USS

Report and accounts

for the year ended 31 March 2018

Universities Superannuation Scheme Limited

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

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UNIVERSITIES SUPERANNUATION SCHEME LIMITED

COMPANY INFORMATION

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Mr J P Hill
Directors	Professor Sir D Eastwood (Chair) Dr K J Carter (Deputy Chair) Professor Dame G Breakwell Ms K English Mr D Guppy – appointed 30 September 2017 Professor J Hutton Mr I R Maybury Mr M R Merton Professor Sir A Muscatelli Professor S Palmer Mr M R Poisson Mr J W D Trythall – resigned 30 September 2017 Dr S Wharton
Bankers	Barclays Bank Plc Manchester M2 1HW National Westminster Bank Plc 22 Castle Street Liverpool L2 0UP
Independent Auditor	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2018

The directors submit their strategic report, directors' report and the financial statements for the year ended 31 March 2018.

PRINCIPAL ACTIVITY
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 to the Company. Together these companies are referred to as 'the Group'.

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

REVIEW OF THE BUSINESS
A significant portion of the year has been dedicated by the Group to carrying out the latest triennial valuation of the Scheme.

Almost two years of investigation and analysis on the issues related to the valuation led to a report to the Joint Negotiating Committee (JNC) in December 2017. This report concluded that the deficit in respect of past service had increased since the last formal review in 2014 and, much more significantly, that the cost of contributions in respect of pensions being accrued today had increased very substantially. This conclusion is driven by assumptions on the future investment returns that are available to the Scheme from allocating to return-seeking assets, and the capacity and appetite of our sponsoring employers to underwrite these returns, at a time when returns from investing in securities that provide more certain cashflows (i.e. government and corporate debt) have fallen very substantially.

This outcome presented difficult questions to our stakeholders and ultimately the proposals put forward by the JNC were not accepted by representatives of the Scheme's membership, resulting in industrial action. A subsequent ACAS negotiated proposal was also rejected. As a result, stakeholders have established a Joint Expert Panel to review the valuation. The Trustee will engage constructively with the panel's efforts to resolve the differences that exist. In parallel, the Trustee will finalise the latest valuation in line with the Scheme Rules and the law, based on the current defined benefit structure.

For further information regarding the latest triennial valuation of the Scheme go to www.uss.co.uk/how-uss-is-run/valuation.

The Board continues to focus on maintaining sustained strong investment performance across the defined benefit ('DB') and defined contribution ('DC') investments. The Group follows a strategy of in-house investment management where it is cost effective to do so. The proportion of DB assets that are internally managed has grown from 68% in 2012/13 to 76.5% in 2017/18. For certain areas of investment, we do not believe it is in the Scheme's interests to build capabilities internally, and the current internal versus external mix represents our assessment of the appropriate balance at this time. Whilst strengthening internal capabilities increases the operating costs of the Group, the approach significantly lowers the costs embedded within the Scheme itself and has thus been driving a significant reduction in total cost of investment for the DB investments.

REVIEW OF THE BUSINESS (CONTINUED)

During the last five years, this largely internal investment management approach has also delivered strong investment performance when compared to the Reference Portfolio set to benchmark the Group's performance over rolling 5 year periods. The Reference Portfolio is a hypothetical blend of mainstream asset classes expected over the longer term to generate the Scheme's target investment return within its risk tolerance (set to decline gradually from gilts +2.75% per annum in line with scheme de-risking). In the DB investments, the Group has outperformed the Reference Portfolio by 0.78% per annum on average over the last five year period, adding an extra net value of £1.7bn to the Scheme over the last five years.

The past year has seen the Group continue to deliver and build on the successful implementation of the Scheme's DC benefits, launched in October 2016. The Group is responsible for provision of investment management advice in respect of DC, including selection and monitoring of fund managers, and asset allocation for the multi asset and fixed income funds. Investment outperformance was 1.8% annualised on an asset weighted basis since inception. Currently, the underlying DC investments are all externally managed. However, given the growing size of the DC asset base over time, the Board is reviewing opportunities to leverage the scale and the internal team's specialist skills deployed in DB into the DC investments; the aim is to further increase value to the Scheme, its members and employers over time.

