UNIVERSITIES SUPERANNUATION SCHEME

Universities Superannuation Scheme Limited

Report & Accounts

for the year ended 31 March 2016

Company registration number: 01167127

Contents

Company Information

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Mr J P Hill
Directors	Professor Sir David Eastwood (Chair) Dr K J Carter (Deputy Chair) Professor Dame Glynis Breakwell Mr J W Devlin (resigned 10 October 2015) Ms K English Professor Jane Hutton (appointed 1 November 2015) Mr I R Maybury Mr D C McDonnell (resigned 31 March 2016) Mr M R Merton Professor Anton Muscatelli (appointed 1 April 2015) Professor Stuart Palmer (appointed 31 March 2016) Mr M R Poisson Dr A M Roger Mr J W D Trythall
Bankers	Barclays Bank Plc 48b to 50 Lord Street Liverpool L2 1TD
Independent Auditor	Grant Thornton UK LLP Statutory Auditor Chartered Accountants Royal Liver Building Liverpool L3 1PS
Solicitors	DLA Piper UK LLP India Buildings Water Street Liverpool L2 0NH CMS Cameron McKenna LLP Cannon Place 78 Cannon Street London EC4N 6AF

Strategic report

for the year ended 31 March 2016

The directors submit their strategic report, directors' report and the financial statements for the year ended 31 March 2016.

Universities Superannuation Scheme Limited (the company), which is limited by guarantee and does not have share capital, is the corporate trustee of Universities Superannuation Scheme (USS or the scheme). USS is the principal pension scheme for academic and comparable staff in UK universities and other higher education and research institutions and currently provides Defined Benefit ('DB') pension benefits to its members.

USS Investment Management Limited is a wholly-owned subsidiary of the company. Its principal activity is to provide investment management and advisory services exclusively to Universities Superannuation Scheme Limited. 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 business model focuses on maximising value for money for its members and the employers in the scheme.

During the current financial year, the scheme has commenced a significant change programme which will culminate in the introduction of a Defined Contribution ('DC') section of the scheme in October 2016 and therefore will have a significant impact on the group. These changes are being brought about in a cost effective manner by focussing on three strategic priorities:

- Development of the pension offer for employers and members;
- Enhancement of our service to the members and employers; and
- Development of the governance framework.

These priorities apply across the whole of the group and more information is available in the scheme's annual report and accounts which can be found at **www.uss.co.uk**

There are a number of key activities in the current year that are relevant to the group in readiness for the new components of the scheme including:

- Implementation of the new USS Retirement Income Builder (DB) and the USS Investment Builder (DC) components of the scheme and associated upgrades to the group's systems and procedures;
- The production and communication of each member's final salary benefit entitlement as at 31 March 2016; and
- Establish appropriate foundations from which it can develop future improvements to both the retirement savings solutions and the service it provides.

Implementing the components of the hybrid benefit structure has presented, and will continue to present, the group with an exciting and complex challenge. The delivery of these changes has been planned on a phased basis as shown on the following page.

Strategic report
for the year ended 31 March 2016 (continued)

The high-level milestones are:

April 2016 (Complete)

- ✔ Migration of administration records and scanned documents to the new pensions administration system;
- ✔ Migration of payroll records to the new pensions administration platform;
- ✔ Launch of a new employer portal with enhanced contribution and HR data interfaces; and
- ✔ Launch of the USS Retirement Income Builder.

July 2016 and ongoing

- Delivery of member communications, setting out investment and other options available to members from October 2016; and
- Launch of My USS, a new online service for members, which will enable members to indicate whether they wish to opt for the match, and any investment choices they wish to make within the USS Investment Builder.

October 2016

- Introduction of the USS Investment Builder;
- Implementation of software to segregate DC (USS Investment Builder) contributions from total contributions; and
- Implementation of the voluntary salary cap.

Early 2017

- Completion of the calculation of final salary entitlements at 31 March 2016.

Principal risks and uncertainties and key performance indicators

The directors' approach to risk management within the group is set down in USS's risk management framework which defines the trustee board's (the board) risk appetite, the types of risks USS is exposed to and the related risk governance arrangements. Risks that could impact on the delivery of USS's business objectives, and the internal control systems that support them, are documented and assessed against risk appetite. Where risks are found to be operating outside 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, generating 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. 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 the subsidiary's compliance with those applicable. The table over the page sets out those principal risks, the potential impact and the mitigation in place. These broadly fall into two categories, firstly those which are direct risks of the group and those risks of the scheme which are either managed by the group or would indirectly impact the group's strategy and ability to successfully deliver its obligations. More detail is found on the following pages.

Strategic report
for the year ended 31 March 2016 (continued)

Principal risks and uncertainties which directly impact the company

Risk	Potential impact	Control/mitigation	Key performance indicator for 2016
Pension service risk			
Pension service delivery fails to meet requisite quality standards.	The failure to manage or effectively execute operational processes leads to poor or incorrect outcomes for the scheme's members/beneficiaries. This may lead to rework, additional costs and reputational damage.	Robust operational controls and defined service standards with regular reporting and review of performance across all administration teams. Comprehensive workload forecasting and the deployment of additional resources during key transitional periods. Enhanced and extended quality control checking during transitions.	**Target:** maintain (within five percentage points) satisfaction levels as measured by net promoter scores. **Update:** successful maintenance of service delivery performance standards within defined parameters, allowing for a planned level of operational challenges associated with the implementation of scheme changes. Member result fell by three percentage points and employer result improved by two percentage points.
Regulatory risk			
The product and service offering is impacted adversely by changes to legislation or regulation. The board or its subsidiary fails to adopt and apply effective oversight of its legal and regulatory compliance arrangements.	Potential for change to adversely impact the company's principal activities giving rise to additional costs and leading to operational complexity. Failure to respond to such changes in an appropriate and timely manner could lead to fines, compensation costs and censure, as well as damage to stakeholder relationships and reputation.	Dedicated professionals focussed on assessing existing and emerging regulatory initiatives. Application of structured change management methodology for the implementation of necessary changes. Ongoing compliance training, advisory and monitoring activity in the relevant business divisions.	**Target:** no significant regulatory issues. Satisfactory completion of all education and awareness activity by relevant staff. **Update:** the scheme prohibits investment in employer-related entities. A technical interpretation of the rules in this area highlighted that certain investments meet the strict definition of employer-related entities as a result of the corporate structure of the trustee company. There were no other substantial issues noted.
Business change risk			
Failure to deliver strategic business change effectively, especially in relation to ongoing scheme changes noted above.	Change programmes miss deadlines, are poorly implemented and/or lead to low quality outcomes. This leads to increased costs, unfavourable client experience and reputational damage amongst key stakeholders.	Business change governance is closely monitored and controlled by the Business Change team and overseen by the executive committee, with specific change initiatives having their own project teams.	**Target:** 100% completed milestones for scheme change programme and >80% for other projects. **Update:** 100% achieved in relation to scheme change milestones and 84% for other projects. Satisfactory results of change assurance activity were achieved.

