USS

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

Report & Accounts

for the year ended 31 March 2017

Company registration number: 01167127

Contents

Company Information	1
Strategic Report	2-12
Directors' Report	13-14
Independent Auditor's Report	15-16
Statement of income and retained earnings	17
Balance Sheets	18
Cash Flow Statements	19
Notes to the financial statements	20-37

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 Ms K English Professor Jane Hutton Mr I R Maybury Mr M R Merton Professor Sir Anton Muscatelli Professor Stuart Palmer Mr M R Poisson Dr A M Roger – resigned 31 August 2016 Mr J W D Trythall Dr S Wharton – appointed 1 September 2016
Bankers	Barclays Bank Plc Manchester M2 1HW Natwest Bank 22 Castle Street Liverpool L2 0UP
Independent Auditor	Grant Thornton UK LLP Statutory Auditor Chartered Accountants Royal Liver Building Liverpool L3 1PS

Strategic report

for the year ended 31 March 2017

The directors submit their strategic report, directors' report and the financial statements for the year ended 31 March 2017.

Universities Superannuation Scheme Limited (USS or the `Company'), which is limited by guarantee and does not have share capital, is the corporate trustee (the `trustee') of Universities Superannuation Scheme (the `scheme'). The scheme is the principal pension scheme for academic and comparable staff in UK universities and other higher education and research institutions, providing a hybrid scheme with both defined benefit ('DB') and defined contribution ('DC') 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 continued a significant change programme which included the introduction of a DC section of the scheme in October 2016. These changes are being brought about in a cost effective manner by focussing on three strategic priorities:

- Development of our pension offering for employers and members;
- Enhancement of our service to employers and members; and
- Development of our 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**.

The programme of changes focussed on three elements:

- 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 calculation 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.

Strategic report
for the year ended 31 March 2017 (continued)

The programme delivery was planned on a phased basis, and as such some elements remain ongoing. The milestones set at the start of the year for implementation during 2016/17 were successfully delivered:

April 2016

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

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 enables members to indicate whether they wish to opt out of the match and make investment choices, with the USS Investment Builder.

October 2016

Implementation of the USS Investment Builder including infrastructure to process investment instructions;

Implementation of software to segregate USS Investment Builder contributions from total contributions; and

Implementation of the voluntary salary cap.

2017

Completion of the calculation of final salary entitlements at 31 March 2016;

Development of a single annual statement showing all the components of member benefits; and

Ongoing development of our online portal (My USS) functionality.

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 below 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 2017 (continued)

Principal Risks and Uncertainties which directly impact the Company

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
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. Communication of extended turnaround times to manage service expectations during the initial transitional period from May to August 2016. Enhanced and extended quality control checking during transitions.	**Target:** To contain the impact of the implementation of the new systems and processes required to support the scheme changes programme. Targets were adjusted to reflect expected service impacts and set at 2015/16 results minus 10% (for both member and employer's net promoter scores). **Update:** Service Delivery maintained performance within the targeted parameters. Member results, encouragingly, improved by 1% from the previous survey 11% greater than target. Employer results fell by 12% broadly in line with expectation.
Regulatory risk			
The product and service offering is impacted adversely by changes to pension policy, legislation or regulation. The trustee fails to adopt and apply effective oversight of its legal and regulatory compliance arrangements.	Potential for change to impact the scheme's product offering, give rise to additional costs and lead 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. Legal and regulatory change is monitored via the Group General Counsel *canon of law and regulation*, which is reviewed quarterly to ensure that relevant updates are captured and flagged to business areas. This facilitates the 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:** Demonstration of performance of the quarterly review process vs. the canon of law; absence of significant regulatory issues arising; and satisfactory completion of all education and awareness activity by relevant staff. **Update:** The trustee is prohibited by law from making employer-related loans. It was identified in 2015 that certain investments of the scheme were in technical breach of this prohibition. A disclosure was made to the pensions regulator and a remediation plan was agreed to correct the breach. The trustee progressed the remediation plan during the year with the effect that only one employer related loan remains outstanding. Remediation of this remaining loan is continuing in accordance with the plan. Further information and the most relevant new or evolving areas of legislation can be found in the scheme's annual report on **www.uss.co.uk**.