PRINCIPAL RISKS AND UNCERTAINTIES AND KEY PERFORMANCE INDICATORS

The Board's approach to risk management within the Group is set down in its risk management framework which defines the Board's risk appetite, the types of risks USS is exposed to and the related risk governance arrangements. Risks that could impact on the delivery of business objectives, and the internal control systems that support them, are documented and assessed against risk appetite. Where a risk is found to be at a level greater that the acceptable risk appetite, appropriate remedial actions are developed, implemented and tracked to resolution. This strategic report analyses those risks relevant to the Group's performance as a trustee company and investment management subsidiary that generates 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 ensures compliance with those applicable. The principal risks, potential impacts and mitigations in place are described below. These risks 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.

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

Pension service risk

The Group is exposed to the risk of its pension service delivery failing to meet requisite quality or timeliness standards, as a result of the failure to manage or execute operational processes effectively. This may lead to poor or incorrect outcomes for the Scheme's members or beneficiaries with the potential for increased costs and reputational damage.

To mitigate this risk, robust operational controls and defined service standards are maintained, including comprehensive workload forecasting and quality control checking. In addition the Group regularly reviews and reports performance across all its administration teams, with pension service delivery teams improving performance against targeted parameters during the year relating to workload management.

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

Regulatory risk

A failure to comply with legislation or regulations and in particular with changes to such legislation or regulations can impact the Group's ability to provide investment management and advisory services. The failure to comply with or to respond to changes in a timely and appropriate manner could lead to fines, compensation costs and censure, as well as damage to stakeholder relationships and reputation.

The Group engages dedicated compliance professionals focussed on assessing existing and emerging regulatory initiatives. The Group General Counsel monitors changes to the law and regulations, and every quarter relevant updates are captured and communicated to relevant business areas. This process facilitates compliance and the implementation of necessary changes via a structured change management methodology. Ongoing compliance training, advisory and monitoring activity is provided in the relevant business divisions.

The key performance indicator for the year is to demonstrate the completion of the quarterly review process against the canon of law ensuring that no significant regulatory issues arise as well as satisfactory completion of all education and awareness activity by relevant staff. In comparison to the prior year, there was a small increase in 'out-of-appetite' control events including two instances of transactions not complying with the requirements of trading exchanges. The business responded by strengthening controls in an appropriate and diligent manner. Overall, the control environment remains robust. Investment in our risk and control framework reflects the level of focus expected from an investment management provider of our scale and complexity.

Business change risk

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

The key performance indicator for the year is to ensure that greater than 90% of milestones for change projects are completed in line with deadlines laid out in agreed project plans. This was achieved.

People risk

The Group's activities expose it to people risk and specifically its ability to engage and retain sufficient people with the necessary skillsets in the right roles, and to develop an appropriate business culture and management structures. This risk may lead to an inability to provide the necessary resources to achieve successful delivery of the Group's strategic priorities, potentially leading to poor investment performance, increased incidence of operational error and failure, and ultimately to reputational damage with key stakeholders.

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

The key performance indicator for the year is a measure of employee engagement and training satisfaction levels. The aim of the annual independent employee engagement survey is to measure the levels of alignment with our goals, commitment and motivation. In comparison to 2017 employee engagement fell by 3% to 82%. However the level of engagement continues to be higher than the average comparator for the private sector and the financial services sector.

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

Data risk

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

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

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

Stakeholder engagement risk

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

To mitigate this risk the Group holds regular meetings with employers, member representatives and employer representatives, including both Universities UK and University and College Union (UCU), which covers matters including valuation, funding, contributions, product development and investment performance.

Key performance indicators relating to stakeholder risk can be found within non-financial KPIs on pages 6-7.

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

The Group is responsible for investment management, but is not itself the asset owner. As such, the risks set out below would indirectly impact the Group in respect of the quality of the service it provides, but do not impact the Group's own financial statements directly.

Funding and solvency risk

A significant increase in net pension deficit and / or significant deterioration in the ability of employers to make contributions to fund the benefits promised to members may result in a deterioration in the financial health of the DB section. The impact of this risk may lead to the requirement to substantially increase contributions, amend investment strategy and / or reduce future benefits.

To mitigate this risk, the Group employs a dedicated funding strategy and actuarial team focussed on the funding of the DB section of the Scheme which regularly monitors funding levels, employers' covenant strength, contribution adequacy and liability in the context of the Financial Management Plan (FMP). The FMP, developed as part of the Actuarial Valuation, incorporates the acknowledged strength of the employers' covenant, the contribution rate and investment strategy.