Strategic report
for the year ended 31 March 2016 (continued)

Principal risks and uncertainties which directly impact the company (continued)

Risk	Potential impact	Control/mitigation	Key performance indicator for 2016
People risk			
Failure to attract and retain sufficient people with the necessary skill sets in the right roles, or to develop appropriate management structures and business culture.	This may lead to an inability to provide the necessary resources to achieve successful completion of the company's strategic priorities, lead to poor investment performance, increased incidence of operational error and failure, and ultimately result in reputational damage with key stakeholders.	The trustee has consistently sought to recruit and retain an excellent team. This is supported by clear objective setting linked to strategy, regular performance and remuneration reviews with reference to appropriate benchmarks, training and development programmes, and employee satisfaction reviews.	**Target:** improvement to employee engagement and training satisfaction levels relative to feedback in 2014/15. **Update:** employee satisfaction metrics, as measured by engagement results, which improved 13 percentage points over prior year. Satisfaction with access to training, as measured through employee feedback increased by nine percentage points over the prior year. **Other updates:** Only one key role was vacant at the end of March 2016. Timeliness and quality of performance reviews, as measured through the calibration process were satisfactory.
Data risk			
The company fails to protect the confidentiality, integrity or availability of critical data (including personal and commercially sensitive data), or is successfully hacked and subjected to a data breach. This includes cyber risks.	Breach of applicable data protection legislation, potential for regulatory censure or fine, loss of reputation with members and employers. Potential for monetary loss and remediation costs.	Implementation of appropriate information security framework and processes, along with cyber risk controls. Delivery of regular education and awareness training to employees.	**Target:** no breach of legislation. Completion of awareness and prevention training by all staff. **Update:** there were no breaches of legislation. The company invested significantly in its cyber defences, improving its ability to prevent, detect and quarantine malware and viruses. All staff have attended education and awareness sessions on cyber risk provided by industry experts. Evidence of conformity to ISO 27001, the internationally recognised information security framework.

Principal risks and uncertainties which indirectly impact the company

Given the company is the corporate trustee of the scheme, the risks below have an indirect impact in respect of the quality of the service it provides but does not impact the group's consolidated financial statements.

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2016
Funding and solvency risk			
Significant increase in the scheme's net pension liability and/or significant deterioration in the ability of employers to make contributions to fund the benefits promised to members.	The inability of the trustee to meet the benefits promised to members. This may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.	Development of a comprehensive financial management plan (FMP), incorporating the strength of the employers' covenant, the contribution rate and investment strategy. Regular monitoring of the funding level, employers' covenant strength and liability in the context of the FMP. Regular analysis of the sources of changes in both the liability and the deficit and of the impact of this on the required employer contribution rate.	At 31 March, the funding ratio stood at 83% with a deficit of £10.0bn. Further information can be found in the scheme's annual report on www.uss.co.uk. This funding level is somewhat below the level forecasted in the FMP, but within the projected volatility range.
Investment performance risk			
A prolonged period of inadequate investment performance, or a sharp fall in the value of investments. This may be due to selection of an inappropriate reference portfolio, underperformance of the implemented portfolio relative to the reference portfolio and/or unfavourable market conditions.	A significant further increase in the deficit. This may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.	A documented, structured and effective investment process, run by experienced investment professionals, incorporating robust controls and diligent oversight. The investment portfolio is well diversified across a range of asset classes and risk factors. It is managed relative to a long-term reference portfolio designed to fulfil the goals of the FMP. Further information with more detailed commentary on investment risks can be found in the Statement of Investment Principles (SIP) on the website.	**Target:** investment performance >0.23% relative to the reference portfolio and within the risk parameters set by the trustee board. **Update:** investment returns relative to the reference portfolio of 2.38% exceeded the target set at the start of the financial year whilst remaining within the risk parameters set by the board.

Effective cost control

The primary key performance indicator used by the directors in measuring the financial performance of the group is the level of operating costs. Costs are measured relative to scheme size and also on a per member basis. The group must demonstrate value for money and transparency of engagement activity with its suppliers since costs are ultimately recharged to the scheme. This is achieved by approving expenditure and sourcing before suppliers are engaged and by monitoring budgets on a monthly basis. During the financial year, the supplier management framework has been strengthened by the implementation of an integrated purchase ordering and expense approval system.

The operating costs for the period amounted to £118,037,000 (2015 *restated*: £95,971,000) including exceptional costs of £10,023,000 as follows:

- £4,587,000 relating to a technical provision to reflect the discounted cash flow of future contributions to rectify the scheme's deficit must be recognised to reflect the contractual obligation in respect of its current and past employee members. When the funding plan was updated the provision increased, by virtue of the increased contribution rate and longevity of the funding plan. Accordingly, this increase in the provision is reflected as an exceptional expense;
- £3,869,000 of scheme change expenditure is recognised in administrative expenses and reflects the cost of the programme which does not meet the capitalisation criteria of internally generated software costs. This expenditure does not reflect the ongoing activity of the scheme, as it solely relates to the activities undertaken to implement the changes to the scheme. Since this expense is material to the trustee company, it has been separately identified as exceptional; and
- £1,567,000 in respect of a contractual liability to the landlord of the buildings in which the group operates, where on exit of the property, costs may be incurred to bring the condition back into the state at which it was originally. Such conditions are typical in rental contracts. The lease terms on which the provision is based extend for ten years and therefore the provision is long-term in nature and is both material and non-recurring.