Strategic report
for the year ended 31 March 2017 (continued)

Principal Risks and Uncertainties which directly impact the Company (continued)

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
Business change risk Failure to deliver strategic business change effectively, especially in relation to ongoing scheme changes.	Change programmes miss deadlines, are poorly implemented and/or lead to low quality outcomes. This leads to increased costs, unfavourable member experience and reputational damage amongst key stakeholders.	Business change governance is closely monitored and controlled with oversight from the executive committee. Specific change initiatives have their own project teams.	**Target:** 100% on-time completed milestones for scheme change programme and >80% for other change projects. **Update:** Achieved 100% of our critical milestones for scheme change programme and 80% of the tighter internal deadlines. For other change projects the figure was 83% of internal deadlines. Satisfactory results were achieved for all change assurance activity.
People risk Failure to attract and retain sufficient people with the necessary skillsets 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 delivery of the scheme's strategic priorities, leading 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 a 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.	**Target:** Maintain employee engagement and training satisfaction levels relative to the employee engagement survey in 2015/16. **Update:** Overall engagement in 2016/17 increased by 3% to 85% across the USS Group. We continue to be able to attract high quality talent across the USS Group. The Managing at USS programme has been launched and the performance management process has been revamped. This has been well received and we expect this to have a positive impact on engagement in 2017/18. We maintained spending levels on training and development in line with industry benchmarks.

Strategic report
for the year ended 31 March 2017 (continued)

Principal Risks and Uncertainties which directly impact the Company (continued)

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
Data risk			
USS 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.	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 material breach of legislation. Completion of awareness and prevention training by all staff. **Update:** There were no breaches of legislation. The trustee continued to invest significantly in its cyber defences, improving its ability to prevent, detect and quarantine malware and viruses. Education and awareness, including cyber risk, is provided to all employees when they join the organisation. The training includes an end of course assessment to ensure the content has been understood. We provide continuous education and awareness throughout their employment. USS is accredited to ISO27001, the internationally recognised standard for information security. USS undertakes compliance reviews against the requirements of the standard with a view to improving its information security framework. This activity is verified by an external certification body on a bi-annual basis. The information security risk is continually monitored and managed within the organisation to ensure the confidentiality, integrity and availability of the data we hold and process is upheld. The role of head of information security has been upgraded to a direct report of the Chief Risk Officer.

Strategic report

for the year ended 31 March 2017 (continued)

Principal Risks and Uncertainties which directly impact the Company (continued)

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
Operational risks of the hybrid scheme and the USS Investment Builder section Inaccurate splitting of contributions between the USS Retirement Income Builder and USS Investment Builder. Delays in receiving and reconciling contributions. Delays in correctly investing contributions. Failure to carry out members' investment instructions correctly or on a timely basis. Incorrect pricing of funds in which members' monies are invested.	These risks may lead to the following impact: • Members may not receive the correct monies credited to their accounts. • Members may suffer financial loss. • Reputational damage to USS. • Potential for non-compliance with regulatory requirements.	Monitoring of the end-to-end process including: • Receipt and reconciliation of contributions. • Allocation of contributions to members' accounts. • Compliance with members' instructions. • Pricing of units. Established process for the reporting and rectification of errors.	**Target:** No material administration service issues. **Update:** There have been no material administration service issues. Whilst a small number of operational issues have been encountered as the new USS Investment Builder arrangements embed, these have been resolved quickly and without detrimental financial impact to members.
Stakeholder engagement risk USS fails to engage effectively with its stakeholders. This may occur through oversight or the limited bandwidth of USS executives.	This may lead to an impaired ability to respond effectively to the changing needs of employers and members. The potential consequences include the USS pension offering becoming misaligned with their needs or too costly.	Regular meetings are held with member and employer representatives, including both Universities UK and UCU. These cover issues of most interest to stakeholders, including valuation, funding, contributions and investment performance.	**Target:** The trustee continues to seek a high level of engagement. Communication with stakeholders has improved in frequency, level of detail and transparency over the past year, particularly with regard to the 2017 actuarial valuation. USS has maintained a high level of engagement in terms of the latter, accompanied by a concern about the funding level and the cost of future benefit accrual. USS is open to considering stakeholder requests for greater flexibility in the future structure of the scheme.

Strategic report

for the year ended 31 March 2017 (continued)

Principal Risks and Uncertainties which indirectly impact the Company (continued)

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 do not impact the group's consolidated financial statements.

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
Funding and solvency risk			
Deterioration in the financial health of the scheme. This may be driven by a significant increase in net pension liability (deficit) 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 under the USS Retirement Income Builder 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) as part of the ongoing 2017 Actuarial Valuation, 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 2017, the funding ratio stood at 83% with a deficit of £12.6bn. Further information can be found in the scheme's annual report on **www.uss.co.uk**. This deficit has been determined under our monitoring approach, which is an estimate using the assumptions from the 2014 valuation. This is somewhat below the level forecasted in the FMP, but within the projected volatility range. The ability of the employers to provide support to the scheme over the long term was confirmed by the latest covenant review.

