Universities Superannuation Scheme Limited

Report and Accounts

for the year ended 31 March 2019

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

CONTENTS

	Page
Company Information	1
Strategic Report	2 – 9
Directors' Report	10 – 11
Independent Auditor's Report	12 – 14
Statement of Income and Retained Earnings	15
Balance Sheets	16
Cash Flow Statements	17
Notes to the financial statements	18 – 36

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

COMPANY INFORMATION

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Ms N Mayo (appointed 28 March 2019) Mr J Hill (resigned 28 March 2019)
Directors	Professor Sir D S Eastwood (Chair) Dr K J Carter (Deputy Chair and Senior Independent Director) Ms K English Mr D M J Guppy Professor J L Hutton Mr I R Maybury Mr M R Merton Professor Sir V A Muscatelli Professor S B Palmer (resigned 31 March 2019) Professor Dame G Breakwell (resigned 31 August 2018) Mr M R Poisson Mr S W Spinks (appointed 1 September 2018) Dr S Wharton Mr G Dixon (appointed 1 April 2019)
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
Website	www.uss.co.uk

UNIVERSITIES SUPERANNUATION SCHEME LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2019

The directors submit their strategic report, directors' report and the consolidated financial statements for the year ended 31 March 2019.

PRINCIPAL ACTIVITY

Universities Superannuation Scheme Limited ('USSL' or the 'company') is a company incorporated in the United Kingdom on 18 April 1974, which is limited by guarantee and does not have share capital, and is the corporate trustee (the 'trustee') of Universities Superannuation Scheme ('USS' or the 'scheme'). The scheme is the principal pension scheme for academic and comparable staff in UK universities and other higher education institutions; it is a hybrid scheme providing 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 group's business model focuses on maximising value for money for the scheme's members and the employers in the scheme.

REVIEW OF THE BUSINESS

A significant portion of the year has been dedicated to carrying out the latest triennial actuarial valuation of the scheme as at 31 March 2017 and a further ongoing actuarial valuation as at 31 March 2018.

During the year Universities UK and University and College Union (UCU), on behalf of members, and Universities UK, on behalf of sponsoring employers, set up a 'Joint Expert Panel' (JEP) to review the 2017 valuation and this resulted in a number of recommendations being made.

As the statutory deadline (of 30 June 2018) for completing the 2017 valuation had passed prior to finalisation, leaving the scheme in breach of pensions law, the trustee used Scheme Rules previously agreed with the stakeholders to implement a cost sharing mechanism to finalise the 2017 valuation. At the same time the trustee agreed to carry out another valuation, as at 31 March 2018, giving time for it to assess and include, where possible, the recommendations of the JEP. This is now well underway, and there is more information on the scheme website www.uss.co.uk.

As noted above, the triennial valuation of the scheme as at 31 March 2017 was finalised during the year (on 28 January 2019). Under the resulting Schedule of Contributions, revised contributions came into effect from 1 April 2019, when employer contributions increased from 18% to 19.5% and member contributions increased from 8% to 8.8%. A further increase is scheduled from 1 October 2019, with employer contributions increasing to 22.5% and member contributions to 10.4%. None of the 2019/20 contributions relate to deficit recovery. From 1 April 2020, the Schedule of Contributions increases so that employers contribute 24.2%, inclusive of deficit recovery contributions of 5% payable over the following 14 years 3 months, and members contribute 11.4% of salary. Further details of the 2017 valuation and deficit recovery arrangements can be found in the section below entitled 'Deficit recovery agreement' and details of its impact on the group balance sheet as an employer within the scheme can be found in Note 18. The existing Schedule of Contributions will be superseded when the 2018 scheme valuation is finalised.

REVIEW OF THE BUSINESS (continued)

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

The board continues to focus on maintaining sustained strong investment performance across the DB and DC investments. The group follows a strategy of in-house investment management where it is cost-effective to do so. For certain areas of investment, 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 significant reductions in total cost of investment for the DB investments.