The level of expense incurred during the year is in accordance with the business plan approved by the board at the start of the year, and is deemed to be appropriate relative to the scheme growth and performance during the year. Operating costs excluding exceptional items as a proportion of assets under management are 0.21% or 21 basis points (2015 *restated*: 0.19% or 19 basis points).

A summary of total operating costs including exceptional items for the year analysed by nature of expense is as follows:

	Note	2016 £'000	2015 *restated* £'000	Increase £'000	Variance %
Personnel	22	59,772	41,367	18,405	44
Premises	22	5,168	3,480	1,688	49
Investment management	22	29,897	28,607	1,290	5
Other	22	23,200	22,517	683	3
	22	118,037	95,971	22,066	

Total operating costs have increased by £22,066,000, and on an underlying basis (excluding exceptional costs), have increased £12,043,000 or 13% year-on-year.

Investment costs have increased by £1,290,000 largely owing to external manager total fees. This increase is driven by scheme performance. Premises costs relate to the rent and associated charges of the operational properties used by the trustee company and its investment management subsidiary to conduct their business. In the second half of 2015/16, additional space was committed which has increased the premises cost and on an annualised basis equates to £199,000. Other costs include computer and information services of £7,993,000 (2014/15 £6,848,000), professional fees of £6,306,000 (2014/15 £5,992,000) and the Pension Protection Fund Levy of £2,219,000 (2014/15: £3,600,000).

Effective cost control (continued)

The table also shows a £10,937,000 increase in underlying personnel costs and this is analysed below:

	2015/16			2014/15 *restated*		
	Underlying	Exceptional	Total	Underlying	Exceptional	Total
Staff incentives:						
- Investment	16,586	-	16,586	9,790	-	9,790
- Non-investment	1,617	-	1,617	283	-	283
Total staff incentives	**18,203**	**-**	**18,203**	**10,073**	**-**	**10,073**
Other wages and salaries	34,101	7,468	41,569	31,294	-	31,294
Total personnel costs	**52,304**	**7,468**	**59,772**	**41,367**	**-**	**41,367**

- An increase in incentives earned of £8.1m (including national insurance payments) arising from the cumulative strong scheme performance relative to its strategic asset allocation during the year. The outperformance during the financial year added £1.1bn to the scheme's value. The incentive paid in total amounts to 1.7% of this value.
- On an underlying basis, other wages and salaries have increased by £2,807,000. An increase in headcount has been driven by two elements of USS strategy, firstly broadening capabilities and bringing investment management in-house where this is more cost effective, and secondly increasing the number of staff, both permanent and temporary, driven by increased activity to implement the scheme changes, particularly introduction of DC benefits in 2016/17. This accounted for approximately £1,500,000 of the increase.
- Increases in salary from the annual benchmarking exercise totalled approximately £1,300,000.

Within the balance sheet is a £4,100,000 provision (2015: £1,758,000) reflecting a reasonable estimate of future pay out of the long term investment plans (LTIPs) and which represents a critical accounting judgement and source of estimation uncertainty. Further disclosures relating to LTIPs can be found in note 14.

Strategic report
for the year ended 31 March 2016 (continued)

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.

a) Member Service

The scheme takes part in an annual global benchmarking survey by an independent company (CEM). According to latest available results for member servicing (the year ending 2014/15), USS service level scores increased from 69% to 70% which compares favourably with a peer group median of 62%.

Member satisfaction or net promoter scores (NPS) are derived from feedback directly from members about their experience both positive (expressed as a positive percentage) and negative (expressed as a negative percentage) to give an overall score. Members were positive about their experience, with the NPS obtained via an externally managed survey reaching 65%. This compares to a NPS of 68% in the previous year. It is important to note that the highest volume category of adverse responses related to views on the changes to the benefit structure and did not relate to core member servicing.

All pension payments (relating to over 64,000 pensioner members and over 12,000 beneficiaries) were made on time.

b) Employer Service

- The overall employer satisfaction or net promoter score, was broadly maintained from 2014/15 increasing from 71% to 73%.

- Employer satisfaction levels are also measured:

  - 68% of institutions consider that USS provides a timely service for provisional retirement quotes. This compares with 55% in the previous year.
  - 73% of institutions consider that USS provide a timely service for retirement processing. This compares with 65% in the previous year.
  - Eight out of nine processes surveyed were deemed to have improved in timeliness and clarity from the previous years' results.

c) Employee numbers and satisfaction

The people employed by the group are critical to the success of the scheme overall. To create optimum value for members and institutions, the trustee board and its Executive Committee must engage employees across the whole business and ensure that the group has the right mix of skills and expertise and to deliver excellent value for money services to its members and employers.

There is continued investment in our people during the year, with a modest increase in average employee numbers from 379 to 441, and a number of vacancies being filled. This reflects the strategy of in-housing investment management where cost-effective and also the investment needed to prepare for the introduction of the new DC element of the scheme and the changes to the services offered as a result. Further information on our approach to employee matters is set out on page 12. During the year, the overall employee engagement increased by 13 percentage points to 82%. The trustee board is very proud of the progress made in this area in preparation for changes ahead and recognises that during times of change, such as in the forthcoming year, engagement levels can suffer.

Other financial risks

As outlined in the principal activities above, the company makes neither a profit nor a loss, with cash flows being funded by the scheme. The company's only financial assets are short term cash balances and intercompany receivables and accordingly its exposure to credit risk, interest rate risk and liquidity risk is limited.

The credit risk on liquid funds is further mitigated because the counterparty is a bank with a strong credit-ratings assigned by established credit-rating agencies.

Liquidity is maintained by drawing down sufficient funds from the scheme based on forecast and historical levels of cash flow expenditure.

This report was approved by the board on 12 July 2016 and signed on its behalf.

By order of the board

J P Hill
Company Secretary

Directors' report
for the year ended 31 March 2016

Directors

The directors who held office during the year or prior to the approval of these financial statements are set out on page 3.