Strategic report
for the year ended 31 March 2017 (continued)

Principal Risks and Uncertainties which indirectly impact the Company (continued)

Risk	Potential Impact	Control/mitigation	Key performance indicator for 2017
Investment performance risk			
A prolonged period of inadequate investment performance, or a sharp fall in the value of investments. This may be due to (i) selection of an inappropriate reference portfolio, (ii) under-performance of the implemented portfolio relative to the reference portfolio and/or (iii) unfavourable economic conditions.	A significant further increase in the scheme's deficit. This may lead to the requirement to increase contributions, amend investment strategy and/or reduce future benefits. Lower growth in the size of members' USS Investment Builder funds. This may lead to lower than expected values being available to members on retirement.	A documented, structured and effective investment process, run by experienced investment professionals, incorporating robust controls and diligent oversight. ***USS Retirement Income Builder:*** 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. ***USS Investment Builder:*** The fund range has been chosen to provide members with an appropriate balance of risk and return expectations. Further information with more detailed commentary on investment risks can be found in the Statement of Investment Principles available on the USS website and in the scheme's annual report, also available on **www.uss.co.uk**.	**Target:** ***USS Retirement Income Builder:*** Long-term total investment return above the FMP expected return target set on 31 March 2014. Relative investment performance after applicable costs meet target of 0.50% above the reference portfolio over the past five years and consistent with the risk parameters set by the board. ***USS Investment Builder:*** To outperform the relevant benchmark on an asset-weighted basis across the investment sub-funds. **Update:** ***USS Retirement Income Builder:*** The realised total investment return of 20.1% comfortably outperformed the FMP expected return target which was set in 2014. Investment out-performance relative to the benchmark met the five yearly target of c0.50% in excess of the strategic benchmark. Over one year, investment returns underperformed the reference portfolio by 2.05%, with marginally higher-asset liability risk. ***USS Investment Builder:*** Asset-weighted returns have exceeded the fund benchmarks for seven of its fourteen funds and two funds achieving their benchmark over the initial six month period, with the USS Ethical Equity Fund being the only fund with notable underperformance. The three main balanced funds, Growth, Moderate Growth and Cautious Growth, which account for 85% of DC investments have outperformed their benchmarks by 1.4%, 1.5% and 1.2% respectively. For further information see the investment matters section on in the scheme's annual report on **www.uss.co.uk**.

Strategic report

for the year ended 31 March 2017 (continued)

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.

The operating costs for the period amounted to £124,920,000 (2016: £118,037,000) including exceptional costs of £3,187,000 (2016: £10,023,000). A summary of total operating costs including exceptional items for the year analysed by nature of expense is as follows:

For the year ended 31 March in thousands	Underlying	2016/17 Exceptional	Total	Underlying	2015/16 Exceptional	Total
Employee incentives - investment	17,747	-	17,747	16,586	-	16,586
Employee incentives - non-investment	1,952	-	1,952	1,617	-	1,617
Other wages and salaries	39,494	2,054	41,548	34,101	7,468	41,569
Total personnel costs	**59,193**	**2,054**	**61,247**	**52,304**	**7,468**	**59,772**
Premises costs	3,805	-	3,805	3,601	1,567	5,168
Investment costs	28,816	-	28,816	29,897	-	29,897
Other costs	29,919	1,133	31,052	22,212	988	23,200
Total operating costs	**121,733**	**3,187**	**124,920**	**108,014**	**10,023**	**118,037**

Total operating costs have increased by £6,883,000, and on an underlying basis (excluding exceptional costs), have increased £13,719,000 or 13% year-on-year.

Exceptional costs are defined as costs that are material and unusual by incidence or by nature, and total £3,187,000 (2016: £10,023,000). The exceptional costs in the year are not new since they relate to scheme change expenditure (2016: £3,869,000). This expenditure does not reflect the ongoing activity of the scheme, as it is solely related to the activities undertaken to implement the changes to the scheme.

The key movements in underlying operating costs are:

- Incentives have increased by £1,496,000. As explained in the section on remuneration and incentive arrangements in the scheme's annual report on **www.uss.co.uk**, a significant element of annual incentives is linked to scheme performance. Over the last five years the scheme's assets have outperformed the benchmark by 0.50% per year, with the net added value from outperformance contributing a total of £1.1bn to the scheme's asset value. The increase in incentives earned reflects this strong performance over the five years.
- Salaries and other employee personnel costs have increased by £5,393,000. Headcount has continued to increase in 2016/17 driven by two elements of USS strategy. Firstly, broadening capabilities and bringing investment management in-house where this is more cost effective. Whilst this increases these visible personnel costs, the costs embedded in asset values of the scheme are reduced to a greater extent. Secondly we have increased the number of staff, both permanent and temporary, driven by the increased activity to implement the scheme's changes and to operate the hybrid scheme.
- 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. The increase of £318,000 resulted from taking on additional space in the second half of 2015/16, and therefore 2016/17 is the first full year with these increased charges.
- Investment costs have decreased by £1,081,000 largely due to a decrease in external manager fees as USS continues to bring investment management in-house where this is more cost effective.
- Other costs include computer and information services of £10,961,000 (2016: £7,993,000) and professional fees of £10,188,000 (2016: £6,306,000). These increases primarily resulted from the scheme change activity, including the dual running of the administration platforms.