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

Funding and solvency risk (continued)

Further details relating the funding of the Scheme can be found in Note 19, Pension liability provision.

Investment performance risk

The investment portfolio managed by the Group is exposed to investment performance risk e.g. resulting from a prolonged period of inadequate investment performance relative to the Reference Portfolio.

The key performance indicator for DB performance is the 5 year relative outperformance of the implemented portfolio against the Reference Portfolio. The outperformance weighted target is 0.52% on an annualised basis over rolling five-year periods to 31 March, net of applicable costs. As at 31 March 2018, annualised DB outperformance was 0.78% above the benchmark over the past 5 years.

The DC performance KPI is measured on a cumulative asset-weighted basis. The outperformance since inception of the Scheme is 1.8% on an annualised asset weighted basis.

Further information with more detailed commentary on investment performance risks can be found in the USS Report and Accounts for the year ended 31 March 2018 and Statement of Investment Principles that are both available on www.uss.co.uk.

Other Financial Risks

The Group makes neither a profit nor a loss, and cash flows are funded by the Scheme. The Group's only financial assets are short term cash balances and amounts due from the Scheme 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.

Supplier risks

The Group is exposed to the risk that a supplier fails to perform a business critical contracted service. This could arise as a result of an operational failure by a supplier or in the event of a supplier insolvency.

To mitigate this risk the Group employs a dedicated procurement function with responsibility for on-boarding key suppliers and ongoing monitoring of their financial health. In addition, appropriate relationship management structures are in place with key suppliers, supported by service level agreements, management information provision and incident escalation and resolution protocols

Non-financial KPIs

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

Member Service

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

Non-financial KPIs (continued)

Member Service (continued)
Member service highlights during the year included enhancements to the web offering including giving online access to deferred members of the Scheme and the addition of My Documents for hosting statements, the delivery of personalised annual member statements and the member satisfaction with the strength of communication, and in particular the Group website USS. co.uk.

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

In 2017/18, our adjusted Net Promoter Score (NPS) rating relating to employer service was 69%. This compares favourably with our 2016/17 rating of 61%. This was largely achieved by focussing on employer engagement, system and process enhancements and improving our communications.

The main objective of employer perceptions survey is to gain a better understanding of their views of their interactions and overall relationship with USS. 80% of those employers that participated in the survey rated the overall relationship as good or very good. This represents a significant improvement against our 2016/17 rating of 56%. We will look to build on this progress and strengthen our employer relationships throughout 2018/19 by:

- focussing on our employer insight capabilities to generate a greater understanding of employer needs;
- improving our turnaround times for key processes;
- developing and enhancing our communications to provide more targeted and streamlined information;
- increasing the level of support available to employers to enable them to fulfil their administrative obligations more easily;
- evolving our employer engagement, relationship and support plans; and
- implementing a formal employer training programme.

Value for Money and Effective Cost Control
Value for money underpins all of our strategic goals. One key element of this is effective cost control as all of the Group's costs are ultimately recharged to the Scheme. We thus must demonstrate transparency and accountability when engaging with suppliers and incurring cost. Operating costs and sourcing are approved before suppliers are engaged, and cost performance against budgets is monitored on a monthly basis. 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 operating costs for the period amounted to £127,226,000 (2017: £124,920,000) including exceptional costs of £nil (2017: £3,187,000). A summary of total operating costs for the year analysed by nature of expense is as follows:

Value for Money and Effective Cost Control (continued)

	2017/18			2016/17		
	Underlying	**Exceptional**	**Total**	**Underlying**	**Exceptional**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Personnel costs						
Employee incentives - Investment	17,236	-	17,236	17,747	-	17,747
Employee incentives – Non investment	1,898	-	1,898	1,952	-	1,952
Wages and salaries	41,603	-	41,603	39,494	2,054	41,548
Other personnel costs	3,564	-	3,564	3,117	-	3,117
Total personnel costs	**64,301**	**-**	**64,301**	**62,310**	**2,054**	**64,364**
Premises costs	4,486	-	4,486	3,805	-	3,805
Investment costs	28,961	-	28,961	28,816	-	28,816
Other costs	29,478	-	29,478	26,802	1,133	27,935
Total operating costs	**127,226**	**-**	**127,226**	**121,733**	**3,187**	**124,920**

On an underlying basis (excluding exceptional costs), total operating costs have increased by £5,493,000 or 4% year-on-year. The key movements in underlying operating costs are:

Incentives have decreased by £565,000. The majority of the reduction this year was linked to lower discretionary awards based on the overall performance of the Group against the agreed strategic key performance indicators and scheme performance for the calendar year 2017.

