Valuation
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females Post retirement: 97.6% of SAPS S1NMA "light" for males and 102.7% of RFV00 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 at age 65 are:

	2020	**2019**
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

17 DEFICIT RECOVERY LIABILITY (CONTINUED)

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 until 30 September 2021, at which point the rate will increase to 6%. The 2020 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2020	**2019**
Discount rate	2.59%	2.44%
Pensionable salary growth	4.20%	2.11%

18 RELATED PARTY TRANSACTIONS

There are no related party transactions other than transactions between the company and the scheme; transactions with group entities; and amounts paid to directors and key management personnel disclosed in note 6.

The company acts as the trustee of the scheme and, as such, holds investments and other assets in its own name, but these are not included in the company's balance sheet, as the company holds the assets as the trustee of the scheme.

The group provides administration and investment management services to the scheme charging £159,456,000 (2019: £150,587,000), with a balance due from the scheme of £74,787,000 as at 31 March 2020 (2019: £55,174,000).

The group has taken advantage of the exemptions under Financial Reporting Standard 102, section 33.1A: Related Party Disclosures, and has not disclosed transactions with group undertakings where the company is a wholly owned subsidiary as consolidated financial statements are prepared.

19 OPERATING COSTS BREAKDOWN

	Note	2020 £'000 Total	2019 £'000 Total
Personnel			
Employee related costs	5	76,900	78,113
Contractor costs		3,384	4,070
Directors' fees and expenses		696	746
Recruitment, training and welfare		2,986	3,237
		83,966	86,166
Premises			
Rents, rates, service charges and utilities		3,902	3,970
Depreciation and maintenance		476	385
Dilapidation costs		20	(50)
		4,398	4,305
Investment Management			
Securities research		7,896	9,589
Securities management fees		15,191	11,124
Property management fees		6,438	4,132
Custodial services		1,952	1,891
Legal costs - property management		830	526
– other		308	326
Property valuation fees		243	256
Investment accounting services		1,797	1,729
Investment performance measurement		58	120
		34,713	29,693
Other costs			
Computer and information services costs	19(a)	11,164	11,581
Pension Protection Fund levy		3,713	3,316
Professional fees	19(b)	13,911	10,840
Travel and car costs		1,530	1,721
Office equipment (including depreciation of £162,000 (2019: £173,000))		499	525
Institution liaison and member communication		422	412
Telephones and postage		201	226
Printing and stationery		371	421
Insurance		348	308
Auditors' remuneration		353	356
Regulatory fees		128	172
Subscriptions		649	492
Sundry income		(77)	(164)
Unrecovered VAT expense[1]		2,617	-
		35,829	30,206
Total operating costs		158,906	150,370

1. In the previous financial year £1,049,000 of unrecovered VAT expense was allocated against all line items in the profit and loss account. For presentational purposes this is now being shown on a single line.

19a) Computer and information services costs

	2020 £'000	2019 £'000
Investment information services	6,132	6,113
Computer running costs	2,973	3,316
Software amortisation	46	89
Development costs amortisation associated with scheme changes	1,801	1,741
Hardware depreciation	212	322
	11,164	11,581

19b) Professional fees

	2020 £'000	2019 £'000
Legal	3,878	2,376
Consultancy	7,506	6,542
Actuarial	1,512	959
Committee members	490	550
Public relations	186	51
Other	265	301
Member matters	74	61
	13,911	10,840

The registered number of the trustee company (Universities Superannuation Scheme Ltd) at Companies House is 01167127

The reference number of the scheme (Universities Superannuation Scheme) at The Pensions Regulator is 10020100
Royal Liver Building, Liverpool, L3 1PY