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.

Events after the balance sheet date

On 23 June 2016, the UK electorate voted, by referendum, to exit the European Union. The result of the referendum does not impact the group's financial statements for the year ended 31 March 2016. USS is a long term investor, globally diversified and backed by a substantial covenant from the higher education sector. The group had taken some steps in advance of the post-referendum financial market turbulence and expects considerable further uncertainty for a period, requiring close monitoring of political and market developments. However, the board does not expect to make fundamental changes to its strategic priorities in the immediate post referendum period ahead of considering the results of the 2017 valuation.

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.

Change in accounting policies

During the financial year, the company has adopted Financial Reporting Standards 102 (FRS 102). Full details of the impact of the application of FRS 102 are set out in note 21.

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".

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 the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report
for the year ended 31 March 2016 (continued)

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 company's business activities, together with the principal risks and uncertainties are set out in the Strategic Report. As highlighted on page 4, the company is the corporate trustee of the scheme and makes neither a profit nor a loss. There are no factors of which the directors are aware that would materially impact the ability of the company to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis of accounting in preparing the annual financial statements.

Provision of information to auditor

The directors confirm that:

- 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 be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Grant Thornton UK LLP have indicated their willingness to be reappointed and appropriate arrangements have been made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

This report was approved by the board on 12 July 2016 and signed on its behalf.

By order of the board

J P Hill
Company Secretary

Independent auditor's report to the members of Universities Superannuation Scheme Ltd

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2016 which comprise the group statement of income and retained earnings, the group and parent company balance sheets, the group and parent company cash flow statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the group's result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

Paul Flatley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Liverpool
12 July 2016

Group statement of income and retained earnings for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000 *restated*
Turnover	3	118,136	96,011
Administrative expenses before exceptional items		(108,014)	(95,971)
Exceptional items	7	(10,023)	-
Administrative expenses including exceptional items		(118,037)	(95,971)
Operating profit	**4**	**99**	**40**
Finance costs – unwinding of discount on provisions	19	**(99)**	(40)
Profit or loss on ordinary activities before and after taxation		**-**	**-**
Profit and loss account at the start of the year as reported		-	-
Impact of transition to FRS 102 on the profit and loss account	21	-	-
Profit and loss account at the start and end of the year as restated		**-**	**-**

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

The notes on pages 18 to 38 form part of these financial statements.

Balance sheets

for the year ended 31 March 2016

Company registration number: 01167127

		Group		Company	
	Note	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Fixed assets			*restated*		*restated*
Intangible fixed assets	8	4,886	1,056	4,716	1,056
Tangible fixed assets	9	3,904	3,187	3,374	2,836
Investment in subsidiary undertakings	10	-	-	921	921
		8,790	4,243	9,011	4,813
Current assets					
Debtors due within one year	11	35,099	20,444	33,315	17,912
Cash at bank and in hand		4,039	4,013	-	7
		39,138	24,457	33,315	17,919
Creditors: amounts falling due within one year	12	(32,117)	(22,037)	(36,985)	(21,434)
Net current assets/(liabilities)		7,021	2,420	(3,670)	(3,515)
Total assets less current liabilities		**15,811**	**6,663**	**5,341**	**1,298**
Creditors: amounts falling due after more than one year	13	(3,059)	(2,165)	(96)	-
Provision for liabilities	14	(5,667)	(1,758)	(1,854)	-
Pension liability provision	19	(7,085)	(2,740)	(3,391)	(1,298)
Net assets and reserves		-	-	-	-

The notes on pages 18 to 38 form part of these financial statements.

The financial statements on pages 15 to 38 were approved by the board of directors on 12 July 2016 and were signed on its behalf by:

Professor Sir David Eastwood
Chairman

Dr Kevin Carter
Deputy Chairman

Consolidated cash flow statement
for the year ended 31 March 2016

		Group		Company	
	Note	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Operating activities			*restated*		*restated*
Cash received from USS		103,048	90,824	43,340	39,934
Operating costs paid	15	(96,513)	(89,160)	(37,410)	(38,280)
Net cash inflow from operating activities		**6,535**	**1,664**	**5,930**	**1,654**
Investing activities					
Purchase of intangible fixed assets	8	(4,558)	(1,059)	(4,351)	(600)
Purchase of tangible fixed assets	9	(1,951)	(663)	(1,586)	(1,059)
Sale of tangible fixed assets		-	6	-	6
Net cash used in investing activities		(6,509)	(1,716)	(5,937)	(1,653)
Net increase/(decrease) in cash		26	(52)	(7)	1
Cash and cash equivalents at the start of the year		4,013	4,065	7	6
Cash and cash equivalents at the end of the year		4,039	4,013	-	7

The notes on pages 18 to 38 form part of these financial statements.

Notes to the financial statements
for the year ended 31 March 2016

1 Significant accounting policies and general information

a) Basis of preparation

The company, which is limited by guarantee and does not have a 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 USS (the scheme).

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 principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year. The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. Full details of the impact of the application of FRS 102 are set out in note 21.

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, Mr J P Hill, at Royal Liver Building, Liverpool, L3 1PY.

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 parent company's result for the year was £nil (2015: £nil) since costs are recharged in full to the scheme.

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 5 to 8. 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 cast significant doubt on the group's ability to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis.

d) Turnover

Turnover is stated net of VAT and is recognised when the significant risks and rewards are considered to have been transferred. 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 shall be paid out of the fund. Turnover is recorded at the fair value of the consideration received or receivable.