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. Operating costs excluding exceptional items as a proportion of assets under management are 0.20% (2016: 0.21%).

Within the balance sheet is a £3,718,000 provision (2016: £4,100,000) 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 2017 (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

Our members' experiences of USS, of our systems and processes, and of our people is a crucial barometer of our success managing the scheme. We have made some planned investment in our pensions administration business and its support functions to reflect the increasing complexity of the scheme and the regulatory environment in which we operate. Much of this investment is focussed on reducing the overall running cost of the new hybrid scheme, through improvements to systems and processes building on the foundations from the scheme change implementation.

The net promoter score measures (NPS) whether we meet the high standards of service expected by our members. We ask those who have recently used a service or experienced a process to provide feedback. The NPS score of 66% (2016: 65%) is good compared to peer organisations but we are keen to improve it. We will:

- focus on our member insight capabilities to generate further understanding of member expectations and what they value;
- improve access to tools and other sources of support for members when making important decisions about their retirement objectives;
- conduct 'best practice' reviews of our processes so that there is a consistent and optimal service across all members;
- improve service processing times based on the improved data quality which was made possible through the data migration as part of scheme changes; and
- develop the content of our member portal and increase My USS registrations to 75,000 (registrations totalled almost 60,000 in March 2017).

The perceptions survey is a broad survey of the membership which aims to gather feedback on how members feel about USS more generally. Members have given a 'net good' rating of 53%, but we have set ourselves a challenging objective to increase this to 70% (a 17 percentage point increase) by the end of 2019/20. The activities highlighted above to increase the NPS will also improve member perceptions more widely. Additionally, we will focus on:

- the content available via the website so that members can access information about pensions matters and scheme options directly online;
- making our communications simpler, so that it is easier for members to understand the key messages and what is important;
- tailoring the communication appropriately so that it addresses member needs at key events; and
- developing the choice of products which are uniquely tailored to the sector.

b) Employer Service

Teams at USS work closely with sponsoring employers to deliver an efficient, timely and high quality service to our members. We actively seek feedback from employers through the daily contact we have with scheme administrators, through the newly established service engagement team, and through more formal channels such as the Institutions' Advisory Panel (IAP) and the Institutions Meeting.

In 2016/17, our NPS rating deteriorated to 61% compared to the 2015/16 level of 73%. This was largely as a result of scheme changes and the increased administrative burden it placed on employers. We acknowledge this feedback and have set ourselves the challenging objective to return to at least a rating of 73% within one year. To achieve this we will focus on employer engagement, systems and process improvements and improving our communications. Our goals are intertwined with the similarly challenging objectives we have set ourselves in relation to the wider perceptions of employers about USS as measured by our new survey created in the year.

Those employers which participated in our new perceptions survey have given USS a 'net good' rating of 56%. We have set ourselves a challenging objective to increase this to 62% in 2017/18 which will be achieved by:

- focussing on our employer insight capabilities to generate further understanding of employer needs;
- improving the turnaround time for key processes;
- developing the current retirement modelling capability;
- developing our communications, providing targeted and streamlined information;
- increasing the level of support available for the contribution cycle, enabling employers to fulfil their obligations more easily;
- developing a targeted employer support plan covering other processes more widely; and
- enhancing the training provided to those USS employees who deal directly with employers.

Employer engagement is a key focus for 2017/18 and the IAP network will play a key role in our relationships with employers. A comprehensive review of how the IAPs work has been carried out, and 31 employers (including those which are IAP members as well as non-IAP members) were interviewed to get their opinions on how the panels should be run. As a result, the sessions will be streamlined and we intend to improve communication of the content of the IAP meetings to employers.

Strategic report
for the year ended 31 March 2017 (continued)

Non-financial KPIs (continued)

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 experience and to deliver excellent value for money services to its members and employers.

There is continued investment in our people during the year, with an increase in the average employee numbers from 441 to 471, with a number of vacancies being filled. This reflects the strategy of in-housing investment management where cost effective and also the investment needed in relation to the introduction of the new defined contribution 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 13.

It is widely acknowledged that during periods of change employee engagement can suffer, and we anticipated that we might see some impact on the high levels of employee engagement reported in the previous year (82% as measured by the employee engagement survey). However, we were pleased to see the efforts we put into maintaining employee engagement and strengthening support for our employees paid off. Our overall engagement score increased by three percentage points to 85% in 2016/17.

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 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 11 July 2017 and signed on its behalf.

By order of the board

J P Hill
Company Secretary

Directors' report
for the year ended 31 March 2017

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.

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".

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.

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.

Directors' report

for the year ended 31 March 2017 (continued)

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 2, 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.