Wages and salaries (on an underlying basis) have increased by £2,109,000. This reflects the increase in headcount and full year impact of the prior year increase over this period. The successful completion of the Scheme changes project last year has meant that the exceptional costs of £2,054,000 in the prior year, mainly relating to contract staff, have not recurred in the current year.

Premises costs have increased by £681,000. This reflects increases in rates and service charges during the year and one off prior year rates credits for the premises used by the Scheme of £492,000 and an additional charge of £98,000 of dilapidation costs resulting from the change in discount rate used to calculate the carrying amount of the provision at 31 March 2018.

Other personnel costs have increased by £447,000 with key increases in directors' fees and national insurance of £132,000 and recruitment costs of £143,000.

Other costs have increased by £2,676,000 with key increases relating to other professional fees of £1,128,000, computer and information services of £704,000 and Pension Protection Fund levies of £503,000. The increases in these costs reflect the increased activity levels in the Scheme and certain back office services which commenced as a result of scheme changes. Further details relating to other costs, including computer and information services and professional fees, can be found in Note 21, Operating costs.

No exceptional costs were incurred during the year ended 31 March 2018. Exceptional costs incurred during the prior year related to scheme change expenditure. This expenditure totalled £3,187,000 and was recognised in administrative expenses and reflected the cost of the programme which did not meet the capitalisation criteria of internally generated software costs.

Value for Money and Effective Cost Control (continued)

Within the balance sheet is a £5,564,000 provision (2017: £3,718,000) 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.

Employee numbers and satisfaction

The people employed by the Group are critical to the success of the Scheme overall. To deliver value for members and institutions, the trustee board and its executive management must engage employees across the whole business and ensure that the Group has the right mix of skills and experience.

The Group continued to invest in its people during the year. During the year the Group launched a new careers website to increase its profile and reach in what is a very competitive recruitment market. The Group also introduced a major programme of training for our managers. The training was delivered over a series of modules that focus on leadership, setting goals and building and empowering a team. Finally the Group focussed on succession planning at executive and senior levels.

Although the average employee numbers remained at 471, the average number of permanent employees increased from 397 to 433 as a result of scheme change activity completion and on-going headcount growth driven by increased internal activity volume.

The overall employee engagement survey score saw participation in the survey increasing by 15% to 85%. 88% of employees stated that they share a commitment to the goals of USS.

This report was approved by the board on 19 July 2018 and signed on its behalf.

By order of the board

J P Hill
Company Secretary

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2018

DIRECTORS

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

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

FUTURE DEVELOPMENTS

The Scheme is undergoing its triennial valuation as at 31 March 2017. Depending on the outcome of this process and consultations with stakeholders, this may impact investment strategies and business development in the future.

EMPLOYEES

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

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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

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

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

GOING CONCERN

The 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 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 make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

During the year the directors conducted a comprehensive tender process for the provision of the external audit services. Ernst and Young LLP was appointed auditor on 30 January 2018.

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

This report was approved by the board on 19 July 2018 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

Opinion

We have audited the financial statements of Universities Superannuation Scheme Limited ('the Company') and its subsidiary (the 'Group') for the year ended 31 March 2018 which comprise Group Statements of Income and Retained Earnings, Group and Company Balance Sheets, Group and Company Cash flow Statements and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Other information

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

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

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

Other information (continued)

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 10-11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Ashley Coups
Senior Statutory Auditor
for and on behalf of Ernst and Young LLP,
Statutory Auditor, Chartered Accountants
London, 19 July 2018

GROUP STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 £'000	2017 £'000
Turnover	3	127,472	125,230
Administrative expenses before exceptional items		(127,226)	(121,733)
Exceptional items	7	-	(3,187)
Administrative expenses including exceptional items		(127,226)	(124,920)
Operating profit	4	**246**	**310**
Finance costs – unwinding of discount	14, 19	(246)	(310)
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 18 to 36 form part of these financial statements.