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 one and six years. 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 their estimated useful economic life. Provision is made for any impairment.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

1 Significant accounting policies and general information (continued)

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:

	%		%
Alterations to rented premises	20	Office equipment	15
Computer equipment	33⅓	Motor vehicles	25

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 (USS or the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme which was contracted out of the State Second Pension (S2P). 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 employers 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 DC 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 and the resulting expense in profit or loss.

j) Provisions

A provision is recognised in the balance sheet when the company 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 at 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 14.

k) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction.

l) VAT

The company is registered for Value Added Tax (VAT) activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment activities. The unrecovered VAT element is written back against operating expenses, apportioned by standard rated expenditure.

m) Investments

Investments are stated at cost, less any provision for impairment.

n) Exceptional items

Exceptional items are items that are unusual because of their size, nature or incidence and which the directors consider should be disclosed separately to enable a full understanding of the group's results.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

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.

a) Critical judgements in applying the company'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 company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Pension deficit recognition

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 the USS 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 is recognised in profit or loss. The directors are satisfied that the USS scheme meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the 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 company by reducing external operating costs over the economic life, or by providing a new service to the parent company in relation to the anticipated new DC section of the scheme. 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 its 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, management 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.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

b) Key source of estimation uncertainty

i) Pension deficit assumptions

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 funding plan and latest actuarial valuation assumptions. Changes in the numbers of participating employees are reflected in the year in which they occur. The provision recognised at 31 March 2016 is £7,085,000 (31 March 2015 *restated*: £2,740,000). Further disclosures relating to this provision can be found in note 19.

ii) Provisioning for long term incentive plans

Determining the liability for future payment of incentive arrangements requires an estimation of the present value of future scheme performance in comparison to the hurdle rates and the number of plans that will vest. The calculation of scheme performance requires management to estimate the future cash flows from investment returns and a suitable discount rate in order to calculate present value. Each plan is individually assessed, on an annual basis, for payment and for the likelihood of future payments. This assessment is based on the achievement of annualised investment outperformance relative to pre-determined benchmarks. The amount that is likely to be paid is charged to the profit and loss in equal instalments over the vesting period. The likelihood of payment is also dependent on the retention of the employees eligible for the awards and requires the group to estimate the number of relevant employees that will leave employment before the end of the plan. Both the investment outperformance and the staff retention rates are reviewed annually and provision is reassessed. 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 £4,100,000 (31 March 2015: £1,758,000) is the best estimate of the amount to be paid out in relation to employees services rendered up to the balance sheet date and a provision has been made in the financial statements. Further disclosures relating to long term incentive plans can be found in note 14.

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 today's 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 2016 is £1,567,000 (31 March 2015: £nil).

3 Turnover

All turnover relates to amounts recharged to USS under the scheme rules (2015: same). Included within turnover is £10,023,000 (2015: £nil) which is considered to be exceptional since it reflects the recharge of exceptional administrative expenses.

4 Operating profit

	Note	2016 £'000	2015 £'000
Operating profit is stated after charging:			*restated*
Amortisation of other intangible assets	8	728	545
Depreciation of tangible fixed assets	9	1,224	1,432
Loss on disposal of tangible fixed assets	15	10	72
Operating lease rentals	16	1,981	1,780
Research and development expense		1,188	-
Staff costs	5	59,772	41,367

A detailed breakdown of operating expenses is included in note 22.

	2016 £'000	2015 £'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditors for the statutory audit of the company's annual accounts	**12**	**11**
Fees payable in respect of the statutory audit of the subsidiary	30	26
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	148	85
Total audit fees	**190**	**122**

Fees in the table above for 2015 exclude £20,000 agreed after the issuance of the 2015 financial statements were approved for the audit of the scheme. The revised total fee for 2015 would have been £142,000.

The 2016 fees above include non-recurring statutory audit fees of £18,000 for the transition of FRS 102. There were no non-audit services provided to the company during the year (2015: same).

Notes to the financial statements
for the year ended 31 March 2016 (continued)

5 Staff costs

	2016 Number	2015 Number
The average monthly number of employees was:		
Investment management and support	125	112
Pensions professionals and support	119	110
Project management	34	10
Group shared services	163	147
	441	379
Represented by:		
Permanent employees	381	343
Contractors	60	36
	441	379

And their aggregate remuneration comprised:

	Note	2016 £'000	2015 £'000
Staff costs for the above persons were:			*restated*
Wages and salaries: Permanent employees		40,777	27,567
Contractors		6,657	6,010
Social security costs		3,702	3,122
Pension costs	19	7,714	4,015
Restructuring costs		922	653
		59,772	41,367

'Pension costs' includes only those items recognised within operating costs. Items reported elsewhere have been excluded.

Notes to the financial statements

for the year ended 31 March 2016 (continued)

6 Directors' emoluments and expenses

	2016 £'000	2015 £'000
Total emoluments of the directors of the Company:		
Fees (non-executive directors)	446	456
Employers' costs - National Insurance contributions	79	71
Expenses incurred	66	34
	591	561

	2016	2015
The number of directors who:		
are members of the USS defined benefit scheme	8	6

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 of the highest paid director were £70,000 (2015: £70,000). No pension contributions have been made on behalf of directors in either the current or preceding year. As at 31 March 2016, eight of the directors were members of USS (2015: six). Membership of the scheme, whether deferred, pensioner or active is through their past or present employment with the institutions.

There is one director who also serves as a director of the subsidiary company, USS Investment Management Limited, who received £40,000 (2015: one director received £40,000).

The group considers members of the group executive committee to be Key Management Personnel. Such individuals are not directors of the trustee company and their remuneration is not included within the directors' disclosures above. Accordingly additional information is set out below in respect of the group executive committee.

	2016 £'000	2015 £'000
Total emoluments of the group executive committee:		
Salary and other emoluments excluding long term incentives	3,172	2,098
Amounts receivable under long term incentive schemes	900	394
Sums paid to third parties in respect of these services	-	287
	4,072	2,779

	2016	2015
The number of group executive committee members who:		
are members of the USS defined benefit scheme	8	8
had awards receivable under a long term incentive scheme	8	8

During the financial year, one Group Executive Committee member stepped down from his position and left employment. The Chief Executive and the Board considered this employee, who had LTIPs outstanding which had not yet vested, to be a good leaver. As part of a negotiation of the outstanding LTIP arrangement, a company car with a net book value of £9,000 was sold to the individual in February 2016. £3,800 was offset against outstanding LTIPs and the remaining amount of £5,200 was to be received over a period of 12 months. As at the reporting date, £4,300 was receivable and is recognised as a debtor.

Emoluments included in the table above for 2015 include amounts payable for three members of key management personnel totalling £251,000 who were recruited during the prior year. On an annualised basis, salaries in 2015 would have been £293,000 higher than had been actually incurred.