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

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

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

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

Service risk

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

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

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

Regulatory risk

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

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

The key performance indicator for the year is to demonstrate the completion of the quarterly review process against the company's legal and regulatory obligations ensuring that no significant regulatory issues arise, as well as satisfactory completion of all education and awareness activity by relevant staff. There were three regulatory breaches arising in the past year which were reported to the Pensions Regulator, including the failure to meet the deadline for agreeing the scheme's actuarial valuation (noted above).

The business has continued to strengthen 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 a pension scheme trustee, administrator and investment management provider of our scale and complexity.

Business change risk

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

The key performance indicator for the year is to ensure that greater than 90% of milestones for change projects are completed in line with deadlines laid out in agreed project plans. 88% of milestones were completed in line with deadlines laid out in agreed project plans during the year.

People risk

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

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

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

People risk (continued)

The key performance indicator for the year is a measure of employee engagement and training satisfaction levels. The aim of the annual independent employee engagement survey is to measure the levels of alignment with our goals, commitment and motivation. The employee engagement score was 81% (2017/18: 82%)

Brexit risk

There is a risk of a disorderly exit of the UK from the European Union which could cause a prolonged disruption in financial markets and impact the ability to attract and retain skilled staff.

To mitigate this the group has established a cross-functional Brexit Working Group and ensured a comprehensive planning and review of investment and non-investment risks has been performed including the identification of all affected EU national employees.

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 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 UCU, which cover matters including valuation, funding, contributions, product development and investment performance. In addition the group publishes regular updates and explanatory notes for members in relation to developments impacting them and the scheme on its website www.uss.co.uk.

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

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

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

To mitigate this risk the group has access to a dedicated group 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 with appropriate remedial action up to and including replacement of suppliers and pursuit of the group's legal entitlements should value for money not be received.

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 owner of the underlying asset. As such, the risks set out below would indirectly impact the group in respect of the quality of the service it provides, but do not impact the group's own financial statements directly.

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

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

Further details relating the funding of the scheme can be found in Note 18, Pension liability provision.

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

The impact of this risk may lead to a significant increase in the deficit of the defined benefit element of the scheme (USS Retirement Income Builder). This may lead to a requirement to increase contributions, amend investment strategy and/or reduce future benefits.

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

Investment performance risk (continued)

The key performance indicator for DB performance is the 5 year relative outperformance of the implemented portfolio against the Reference Portfolio. The outperformance weighted target is 54 basis points on an annualised basis over rolling five-year periods to 31 March, net of applicable costs. As at 31 March 2019, annualised DB outperformance was 31 basis points above the benchmark over the past 5 years.

The key performance indicator for DC fund performance in the USS Investment Builder is measured on a cumulative asset-weighted basis. On an asset-weighted basis, the USS Investment Builder range has outperformed benchmark by 96 basis points, on an annualised asset-weighted basis, since inception in October 2016 to 31 March 2019.

Further information with more detailed commentary on investment performance risks can be found in the Annual Report and Accounts for the scheme for the year ended 31 March 2019 and the Statement of Investment Principles that are both available on the website.

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

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

Member service highlights during the year included launching a large-scale pilot communicating directly with 55,000 members for the first time, providing members with a new annual statement with a combined view of all their benefits, available online and the introduction of flexible access for members to their USS Investment Builder savings pre-retirement.

Employer service
The group works 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 their 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.

During 2018/19, in partnership with the IAP training sub-group, six training courses were developed for employers to help ensure their USS learning and development requirements were met and 21 training sessions were held. In addition a suite of employer focused tools, including a Client Relationship Management (CRM) system, a client feedback tracker and a quarterly management information report were implemented. In collaboration with the employer focus groups, changes were also made to the look, feel and content of a number of the key employer communications and the employer website.

The main objective of the USS employer perceptions survey is to gain a better understanding of employers' 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 which is consistent with the previous year.