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

BALANCE SHEETS AS AT 31 MARCH 2018
Company registration number: 01167127

		Group		Company	
	Note	2018 £'000	2017 £'000	2018 £'000	2017 £'000
FIXED ASSETS					
Intangible fixed assets	8	5,161	6,600	5,082	6,522
Tangible fixed assets	9	2,936	3,255	2,574	2,810
Investment in subsidiary undertakings	10	-	-	921	921
		8,097	9,855	8,577	10,253
CURRENT ASSETS					
Debtors due within one year	11	38,191	35,022	36,030	32,055
Cash at bank and in hand		3,358	3,536	-	-
		41,549	38,558	36,030	32,055
Creditors: amounts falling due within one year	12	(30,817)	(30,702)	(38,274)	(36,124)
Net current assets/(liabilities)		10,732	7,856	(2,244)	(4,069)
TOTAL ASSETS LESS CURRENT LIABILITIES		18,829	17,711	6,333	6,184
Creditors: amounts falling due after more than one year	13	(4,381)	(4,737)	-	(96)
Provision for liabilities	14	(7,375)	(5,360)	(2,543)	(2,148)
Pension liability provision	19	(7,073)	(7,614)	(3,790)	(3,940)
NET ASSETS AND RESERVES		-	-	-	-

The notes on pages 18 to 36 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 (2017: £nil) since costs are recharged in full to the Scheme.

The financial statements on pages 15 to 36 were approved by the board of directors on 19 July 2018 and were signed on its behalf by:

Professor Sir David Eastwood
Chair

Dr Kevin Carter
Deputy Chair

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

		Group		Company	
	Note	2018 £'000	2017 £'000	2018 £'000	2017 £'000
OPERATING ACTIVITIES					
Cash received from USS		121,626	128,307	62,478	73,515
Operating costs paid	15	(120,810)	(124,802)	(61,575)	(69,588)
NET CASH INFLOW FROM OPERATING ACTIVITIES		816	3,505	903	3,927
INVESTING ACTIVITIES					
Purchase of intangible fixed assets	8	(516)	(3,417)	(441)	(3,417)
Purchase of tangible fixed assets	9	(478)	(612)	(462)	(531)
Sale of tangible fixed assets		-	21	-	21
NET CASH USED IN INVESTING ACTIVITIES		(994)	(4,008)	(903)	(3,927)
NET (DECREASE) / INCREASE IN CASH		(178)	(503)	-	-
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		3,536	4,039	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		3,358	3,536	-	-

The notes on pages 18 to 36 form part of these financial statements.

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 3-7. The Group's fundamental objective and purpose is to manage the day-to-day administration of the Scheme and therefore the main risks from a going concern perspective relate to the ability of the Company to continue to administer the Scheme. These risks identified are not considered to be of a magnitude which casts significant doubt on the Group's ability to continue as a going concern 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.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

e) Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is between 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 the shorter of their licence period or their estimated useful economic life. Provision is made for any impairment.

g) Tangible fixed assets and depreciation

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

	%
Alterations to rented premises	20
Computer equipment	33⅓
Office equipment	15
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. The Scheme is 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.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

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

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in profit and loss in the period in which the estimate is revised.

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

Critical judgements in applying the 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 the property to its original condition upon finalisation of the lease contract. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

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

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

Key source of estimation uncertainty

i) 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 2018 is £7,073,000 (31 March 2017: £7,614,000). 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 £5,564,000 (31 March 2017: £3,718,000) 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 2018 is £1,811,000 (31 March 2017: £1,642,000).

3 TURNOVER

All turnover in the current and prior year relates to amounts recharged to the Scheme under the Scheme rules. Included within turnover is £nil (2017: £3,187,000) which is considered to be exceptional since it reflects the recharge of exceptional administrative expenses. Details relating to exceptional items can be found in note 7.

4 OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	Note	2018 £'000	2017 £'000
Amortisation of other intangible assets	8	1,955	1,703
Depreciation of tangible fixed assets	9	797	1,251
(Profit) on disposal of tangible fixed assets	15	-	(11)
Operating lease rentals		2,193	2,129
Research and development expense		-	78
Staff costs	5	60,737	61,247

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

The analysis of auditor's remuneration is as follows:

	Note	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the statutory audit of the Company's annual accounts		20	12
Fees payable in respect of the statutory audit of the subsidiary		45	30
Fees payable to the Scheme's auditors for the statutory audit of the Scheme's annual accounts		257	170
Total audit fees		322	212

There were audit related assurance services provided to the subsidiary company, USS Investment Management Limited, during the year of £4,000 (2017: £9,000).