7 Exceptional items

Exceptional items charged to the statement of income and retained earnings total £10,023,000 (2015: £nil) in the year relating to three items (2015: nil).

Pension deficit provision

As a result of the USS scheme benefit changes and the associated change in the funding plan, the company's pension liability increased reflecting changes in the % employer contribution and the increased length of time over which the funding plan exists (see note 19). Revisions to the benefit arrangements are non-recurring in nature and have increased the pension deficit by £4,587,000 in the year (2015: £nil).

Dilapidation costs

Provision is made for dilapidation costs where the lease requires the reinstatement of a property to its original condition upon exit of the lease contract. Provisions for dilapidation costs are recognised on a lease-by-lease basis and new leases were entered into during the year. As a result, amounts charged to exceptional items totalled £1,567,000 in the year (2015: £nil).

Scheme changes

Scheme change expenditure of £3,869,000 is recognised in administrative expenses and reflects the cost of the programme which does not meet the capitalisation criteria of internally generated software costs. This expenditure is not reflective of the ongoing activity of the scheme, being related to the change transitional readiness activities. Since this expense is material to the trustee company it has been separately identified as exceptional. Included within this exceptional cost is £1,188,000 relating to the research phase of software development and the remainder of the cost relates to the non-IT development, including activities such as project management, requirement scoping and other administrative tasks.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

8 Intangible fixed assets

Group	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2015 (*restated*)	6,782	-	6,782
Additions	673	3,885	4,558
Disposals	(5,236)	-	(5,236)
At 31 March 2016	2,219	3,885	6,104
Accumulated depreciation			
At 1 April 2015 (*restated*)	5,726	-	5,726
Charge for year	689	39	728
Disposals	(5,236)	-	(5,236)
At 31 March 2016	1,179	39	1,218
Net book value			
At 31 March 2016	1,040	3,846	4,886
At 31 March 2015 (*restated*)	1,056	-	1,056

Company	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2015 (*restated*)	6,782	-	6,782
Additions	673	3,678	4,351
Disposals	(5,236)	-	(5,236)
At 31 March 2016	2,219	3,678	5,897
Accumulated depreciation			
At 1 April 2015 (*restated*)	5,726	-	5,726
Charge for year	689	2	691
Disposals	(5,236)	-	(5,236)
At 31 March 2016	1,179	2	1,181
Net book value			
At 31 March 2016	1,040	3,676	4,716
At 31 March 2015 (*restated*)	1,056	-	1,056

Development costs have been capitalised in accordance with the requirements of FRS 102 and are therefore not treated as a realised loss. Disposals of patents and licences are those which have expired at the end of their licence period and are fully amortised.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

9 Tangible fixed assets

Group	Alterations to rented premises £'000	Computer equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2015 *(restated)*	4,285	4,111	2,070	90	10,556
Additions	1,053	524	374	-	1,951
Disposals	(2,408)	(1,741)	(562)	(33)	(4,744)
At 31 March 2016	2,930	2,894	1,882	57	7,763
Accumulated depreciation					
At 1 April 2015 *(restated)*	3,320	2,631	1,364	54	7,369
Charge for year	108	850	250	16	1,224
Disposals	(2,408)	(1,740)	(562)	(24)	(4,734)
At 31 March 2016	1,020	1,741	1,052	46	3,859
Net book value					
At 31 March 2016	1,910	1,153	830	11	3,904
At 31 March 2015 *(restated)*	965	1,480	706	36	3,187

Company	Alterations to rented premises £'000	Computer equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2015 *(restated)*	4,285	4,111	464	90	8,950
Additions	1,053	524	9	-	1,586
Disposals	(2,408)	(1,741)	(42)	(33)	(4,224)
At 31 March 2016	2,930	2,894	431	57	6,312
Accumulated depreciation					
At 1 April 2015 *(restated)*	3,320	2,631	109	54	6,114
Charge for year	108	850	64	16	1,038
Disposals	(2,408)	(1,740)	(42)	(24)	(4,214)
At 31 March 2016	1,020	1,741	131	46	2,938
Net book value					
At 31 March 2016	1,910	1,153	300	11	3,374
At 31 March 2015 *(restated)*	965	1,480	355	36	2,836

Notes to the financial statements
for the year ended 31 March 2016 (continued)

10 Investment in subsidiary undertakings

	Company £'000
At 1 April 2015 and 31 March 2016	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.

11 Debtors

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
		restated		*restated*
Amounts due from related party (USS)	31,707	16,619	31,707	16,619
Prepayments	2,702	2,961	1,348	879
Other debtors	690	864	260	414
	35,099	20,444	33,315	17,912

12 Creditors - Amounts falling due within one year

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
		restated		*restated*
Amounts due to subsidiary undertaking	-	-	21,478	10,400
Accrued expenditure	17,855	13,587	14,032	8,714
Other creditors	4,705	2,993	431	1,850
Taxation and social security	9,557	5,457	1,044	470
	32,117	22,037	36,985	21,434

13 Creditors - Amounts falling due after more than one year

An accrual has been made for future payments for deferred remuneration obligations, the long-term element amounts to £3,059,000 (2015: £2,165,000). If 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 dependent on continued employment. 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 then uplifted prior to payment by the ensuing scheme performance.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

14 Provision for liabilities and charges

The table below sets out the movement in the provision for liabilities and charges since 31 March 2015:

	2016 Dilapidation £'000	2016 LTIP £'000	2016 Total £'000
Reconciliation of group provision			
As at 1 April 2015	-	1,758	1,758
Charged to profit and loss account	1,567	4,114	5,681
Utilisation of provision	-	(1,772)	(1,772)
As at 31 March 2016	1,567	4,100	5,667

	2016 Dilapidation £'000	2016 LTIP £'000	2016 Total £'000
Reconciliation of company provision			
As at 1 April 2015	-	-	-
Charged to profit and loss account	1,567	287	1,854
As at 31 March 2016	1,567	287	1,854

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:

	2016	2015
Vesting period	3, 4 or 5 years	3, 4 or 5 years
Amounts payable within one year	£2,442,000	£639,000
Cumulative leaver rate over vesting period	45.0%	44.0%