Grant Thornton UK LLP have been the Company's auditor since 2013 (five years). The directors consider it to be best practice to undertake a competitive audit engagement tender process at least every seven years. In light of the significant changes the scheme has undergone in the last year we consider now to be the optimum time to undergo this process, and therefore plan to do so later in 2017. This process is due to commence in July 2017, and will be completed towards the end of 2017, ahead of the 2017/18 financial year end.

This report was approved by the board on 11 July 2017 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 Limited

We have audited the financial statements of Universities Superannuation Scheme Limited for the year ended 31 March 2017 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 page 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 2017 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 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 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 has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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

Independent auditor's report to the members of Universities Superannuation Scheme Limited (continued)

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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, 11 July 2017

Group statement of income and retained earnings for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Turnover	3	125,230	118,136
Administrative expenses before exceptional items		(121,733)	(108,014)
Exceptional items	7	(3,187)	(10,023)
Administrative expenses including exceptional items		(124,920)	(118,037)
Operating profit	**4**	**310**	**99**
Finance costs – unwinding of discount	14,19	(310)	(99)
Profit or loss on ordinary activities before and after taxation		-	-

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

The notes on pages 20 to 37 form part of these financial statements.

Balance sheets

As at 31 March 2017

Company registration number: 01167127

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Fixed assets:					
Intangible fixed assets	8	6,600	4,886	6,522	4,716
Tangible fixed assets	9	3,255	3,904	2,810	3,374
Investment in subsidiary undertakings	10	-	-	921	921
		9,855	8,790	10,253	9,011
Current assets:					
Debtors due within one year	11	35,022	35,099	32,055	33,315
Cash at bank and in hand		3,536	4,039	-	-
		38,558	39,138	32,055	33,315
Creditors: amounts falling due within one year	12	(30,702)	(32,117)	(36,124)	(36,985)
Net current assets/(liabilities)		7,856	7,021	(4,069)	(3,670)
Total assets less current liabilities		**17,711**	**15,811**	**6,184**	**5,341**
Creditors: amounts falling due after more than one year	13	(4,737)	(3,059)	(96)	(96)
Provision for liabilities	14	(5,360)	(5,667)	(2,148)	(1,854)
Pension liability provision	19	(7,614)	(7,085)	(3,940)	(3,391)
Net assets and reserves		-	-	-	-

The notes on pages 20 to 37 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 parent company's result for the year was £nil (2016: £nil) since costs are recharged in full to the scheme.

The financial statements on pages 17 to 37 were approved by the board of directors on 11 July 2017 and were signed on its behalf by:

Professor Sir David Eastwood
Chairman

Dr Kevin Carter
Deputy Chairman

Cash flow statements

for the year ended 31 March 2017

		Group		Company	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Operating activities:					
Cash received from USS		128,307	103,048	73,515	43,340
Operating costs paid	15	(124,802)	(96,513)	(69,588)	(37,410)
Net cash inflow from operating activities		**3,505**	**6,535**	**3,927**	**5,930**
Investing activities:					
Purchase of intangible fixed assets	8	(3,417)	(4,558)	(3,417)	(4,351)
Purchase of tangible fixed assets	9	(612)	(1,951)	(531)	(1,586)
Sale of tangible fixed assets		21	-	21	-
Net cash used in investing activities		(4,008)	(6,509)	(3,927)	(5,937)
Net (decrease)/increase in cash		(503)	26	-	(7)
Cash and cash equivalents at the start of the year		4,039	4,013	-	7
Cash and cash equivalents at the end of the year		3,536	4,039	-	-

The notes on pages 20 to 37 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2017

1 Significant accounting policies and general information

a) Basis of preparation

The Company, which is 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 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 in the preceding 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, Mr J P Hill, 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 3-9. 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 by the scheme. 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 2017 (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. With effect from 1 October 2016, the scheme changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. 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 Company 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 Company therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. Since the Company has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the Company recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

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 2017 (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 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 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 group by reducing external operating costs over the economic life, or by providing a new service to the 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 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, 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.

Notes to the financial statements

for the year ended 31 March 2017 (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 2017 is £7,614,000 (31 March 2016: £7,085,000). 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 £3,718,000 (31 March 2016: £4,100,000) 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 2017 is £1,642,000 (31 March 2016: £1,567,000).

3 Turnover

All turnover relates to amounts recharged to the scheme under the scheme rules (2016: same). Included within turnover is £3,187,000 (2016: £10,023,000) which is considered to be exceptional since it reflects the recharge of exceptional administrative expenses.