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

	2018 £'000	2017 £'000
Tax advisory services	180	
Other assurance services	618	-
Total non-audit fees	798	-

The amount of non-audit related fee incurred prior to the appointment of Ernst & Young LLP on 30 January 2018 was £730,000.

5 STAFF COSTS

The average monthly number of employees was:

	Group		Company	
	2018 Number	2017 Number	2018 Number	2017 Number
Investment management and support	162	138	30	10
Pensions professionals and support	141	146	141	146
Project management	22	32	22	31
Group shared services	146	155	132	152
	471	471	325	339
Represented by:				
Permanent employees	433	397	296	273
Contractors	38	74	29	66
	471	471	325	339

And their aggregate remuneration comprised:

Staff costs for the above persons were:

		Group		Company	
	Note	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries:					
Permanent employees (including executive directors)		48,599	45,568	17,328	15,717
Contractors		4,411	7,759	3,299	7,028
Social security costs		3,268	2,845	1,568	1,427
Pension costs	19	3,806	4,405	2,182	2,563
Restructuring costs		653	670	357	670
		60,737	61,247	24,734	27,405

6 DIRECTORS' EMOLUMENTS AND EXPENSES

	2018 £'000	2017 £'000
Total emoluments of the directors of the Company:		
Fees (non-executive directors)	627	569
Employers' National Insurance contributions	162	105
Expenses reimbursed	74	57
	863	731

	2018	2017
The number of directors who:		
are members of the USS defined benefit scheme	8	8

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

6 DIRECTORS' EMOLUMENTS AND EXPENSES (CONTINUED)

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 £93,400 (2017: £86,600). 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 £48,616 (2017: one director received £42,075).

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.

	2018	**2017**
	£'000	**£'000**
Total emoluments of the Group Executive Committee:		
Salary and other emoluments excluding long term incentives	2,836	3,001
Amounts receivable under long term incentive schemes	915	853
	3,751	3,854

	2018	**2017**
The number of Group Executive Committee members who:		
are members of the USS defined benefit scheme	7	8
had awards receivable under a long term incentive scheme	7	8

Emoluments included in the table above for 2018 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 £174,000 (2017: £38,000) higher than was actually incurred.

7 EXCEPTIONAL ITEMS

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

	2018	**2017**
	£'000	**£'000**
Scheme changes	-	3,187
	-	3,187

7 EXCEPTIONAL ITEMS (CONTINUED)

Scheme changes

Scheme changes expenditure of £nil (2017: £3,187,000) is recognised in administrative expenses and reflects the cost of the programme which did 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 spanned 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.

8 INTANGIBLE FIXED ASSETS

Group

	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2017	2,295	7,226	9,521
Additions	91	425	516
At 31 March 2018	2,386	7,651	10,037
Accumulated depreciation			
At 1 April 2017	1,832	1,089	2,921
Charge for year	326	1,629	1,955
At 31 March 2018	2,158	2,718	4,876
Net book value			
At 31 March 2018	228	4,933	5,161
At 31 March 2017	463	6,137	6,600

8 INTANGIBLE FIXED ASSETS (CONTINUED)

Company

	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2017	2,295	7,019	9,314
Additions	91	350	441
At 31 March 2018	2,386	7,369	9,755
Accumulated depreciation			
At 1 April 2017	1,832	960	2,792
Charge for year	326	1,555	1,881
At 31 March 2018	2,158	2,515	4,673
Net book value			
At 31 March 2018	228	4,854	5,082
At 31 March 2017	463	6,059	6,522

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

9 TANGIBLE FIXED ASSETS

Group

	Alterations to rented premises £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2017	2,988	3,339	1,991	8,318
Additions	199	263	16	478
At 31 March 2018	**3,187**	**3,602**	**2,007**	**8,796**
Accumulated depreciation				
At 1 April 2017	1,169	2,608	1,286	5,063
Charge for year	156	475	166	797
At 31 March 2018	**1,325**	**3,083**	**1,452**	**5,860**
Net book value				
At 31 March 2018	1,862	519	555	2,936
At 31 March 2017	1,819	731	705	3,255