Dilapidation

The carrying amount of the provision at 31 March 2016 is £1,567,000 (2015: £nil). The provision is expected to be utilised on the finalisation of each lease between the next four to thirteen years. The key assumptions are shown below:

	2016	2015
Risk adjusted discount rate	3.54%	-
Inflation	3.00%	-
Length of lease	4, 9 or 13 years	-
Range of price per square foot (on a lease-by-lease basis)	£20.00 - £32.00	-

Notes to the financial statements
for the year ended 31 March 2016 (continued)

15 Notes to the cash flow statement

Reconciliation of net cash flow from operating activities

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
		restated		*restated*
Operating costs	118,037	95,971	58,382	45,135
Increase in creditors	(10,974)	(5,124)	(15,647)	(5,451)
Increase in provisions	(8,155)	(607)	(3,901)	(98)
(Decrease)/ increase in debtors (excluding amounts due from related party)	(433)	969	315	571
Loss on disposal of tangible fixed assets	(10)	(72)	(10)	(72)
Amortisation of intangible assets	(728)	(545)	(691)	(545)
Depreciation of tangible assets	(1,224)	(1,432)	(1,038)	(1,260)
Operating costs paid	96,513	89,160	37,410	38,280

A reconciliation between the profit reported in the profit and loss account and the net cash flow from operating activities reported in the cash flow statement is a requirement of FRS 102 section 7. The directors believe that the format above remains more appropriate given the nature of the group and the environment in which it operates.

16 Operating lease arrangements

	Group and Company	
	2016 £'000	2015 £'000
Lease payments under operating leases recognised as an expense in the year	1,981	1,780

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

	Group and Company			
	Land and buildings		Other	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Less than one year	1,839	1,602	124	137
Between two and five years	8,155	6,408	185	249
Over five years	13,034	14,917	-	-
Total	23,028	22,927	309	386

Notes to the financial statements
for the year ended 31 March 2016 (continued)

17 Contingent liabilities and assets

As at the balance sheet date the scheme issued legal proceedings relating to one of its investments. The events to which the proceedings relate occurred wholly before the statement of net assets date. Should the outcome of the proceedings be unfavourable, the scheme would be liable to incur a proportion of the defendant's legal costs. No provision has been made in these financial statements for these costs, which if the case is successful, would be recovered as the liability cannot currently be quantified and the timing of the resolution of the action is unknown.

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

18 Capital commitments

Capital commitments are as follows:

	Group and Company	
	2016 £'000	2015 £'000
Contracted for but not provided for:		
Other	1,836	-

Capital commitments are amounts contracted for future software development assets.

19 Pension liability provision

The total cost charged to the profit and loss account is £7,813,000 (2015 *restated*: £4,055,000) as follows:

	Note	2016 £'000	2015 £'000
Total pension costs included in staff costs	5	7,714	4,015
Unwind of the discount included in finance costs		99	40
Total pension costs charged to the profit and loss account		7,813	4,055

The charge to the profit and loss account includes the contributions payable and the movement on the pension liability provision.

The table below sets out the movement in the provision since 31 March 2015:

	Group £'000	Company £'000
As at 1 April 2015 (*restated*)	2,740	1,298
Charged to profit and loss account - exceptional items	4,587	2,196
Credited to profit and loss account – operating costs	(341)	(150)
Unwinding of discount	99	47
As at 31 March 2016	7,085	3,391

19 Pension liability provision (continued)

The latest available full actuarial valuation of the scheme was at 31 March 2014 (the valuation date), which was carried out using the projected unit method.

Since the company cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6bn and the value of the scheme's technical provisions was £46.9bn indicating a shortfall of £5.3bn. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions.

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Pension increases (CPI)	2.2%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	98% of S1NA ["light"] YoB tables – No age rating
Female members' mortality	99% of S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were adopted. The current life expectancies on retirement at age 65 are:

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

	2016	2015
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

Notes to the financial statements
for the year ended 31 March 2016 (continued)

20 Related party transactions

There are no related party transactions other than transactions between the company and USS; 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 USS and, as such, holds investments and other assets in its own name, but these are not included in the balance sheet, as the company holds the assets as trustee of USS.

The group provides administration and investment management services to USS charging £118,136,000 (2015: £96,011,000 *restated*) respectively, with a balance due from USS of £31,707,000 as at 31 March 2016 (2015: £16,619,000 *restated*).

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 100% subsidiary as consolidated financial statements are prepared.

21 Explanation of transition to FRS 102

This is the first year that the group has presented its financial statements under FRS 102 issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition was therefore 1 April 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Adjustment 1) Recognition of pension liability

As outlined in note 19 the group participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is currently in a deficit position and for which the entity has entered into an agreement with USS that determines how the entity will fund this deficit. Consequently, whilst no liability was recognised under FRS 17 for the contributions payable arising from that agreement, FRS 102 requires the recognition of such a liability, (to the extent that they relate to the deficit) and the recognition of the resulting expense in profit or loss in accordance with section 28. The corresponding entry against the liability is recognised as a current asset in the company balance sheet on the basis that it is recoverable from the scheme. Amounts incurred by the subsidiary as part of its transition to FRS 102 flow through the company and on to the scheme, with adjustments recognised within amounts due from related party (USS).

Adjustment 2) Recognition of accrued holiday pay for employees

Accumulated compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full are recognised as a liability under FRS 102. The group did not recognise such liabilities under previous accounting standards. A liability has been recognised in the company in respect of accrued holiday pay for employees. The corresponding entry against the liability is recognised as a current asset in the company balance sheet on the basis that it is recoverable from the scheme. Amounts incurred by the subsidiary as part of its transition flow through the company and on to the scheme, with adjustments recognised within amounts due from related party (USS).