Notes to the financial statements

for the year ended 31 March 2017 (continued)

4 Operating profit

	Note	2017 £'000	2016 £'000
Operating profit is stated after charging /(crediting):			
Amortisation of other intangible assets	8	1,703	728
Depreciation of tangible fixed assets	9	1,251	1,224
(Profit)/loss on disposal of tangible fixed assets	15	(11)	10
Operating lease rentals		2,129	1,981
Research and development expense		78	1,188
Staff costs	5	61,247	59,772

A detailed breakdown of operating expenses is included in note 21.

The analysis of auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the statutory audit of the Company's annual accounts:	**12**	**12**
Fees payable in respect of the statutory audit of the subsidiary	30	30
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	170	148
Total audit fees	**212**	**190**

The 2016 fees above include non-recurring statutory audit fees of £18,000 for the transition to FRS 102.

There were audit related assurance services provided to the subsidiary company, USS Investment Management Limited, during the year of £9,000 (2016: nil).

Notes to the financial statements

for the year ended 31 March 2017 (continued)

5 Staff costs

	Group		Company	
	2017 Number	2016 Number	2017 Number	2016 Number
The average monthly number of employees was:				
Investment management and support	138	125	10	9
Pensions professionals and support	146	131	146	131
Project management	32	34	31	31
Group shared services	155	151	152	138
	471	441	339	309
Represented by:				
Permanent employees	397	381	273	260
Contractors	74	60	66	49
	471	441	339	309

The presentation of the average monthly number of employees for 2016 has been amended to reflect the organisational structure of the Group.

And their aggregate remuneration comprised:

		Group		Company	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Staff costs for the above persons were:					
Wages and salaries:					
Permanent employees (including executive directors)		45,568	40,777	15,717	12,969
Contractors		7,759	6,657	7,028	5,329
Social security costs		2,845	3,702	1,427	1,064
Pension costs	19	4,405	7,714	2,563	3,707
Restructuring costs		670	922	670	357
		61,247	59,772	27,405	23,426

Notes to the financial statements
for the year ended 31 March 2017 (continued)

6 Directors' emoluments and expenses

	2017 £'000	2016 £'000
Total emoluments of the directors of the Company:		
Fees (non-executive directors)	569	446
Employers' National Insurance contributions	105	79
Expenses reimbursed	57	66
	731	591

	2017	2016
The number of directors who:		
are members of the USS defined benefit scheme	8	8

Membership of the scheme, whether deferred, pensioner or active is through their past or present employment with the 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 of the highest paid director were £86,600 (2016: £70,000). 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 £42,075 (2016: 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.

	2017 £'000	2016 £'000
Total emoluments of the group executive committee:		
Salary and other emoluments excluding long term incentives	3,001	3,172
Amounts receivable under long term incentive schemes	853	900
	3,854	4,072

	2017	2016
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

Emoluments included in the table above for 2017 include amounts payable for one member of key management personnel who was recruited during the current year. On an annualised basis, salaries in the current year would have been £38,000 higher than had been actually incurred.

Notes to the financial statements
for the year ended 31 March 2017 (continued)

7 Exceptional items

The table below sets out the exceptional items charged to the statement of income and retained earnings in the year.

	2017 £'000	2016 £'000
Scheme changes	3,187	3,869
Pension deficit provision	-	4,587
Dilapidations	-	1,567
	3,187	10,023

Scheme changes

Scheme changes expenditure of £3,187,000 (2016: £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. However the programme does span more than one financial year. Since this expense was identified as being material to the trustee company in the prior year it is separately identified as exceptional. Included within this exceptional cost is £nil (2016: £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 which cannot be capitalised.

Pension deficit provision

As a result of the USS scheme benefit changes and the associated change in the funding plan in 2015, the Company's pension liability increased in 2016, 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 not an annual event. Therefore in 2017 there were no exceptional costs resulting from revisions to the benefit arrangements (2016: £4,587,000).

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 where new leases are entered into an exceptional cost is recognised. As a result, amounts charged to exceptional items totalled £nil in the year (2016: £1,567,000). Ongoing expenditure which is not exceptional relate to changes to the provision carrying amount.

Notes to the financial statements

for the year ended 31 March 2017 (continued)

8 Intangible fixed assets

Group	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost:			
At 1 April 2016	2,219	3,885	6,104
Additions	76	3,341	3,417
At 31 March 2017	2,295	7,226	9,521
Accumulated depreciation:			
At 1 April 2016	1,179	39	1,218
Charge for year	653	1,050	1,703
At 31 March 2017	1,832	1,089	2,921
Net book value:			
At 31 March 2017	463	6,137	6,600
At 31 March 2016	1,040	3,846	4,886

Company	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost:			
At 1 April 2016	2,219	3,678	5,897
Additions	76	3,341	3,417
At 31 March 2017	2,295	7,019	9,314
Accumulated depreciation:			
At 1 April 2016	1,179	2	1,181
Charge for year	653	958	1,611
At 31 March 2017	1,832	960	2,792
Net book value:			
At 31 March 2017	463	6,059	6,522
At 31 March 2016	1,040	3,676	4,716

Development costs have been capitalised in accordance with the requirements of FRS 102 and are therefore not treated as a realised loss.