Value for Money and Effective Cost Control

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

The operating costs for the period amounted to £150,370,000 (2018: £127,226,000). A summary of total operating costs for the year analysed by nature of expense is as follows:

	2018/19 Total £'000	**2017/18 Total** £'000
People related expense		
Employee incentives	23,828	19,134
Wages and salaries	39,784	37,192
Contractor costs	4,070	4,411
Pension deficit funding	14,501	-
Other personnel costs	3,983	3,564
People related expense	**86,166**	**64,301**
Premises costs	4,305	4,486
Investment costs	29,693	28,961
Other costs	30,206	29,478
Total operating costs	**150,370**	**127,226**

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

Incentives have increased by £4,694,000. The increase this year was linked to higher charges relating to long term incentive plans of £1,987,000 and higher discretionary bonus awards of £2,707,000. The increase in the charge for long term incentive plans reflected higher outperformance against the relevant performance benchmarks for eligible staff and lower leaver rates. The increase in the discretionary awards is based on improvements in the performance of the group against the agreed strategic key performance indicators and scheme performance for compensation reference period (mainly the calendar year 2018) in particular in relation to improved regulatory and compliance performance in the investment management business.

Wages and salaries have increased by £2,592,000. This reflects an annual inflationary increase, the increase in headcount during the year and also the full year impact of the prior year increase. The average number of permanent employees has increased from 433 to 464 as a result of on-going headcount growth driven by continued investment in our digital platform, increased in-house asset management and investment capability, and enhancements to our operating model including in relation to controls and compliance.

The pension deficit funding charge of £14,501,000 relates to the deficit recovery agreement (see below).

Deficit recovery agreement
On 28 January 2019, the company finalised the 31 March 2017 actuarial valuation and deficit recovery agreement. The recovery plan followed an actuarial valuation of the USS Retirement Income Builder (the defined benefit element of the scheme), as at 31 March 2017, which showed a total deficit of £7.5bn. To correct the shortfall, scheme employers' deficit contributions (including the group's as an employer in the scheme) will be 5% of total uncapped salaries with effect from 1 April 2020 until 30 June 2034. This is an increase from deficit contributions of 2.1% in the prior year.

The group balance sheet contains a £21,217,000 (2018: £7,073,000) provision to reflect the discounted cash flow of the group's share of those revised deficit contributions and which represents the contractual obligation in respect of the group's current and past employee members. Reflecting the revised deficit contribution obligations increased the provision by £14,501,000, as a result of the increased contribution rate and longevity of the funding plan. Further details are shown in notes 1, 5 and 18 to the financial statements.

Long term incentive plans
Within the balance sheet is a £8,378,000 provision (2018: £6,331,000) reflecting an estimate of the future pay out of the long term investment plans (LTIPs) and which represents a critical accounting judgement and source of estimation uncertainty. Movements in the provision gave rise to a charge to the profit and loss account in the year of £6,606,000 which is included within staff costs. Further details are shown in notes 1, 5 and 13 to the financial statements.

Employee numbers
The people employed by the group are critical to the success of the scheme overall. To deliver value for members and institutions, the trustee board and its executive management must engage employees 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 which saw average headcount increase from 433 to 464. The increase in headcount reflected the continued investment in our digital platform, increased in-house asset management and investment capability and enhancements to our operating model including controls and compliance. The average monthly number of employees has been restated in prior year to exclude invoiced contractors.

This report was approved by the board on 17 July 2019 and signed on its behalf.

By order of the board

Nicola Mayo
Company Secretary

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2019

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

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

FUTURE DEVELOPMENTS
The scheme is undergoing an actuarial valuation as at 31 March 2018. Depending on the outcome of this process and consultations with stakeholders, this may impact the scheme and in particular its investment strategies and business development in the future.

POST BALANCE SHEET EVENTS
On 16 April 2019 the company was informed by HMRC that it had been successful in its appeal relating to the method of VAT recovery employed within the group. The period to which the claim related to was from 30 June 2012 to 31 March 2015.

At the date of this report, the expected value of the claim is £2.1m and the allocation of this amount between the company and its subsidiaries is still to be determined. The amounts recovered will be recognised in the profit and loss account for the year ended 31 March 2020.

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

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[1] On 21 June 2019, Professor Hutton was suspended from her position as a director pending the outcome of an independent investigation. Mr Dave Guppy is acting as an alternative UCU Director during Professor Hutton's suspension.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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 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.

POLITICAL DONATIONS

No political donations were made during the year (2018: none).

PROVISION OF INFORMATION TO AUDITOR

The directors confirm that:

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

AUDITOR

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

This report was approved by the board on 17 July 2019 and signed on its behalf.