Adjustment 3) Reclassification of software licences to intangible assets

Under UK GAAP historically, software costs (including licences) were included in tangible fixed assets. FRS 102 does not specify the classification of these costs, which may either be treated as a tangible asset associated with the cost of hardware or an intangible asset based on the right to use the licence purchase. The directors have considered the nature of this expenditure and believes this to be a purchase of the right to use certain technology assets as opposed to an inherent enhancement to the cost of hardware. Accordingly, the asset has been reclassified as an intangible fixed asset. There is no profit and loss impact.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

21 Explanation of transition to FRS 102 (continued)

Notes to the reconciliation of group net assets on transition (1 April 2014)

	At 1 April 2014 as reported £'000	1 £'000	2 £'000	3 £'000	At 1 April 2014 as restated £'000
Intangible fixed assets	-	-	-	542	542
Tangible fixed assets	4,576	-	-	(542)	4,034
Current assets	15,290	2,851	212	-	18,353
Creditors due in less than one year	(17,189)	-	(212)	-	(17,401)
Creditors due in greater than one year	(1,677)	-	-	-	(1,677)
Provisions	(1,000)	-	-	-	(1,000)
Pension liability provision	-	(2,851)	-	-	(2,851)
Net assets and reserves	-	-	-	-	-

Notes to the reconciliation of group net assets for the year end 2015

	At 31 March 2015 as reported £'000	1 £'000	2 £'000	3 £'000	At 31 March 2015 as restated £'000
Intangible fixed assets	-	-	-	1,056	1,056
Tangible fixed assets	4,243	-	-	(1,056)	3,187
Current assets	21,477	2,740	240	-	24,457
Creditors due in less than one year	(21,797)	-	(240)	-	(22,037)
Creditors due in greater than one year	(2,165)	-	-	-	(2,165)
Provisions	(1,758)	-	-	-	(1,758)
Pension liability provision	-	(2,740)	-	-	(2,740)
Net assets and reserves	-	-	-	-	-

Notes to the financial statements
for the year ended 31 March 2016 (continued)

21 Explanation of transition to FRS 102 (continued)

Notes to the reconciliation of consolidated profit or loss for the year ended 31 March 2015

	At 31 March 2015 as reported £'000	1 £'000	2 £'000	3 £'000	At 31 March 2015 as restated £'000
Turnover	96,094	(111)	28	-	96,011
Administrative expenses	(96,094)	151	(28)	-	(95,971)
Interest payable	-	(40)	-	-	(40)
Profit or loss on ordinary activities before and after taxation	-	-	-	-	-

Notes to the reconciliation of company net assets on transition (1 April 2014)

	At 1 April 2014 as reported £'000	1 £'000	2 £'000	3 £'000	At 1 April 2014 as restated £'000
Intangible fixed assets	-	-	-	542	542
Tangible fixed assets	4,116	-	-	(542)	3,574
Investment in subsidiary	921	-	-	-	921
Current assets	9,097	2,851	212	-	12,160
Creditors due in less than one year	(14,134)	(1,637)	(212)	-	(15,983)
Pension liability	-	(1,214)	-	-	(1,214)
Net assets and reserves	-	-	-	-	-

Notes to the reconciliation of company net assets for the 2015 year end

	At 31 March 2015 as reported £'000	1 £'000	2 £'000	3 £'000	At 31 March 2015 as restated £'000
Intangible fixed assets	-	-	-	1,056	1,056
Tangible fixed assets	3,892	-	-	(1,056)	2,836
Investment in subsidiary	921	-	-	-	921
Current assets	14,939	2,740	240	-	17,919
Creditors due in less than one year	(19,752)	(1,442)	(240)	-	(21,434)
Pension liability	-	(1,298)	-	-	(1,298)
Net assets and reserves	-	-	-	-	-

Notes to the financial statements
for the year ended 31 March 2016 (continued)

22 Operating costs breakdown

	Note	2016 £'000	2015 £'000
Personnel			
Employee costs	5	59,772	41,367
Directors' emoluments and expenses	6	591	561
Recruitment, training and welfare		2,200	2,070
		62,563	43,998
Premises			
Rents, rates, service charges and utilities		3,314	2,878
Depreciation and maintenance		287	602
Dilapidation costs		1,567	-
		5,168	3,480
Investment management			
Securities research		9,451	9,578
Securities management fees*		11,855	8,239
Property management fees*		3,316	5,366
Custodial services*		1,323	2,447
Legal costs - property management		823	1,413
- other		424	136
Property valuation fees		224	206
Investment accounting services*		2,206	870
Investment performance measurement		275	352
		29,897	28,607

* The table above shows that in 2015/16, costs have been classified from custodial services to investment accounting and from property management fees to securities management fees. There is no impact on overall operating expenditure.

Notes to the financial statements
for the year ended 31 March 2016 (continued)

22 Operating costs breakdown (continued)

	Note	2016 £'000	2015 £'000
Other costs			
Computer and information services costs	22(a)	7,993	6,848
Pension protection fund levy	22(b)	2,219	3,600
Professional fees	22(c)	6,306	5,992
Travel and car costs (including depreciation of £16,000 (2015: £17,000))		1,424	1,384
Office equipment (including depreciation of £251,000 (2015: £233,000)		570	498
Institution liaison and member communication		307	384
Telephones and postage		266	306
Printing and stationery		350	193
Insurance		159	142
Auditors' remuneration (2016 includes 2015 overruns)		216	122
Regulatory fees		125	110
Subscriptions		489	322
Loss on disposal of fixed assets		10	72
Sundry income		(25)	(87)
		20,409	19,886
Total operating costs		118,037	95,971

22a) Computer and information services costs

	2016 £'000	2015 £'000
Investment information services	4,246	3,649
Computer running costs	2,168	2,004
Software amortisation	689	462
Development costs amortisation	39	-
Hardware depreciation	850	732
Computer bureau fees	1	1
	7,993	6,848

Notes to the financial statements
for the year ended 31 March 2016 (continued)

22b) Pension protection fund

	2016 £'000	2015 £'000
Scheme-based and risk based levies	1,560	3,033
Administration levy	345	297
General levy	314	270
	2,219	3,600

22c) Professional fees

	2016 £'000	2015 £'000
Financial Management Plan	212	1,168
Legal	1,891	1,506
Consultancy	2,192	1,463
Actuarial	1,157	1,126
Committee members	346	350
Public relations	211	111
Other	249	201
Member matters	48	67
	6,306	5,992

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