Notes to the financial statements
for the year ended 31 March 2017 (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 2016	2,930	2,894	1,882	57	7,763
Additions	58	445	109	-	612
Disposals	-	-	-	(57)	(57)
At 31 March 2017	**2,988**	**3,339**	**1,991**	**-**	**8,318**
Accumulated depreciation:					
At 1 April 2016	1,020	1,741	1,052	46	3,859
Charge for year	149	867	234	1	1,251
Disposals	-	-	-	(47)	(47)
At 31 March 2017	**1,169**	**2,608**	**1,286**	**-**	**5,063**
Net book value:					
At 31 March 2017	1,819	731	705	-	3,255
At 31 March 2016	1,910	1,153	830	11	3,904

Company	Alterations to rented premises £'000	Computer equipment £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost:					
At 1 April 2016	2,930	2,894	431	57	6,312
Additions	58	445	28	-	531
Disposals	-	-	-	(57)	(57)
At 31 March 2017	**2,988**	**3,339**	**459**	**-**	**6,786**
Accumulated depreciation:					
At 1 April 2016	1,020	1,741	131	46	2,938
Charge for year	149	867	68	1	1,085
Disposals	-	-	-	(47)	(47)
At 31 March 2017	**1,169**	**2,608**	**199**	**-**	**3,976**
Net book value:					
At 31 March 2017	1,819	731	260	-	2,810
At 31 March 2016	1,910	1,153	300	11	3,374

Notes to the financial statements

for the year ended 31 March 2017 (continued)

10 Investment in subsidiary undertakings

	Company £'000
At 1 April 2016 and 31 March 2017	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	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts due from related party (USS)	28,630	31,707	28,630	31,707
Prepayments	3,472	2,702	1,600	1,348
VAT	2,718	442	1,762	190
Other debtors	202	248	63	70
	35,022	35,099	32,055	33,315

12 Creditors - Amounts falling due within one year

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts due to subsidiary undertaking	-	-	21,220	21,478
Accrued expenditure	13,964	17,855	12,739	14,032
Other creditors	4,891	4,705	676	431
Taxation and social security	11,847	9,557	1,489	1,044
	30,702	32,117	36,124	36,985

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 £4,737,000 (2016: £3,059,000). 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 2017 (continued)

14 Provision for liabilities and charges

The table below sets out the movement in the provision for liabilities and charges since 31 March 2016:

	2017 Dilapidation £'000	2017 LTIP £'000	2017 Total £'000
Reconciliation of Group provision:			
As at 1 April 2016	1,567	4,100	5,667
Charged to profit and loss account	19	3,918	3,937
Utilisation of provision	-	(4,300)	(4,300)
Unwind of the discount included in finance costs	56	-	56
As at 31 March 2017	1,642	3,718	5,360

	2017 Dilapidation £'000	2017 LTIP £'000	2017 Total £'000
Reconciliation of Company provision:			
As at 1 April 2016	1,567	287	1,854
Charged to profit and loss account	19	319	338
Utilisation of provision	-	(100)	(100)
Unwind of the discount included in finance costs	56	-	56
As at 31 March 2017	1,642	506	2,148

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:

	2017	2016
Vesting period	3, 4 or 5 years	3, 4 or 5 years
Liability due within one year	£1,248,000	£2,442,000
Assumed leaver rate over vesting period	45.0%	45.0%

Dilapidation

The carrying amount of the provision at 31 March 2017 is £1,642,000 (2016: £1,567,000). The provision is expected to be utilised on the finalisation of each lease between the next three to twelve years.

	2017	2016
Risk adjusted discount rate	3.02%	3.54%
Inflation	3.00%	3.00%
Length of lease	3, 8 or 12 years	4, 9 or 13 years
Range of price per square foot (on a lease-by-lease basis)	£20.00 - £32.00	£20.00 - £32.00

Notes to the financial statements

for the year ended 31 March 2017 (continued)

15 Notes to the cash flow statement

Reconciliation of net cash flow from operating activities

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Operating costs	124,920	118,037	70,260	58,382
(Increase)/decrease in creditors	(263)	(10,974)	861	(15,647)
Decrease/(increase) in provisions	88	(8,155)	(665)	(3,901)
Increase/(decrease) in debtors (excluding amounts due from related party)	3,000	(433)	1,817	315
Profit/(loss) on disposal of tangible fixed assets	11	(10)	11	(10)
Amortisation of intangible assets	(1,703)	(728)	(1,611)	(691)
Depreciation of tangible assets	(1,251)	(1,224)	(1,085)	(1,038)
Operating costs paid	124,802	96,513	69,588	37,410