Company

	Alterations to rented premises £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2017	2,988	3,339	459	6,786
Additions	199	263	-	462
At 31 March 2018	**3,187**	**3,602**	**459**	**7,248**
Accumulated depreciation				
At 1 April 2017	1,169	2,608	199	3,976
Charge for year	156	475	67	698
At 31 March 2018	**1,325**	**3,083**	**266**	**4,674**
Net book value				
At 31 March 2018	1,862	519	193	2,574
At 31 March 2017	1,819	731	260	2,810

10 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company
	£'000
At 1 April 2017 and 31 March 2018	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	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts due from related party (USS)	34,476	28,630	34,476	28,630
Prepayments	3,614	3,472	1,507	1,600
VAT	-	2,718	-	1,762
Other debtors	101	202	47	63
	38,191	35,022	36,030	32,055

12 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts due to subsidiary undertaking	-	-	26,228	21,220
Accrued expenditure	12,764	13,964	9,756	12,739
Other creditors	6,668	4,891	715	676
Taxation and social security	11,385	11,847	1,575	1,489
	30,817	30,702	38,274	36,124

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 £4,381,000 (2017: £4,737,000). 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.

14 PROVISION FOR LIABILITIES AND CHARGES

The table below sets out the movement in the provision for liabilities and charges since 31 March 2017:

Reconciliation of Group provision

	2018 **£'000** Dilapidation	**2018** **£'000** LTIP	**2018** **£'000** Total
As at 1 April 2017	1,642	3,718	5,360
Charged to profit and loss account	119	4,059	4,178
Utilisation of provision	-	(2,213)	(2,213)
Unwind of the discount included in finance costs	50	-	50
As at 31 March 2018	1,811	5,564	7,375

Reconciliation of Company provision

	2018 **£'000** Dilapidation	**2018** **£'000** LTIP	**2018** **£'000** Total
As at 1 April 2017	1,642	506	2,148
Charged to profit and loss account	119	426	545
Utilisation of provision	-	(200)	(200)
Unwind of the discount included in finance costs	50	-	50
As at 31 March 2018	1,811	732	2,543

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:

	2018	**2017**
Vesting period	3, 4 or 5 years	3, 4 or 5 years
Liability due within one year	£1,689,000	£1,248,000
Assumed leaver rate over vesting period	40.0%	45.0%

Dilapidation

The carrying amount of the provision at 31 March 2018 is £1,811,000 (2017: £1,642,000). The provision is expected to be utilised on the finalisation of each lease between the next three to twelve years.

The key assumptions are shown below:

	2018	**2017**
Risk adjusted discount rate	1.67%	3.02%
Inflation	3.00%	3.00%
Length of lease	3, 8 or 12 years	3, 8 or 12 years
Range of price per square foot (on a lease-by-lease basis)	£20.00 - £32.00	£20.00 - £32.00

15 NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Operating costs	127,226	124,920	68,223	70,260
Decrease / (increase) in creditors	241	(263)	(2,054)	861
(Increase) / decrease in provisions	(1,228)	88	(144)	(665)
(Decrease) / increase in debtors (excluding amounts due from related party)	(2,677)	3,000	(1,871)	1,817
(Loss) / profit on disposal of tangible fixed assets	-	11	-	11
Amortisation of intangible assets	(1,955)	(1,703)	(1,881)	(1,611)
Depreciation of tangible assets	(797)	(1,251)	(698)	(1,085)
Operating costs paid	120,810	124,802	61,575	69,588

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		**Group and Company**	
	Land and buildings		Other	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Less than one year	2,062	1,998	122	110
Between two and five years	7,031	7,613	46	110
Over five years	9,927	11,480	-	-
Total	19,020	21,091	168	220

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 charges.

18 CAPITAL COMMITMENTS

Capital commitments are as follows:

	Group and Company	
	2018	2017
	£'000	£'000
Contracted for but not provided for:		
Other	51	317

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 £4,002,000 (2017: £4,659,000) as follows:

	Note	2018	2017
		£'000	£'000
Total pension costs included in staff costs	5	3,806	4,405
Unwind of the discount included in finance costs		196	254
Total pension costs charged to the profit and loss account		4,002	4,659

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 2017:

	Group	Company
	£'000	£'000
As at 1 April 2017	7,614	3,940
Credited to profit and loss account - operating costs	(737)	(251)
Unwinding of discount	196	101
As at 31 March 2018	7,073	3,790

19 PENSION LIABILITY PROVISION (CONTINUED)

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is 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 but not yet completed.