By order of the board

Nicola Mayo
Company Secretary

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

Opinion

We have audited the financial statements of Universities Superannuation Scheme Limited ('the company') and its subsidiary (the 'group') for the year ended 31 March 2019 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 20, 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 2019 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 www.frc.org.uk. This description forms part of our Auditor's Report.

Use of our report

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

Ashley Coups
Senior Statutory Auditor
for and on behalf of Ernst and Young LLP,
Statutory Auditor, Chartered Accountants
London, 17 July 2019

GROUP STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 £'000	2018 £'000
Turnover	3	150,587	127,472
Administrative expenses		(150,370)	(127,226)
Operating profit	4	**217**	**246**
Finance costs – unwinding of discount	13, 18	(217)	(246)
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.

BALANCE SHEETS AS AT 31 MARCH 2019
Company registration number: 01167127

		Group		Company	
	Note	2019 £'000	2018 £'000	2019 £'000	2018 £'000
FIXED ASSETS					
Intangible fixed assets	7	3,888	5,161	3,888	5,082
Tangible fixed assets	8	2,377	2,936	2,062	2,574
Investment in subsidiary undertakings	9	-	-	921	921
		6,265	8,097	6,871	8,577
CURRENT ASSETS					
Debtors due within one year	10	59,200	38,191	56,797	36,030
Cash at bank and in hand		4,171	3,358	-	-
		63,371	41,549	56,797	36,030
Creditors: amounts falling due within one year	11	(32,881)	(29,444)	(49,646)	(38,173)
Net current assets/(liabilities)		30,490	12,105	7,151	(2,143)
TOTAL ASSETS LESS CURRENT LIABILITIES		36,755	20,202	14,022	6,434
Creditors: amounts falling due after more than one year	12	(5,369)	(4,987)	-	-
Provision for liabilities	13	(10,169)	(8,142)	(3,057)	(2,644)
Pension liability provision	18	(21,217)	(7,073)	(10,965)	(3,790)
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 company's result for the year was £nil (2018: £nil) as its costs are recharged in full to the scheme.

The financial statements on pages 15-36 were approved by the board of directors on 17 July 2019 and were signed on its behalf by:

Professor Sir David Eastwood	Dr Kevin Carter
Chair	*Deputy Chair*

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

		Group		Company	
	Note	2019 £'000	2018 £'000	2019 £'000	2018 £'000
OPERATING ACTIVITIES					
Cash received from USS		129,889	121,626	56,963	62,478
Operating costs paid	14	(128,412)	(120,810)	(56,355)	(61,575)
NET CASH INFLOW FROM OPERATING ACTIVITIES		1,477	816	608	903
INVESTING ACTIVITIES					
Purchase of intangible fixed assets	7	(558)	(516)	(558)	(441)
Purchase of tangible fixed assets	8	(106)	(478)	(50)	(462)
Sale of tangible fixed assets		-	-	-	-
NET CASH USED IN INVESTING ACTIVITIES		(664)	(994)	(608)	(903)
NET (DECREASE) / INCREASE IN CASH		813	(178)	-	-
CASH AND CASH EQUIVALENTS AT THE START OF THE YEAR		3,358	3,536	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		4,171	3,358	-	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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, Ms N Mayo, at Royal Liver Building, Liverpool, L3 1PY.

c) Going concern

In performing their going concern assessment the directors have reviewed the principal risks and uncertainties facing the group as set out on pages 3-7. The group’s fundamental objective and purpose is to manage the day-to-day administration of the scheme and therefore the main risks from a going concern perspective relate to the ability of the company to continue to administer the scheme. These risks identified are not considered to be of a magnitude which casts significant doubt on the group's ability to continue as a going concern and accordingly the financial statements have been prepared on a going concern basis.

d) Turnover

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

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

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

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

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

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

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

i) Retirement benefits
The group participates in Universities Superannuation Scheme. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The group is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the group therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme.

Since the group has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the group recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) with related expense being recognised through the profit and loss account.