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

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

	Group and Company			
	Land and buildings		Other	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Less than one year	1,998	1,839	110	124
Between two and five years	7,613	8,155	110	185
Over five years	11,480	13,034	-	-
Total	21,091	23,028	220	309

Notes to the financial statements

for the year ended 31 March 2017 (continued)

17 Contingent liabilities and assets

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	
	2017 £'000	2016 £'000
Contracted for but not provided for:		
Other	317	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 £4,659,000 (2016: £7,813,000) as follows:

	Note	2017 £'000	2016 £'000
Total pension costs included in staff costs	5	4,405	7,714
Unwind of the discount included in finance costs		254	99
Total pension costs charged to the profit and loss account		4,659	7,813

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 2016:

	Group £'000	Company £'000
As at 1 April 2016	7,085	3,391
Credited to profit and loss account – operating costs	275	427
Unwinding of discount	254	122
As at 31 March 2017	7,614	3,940

Notes to the financial statements

for the year ended 31 March 2017 (continued)

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. The valuation as at 31 March 2017 is underway.

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 £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. 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 under FRS102, as set out below, have been produced using the following assumptions.

	2017	2016
Discount rate	2.57%	3.6%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.41%	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:

	2017	2016
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.4
Females currently aged 45 (years)	29.0	28.8

	2017	2016
Scheme assets	£60.0bn	£49.8bn
Total scheme liabilities	£77.5bn	£58.3bn
FRS 102 total scheme deficit	£17.5bn	£8.5bn
FRS 102 total funding level	77%	85%

Notes to the financial statements

for the year ended 31 March 2017 (continued)

20 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 balance sheet, as the Company holds the assets as trustee of the scheme.

The group provides administration and investment management services to the scheme charging £125,230,000 (2016: £118,136,000), with a balance due from the scheme of £28,630,000 as at 31 March 2017 (2016: £31,707,000).

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 100% subsidiary as consolidated financial statements are prepared.

21 Operating costs breakdown

	Note	2017 £'000	2016 £'000
Personnel:			
Employee costs	5	61,247	59,772
Directors' emoluments and expenses	6	731	591
Recruitment, training and welfare		2,386	2,200
		64,364	62,563
Premises:			
Rents, rates, service charges and utilities		3,433	3,314
Depreciation and maintenance		351	287
Dilapidation costs		21	1,567
		3,805	5,168
Investment management:			
Securities research		9,599	9,451
Securities management fees		9,947	11,855
Property management fees		3,759	3,316
Custodial services		1,589	1,323
Legal costs - property management		432	823
- other		933	424
Property valuation fees		231	224
Investment accounting services		1,998	2,206
Investment performance measurement		328	275
		28,816	29,897

Notes to the financial statements
for the year ended 31 March 2017 (continued)

21 Operating costs breakdown (continued)

	Note	2017 £'000	2016 £'000
Other costs:			
Computer and information services costs	21(a)	10,961	7,993
Pension protection fund levy	21(b)	2,606	2,219
Professional fees	21(c)	10,188	6,306
Travel and car costs (including depreciation of £1,000 (2016: £16,000))		1,534	1,424
Office equipment (including depreciation of £234,000 (2016: £251,000))		665	570
Institution liaison and member communication		363	307
Telephones and postage		358	266
Printing and stationery		296	350
Insurance		226	159
Auditors' remuneration (2016 includes 2015 overruns)		221	216
Regulatory fees		117	125
Subscriptions		458	489
(Profit)/loss on disposal of fixed assets		(11)	10
Sundry income		(47)	(25)
		27.935	20,409
Total operating costs		124,920	118,037

21a) Computer and information services costs

	2017 £'000	2016 £'000
Investment information services	4,767	4,246
Computer running costs*	3,619	2,168
Software amortisation	658	689
Development costs amortisation, associated with scheme changes	1,050	39
Hardware depreciation	867	850
Computer bureau fees	-	1
	10,961	**7,993**

* 2017 includes dual running of two administration systems to support the implementation of scheme changes.

Notes to the financial statements

for the year ended 31 March 2017 (continued)

21b) Pension protection fund

	2017 £'000	2016 £'000
Scheme-based and risk based levies	1,958	1,560
Administration levy	388	345
General levy	260	314
	2,606	**2,219**

21c) Professional fees

	2017 £'000	2016 £'000
Financial Management Plan	-	212
Legal	1,766	1,891
Consultancy; including scheme changes	6,316	2,192
Actuarial	1,231	1,157
Committee members	454	346
Public relations	182	211
Other	179	249
Member matters	60	48
	10,188	**6,306**

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

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

The reference number of the scheme
(Universities Superannuation Scheme) at the Pensions
Regulator is 10020100

Designed and produced by Anthony Hodges Consulting Limited 2017_103454_Accounts