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

The 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. These figures will be revised once the 2017 Scheme Valuation is complete.

Defined benefit liability numbers for the Scheme for accounting purposes have been produced using the following assumptions as at 31 March 2017 and 2018.

	2018	2017
Discount rate	2.64%	2.57%
Pensionable salary growth	n/a	n/a
Pensions increases (CPI)	2.02%	2.41%

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	2017
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females.	98% of SAPS S1NA "light" YOB unadjusted for males.
	Post retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.	99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% pa for females.	CMI_2014 with a long term rate of 1.5% p.a.

The current life expectancies on retirement at age 65 are:

	2018	2017
Males currently aged 65 (years)	24.5	24.4
Females currently aged 65 (years)	26.0	26.6
Males currently aged 45 (years)	26.5	26.5
Females currently aged 45 (years)	27.8	29.0

19 PENSION LIABILITY PROVISION (CONTINUED)

	2018	2017
Scheme assets	£63.6bn	£60.0bn
Total Scheme liabilities	£72.0bn	£77.5bn
FRS 102 total Scheme deficit	£8.4bn	£17.5bn
FRS 102 total funding level	88%	77%

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 the Trustee of the Scheme.

The Group provides administration and investment management services to the Scheme charging £127,472,000 (2017: £125,230,000), with a balance due from the Scheme of £34,476,000 as at 31 March 2018 (2017: £28,630,000).

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	2018 £'000 Total	£'000 Underlying	2017 £'000 Exceptional	£'000 Total
PERSONNEL					
Employee costs	5	60,737	59,193	2,054	61,247
Directors' emoluments and expenses	6	863	731	-	731
Recruitment, training and welfare		2,701	2,386	-	2,386
		64,301	62,310	2,054	64,364
PREMISES					
Rents, rates, service charges and utilities		3,994	3,433	-	3,433
Depreciation and maintenance		373	351	-	351
Dilapidation costs		119	21	-	21
		4,486	3,805	-	3,805
INVESTMENT MANAGEMENT					
Securities research		9,970	9,599	-	9,599
Securities management fees		11,501	9,947	-	9,947
Property management fees		2,958	3,759	-	3,759
Custodial services		1,885	1,589	-	1,589
Legal costs - property management		284	432	-	432
– other		435	933	-	933
Property valuation fees		224	231	-	231
Investment accounting services		1,622	1,998	-	1,998
Investment performance measurement		82	328	-	328
		28,961	28,816	-	28,816
OTHER COSTS					
Computer and information services costs	21(a)	11,665	10,961	-	10,961
Pension Protection Fund levy	21(b)	3,109	2,606	-	2,606
Professional fees	21(c)	10,183	9,055	1,133	10,188
Travel and car costs (including depreciation of £nil (2017: £1,000))		1,611	1,534	-	1,534
Office equipment (including depreciation of £166,000 (2017: £234,000))		592	665	-	665
Institution liaison and member communication		345	363	-	363
Telephones and postage		352	358	-	358
Printing and stationery		350	296	-	296
Insurance		270	226	-	226
Auditors' remuneration		354	221	-	221
Regulatory fees		126	117	-	117
Subscriptions		559	458	-	458
(Profit) / loss on disposal of fixed assets		-	(11)	-	(11)
Sundry income		(38)	(47)	-	(47)
		29,478	26,802	1,133	27,935
TOTAL OPERATING COSTS		127,226	121,733	3,187	124,920

21a) COMPUTER AND INFORMATION SERVICES COSTS

	2018 £'000	2017 £'000
Investment information services	6,055	4,767
Computer running costs *	3,181	3,619
Software amortisation	326	658
Development costs amortisation associated with scheme changes	1,628	1,050
Hardware depreciation	475	867
	11,665	10,961

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

21b) PENSION PROTECTION FUND

	2018 £'000	2017 £'000
Scheme-based and risk based levies	2,248	1,958
Administration levy	541	388
General levy	320	260
	3,109	2,606

21c) PROFESSIONAL FEES

	2018 £'000	2017 £'000
Legal	1,474	1,766
Consultancy including scheme changes (2017: £1,133,000)	6,238	6,316
Actuarial	1,318	1,231
Committee members	575	454
Public relations	196	182
Other	310	179
Member matters	72	60
	10,183	10,188

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

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