1 SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (CONTINUED)

j) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured reflecting the directors' best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the liability, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from the scheme, a receivable is recognised as an asset since it is virtually certain that reimbursement will be received and can be measured reliably. Amounts that the group has provided for are explained in more detail in notes 13 and 18.

k) Long term incentive plans

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

l) Foreign currency

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

m) VAT

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

m) Investment in subsidiary

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

2 Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the group's accounting policies

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

i) 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 recovery plan in existence at the date of approving these financial statements.

ii) Capitalisation of development costs as intangible assets

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

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

iii) Provision for dilapidation costs

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

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

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

Key source of estimation uncertainty

i) Pension deficit assumptions

On 28 January 2019 a deficit recovery agreement was concluded between the scheme and its members, which included the company and its direct subsidiary. Determining the liability for future contributions requires an estimation of the present value of future cash flows which depends on the percentage of contributions which will be attributed to deficit elimination along with future salary inflation and the identification of a suitable discount rate. In determining the appropriate liability, the directors have considered the assumptions used in the recovery plan and the last completed actuarial valuation as at 31 March 2017. Changes in the numbers of participating employees are reflected in the year in which they occur. The deficit recognised at 31 March 2019 is £21,217,000 (31 March 2018: £7,073,000). Further disclosures relating to the pension deficit liability can be found in note 18.

ii) Provisioning for long term incentive plans

Determining the liability for future payments under incentive arrangements requires an estimation of future scheme performance in comparison to the hurdle rates and the number of plans that will vest. The calculation requires the application of a suitable discount rate in order to calculate the present value. Each plan is individually assessed, on an annual basis, for the likelihood of future payments. This assessment is based on the achievement of annualised investment outperformance relative to pre-determined benchmarks over the applicable multi-year periods. The present value of the amount that is likely to be paid is charged to the profit and loss account in equal instalments over the vesting period. The likelihood of payment is also dependent on the retention of the employees eligible for the awards and requires an estimation of the number of relevant employees that will leave employment before the end of the plan. Both the investment outperformance and the staff retention rates are reviewed annually and the 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 £8,378,000 (31 March 2018: £6,331,000) is the best estimate of the present value of the amount to be paid out in relation to employees services rendered up to 31 March 2019 and a provision has been made in the financial statements. Further disclosures relating to long term incentive plans can be found in note 13.

iii) Provision for dilapidation costs

Determining the provision for future dilapidation costs requires an estimation of the present value of future cash flows which involves estimating the price per square foot of the property at current prices adjusted for future price inflation and other reasonable factors along with the identification of a suitable discount rate. These provisions are estimates and the timing of future cash flows is dependent on future events. Changes in assumptions based on new information will be accounted for in the period when such determination is made. The carrying amount of the provision at 31 March 2019 is £1,791,000 (31 March 2018: £1,811,000).

3 TURNOVER

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

4 OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	Note	2019 £'000	2018 £'000
Amortisation of other intangible assets	7	1,831	1,955
Depreciation of tangible fixed assets	8	665	797
Operating lease rentals		2,104	2,193
Staff costs	5	78,112	56,326

A detailed breakdown of operating expenses is included in note 20.

The analysis of auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the company's auditors for the statutory audit of the company's annual accounts	20	20
Fees payable in respect of the statutory audit of the subsidiary	46	45
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	272	257
Total audit fees	338	322

There were audit related assurance services provided to the subsidiary company, USS Investment Management Limited, during the year of £4,000 (2018: £4,000).

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

	2019 £'000	2018 £'000
Tax advisory services	77	180
Other assurance services	65	618
Total non-audit fees	142	798

In the prior year total, 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 2019 Number	Group 2018 Number	Company 2019 Number	Company 2018 Number
Investment management and support	160	154	20	21
Pensions professionals and support	133	128	133	128
Project management	31	18	27	16
Group shared services	140	133	138	131
	464	433	318	296

The average monthly number of employees has been restated in the prior year to exclude contractors.

And their aggregate remuneration comprised:

Staff costs for the above persons were:

	Note	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Wages and salaries:					
Permanent employees (including executive directors)		52,348	46,467	18,461	17,267
Social security costs		6,641	5,400	2,065	1,629
Pension costs	18	18,610	3,806	9,480	2,182
Restructuring costs		514	653	230	357
		78,113	56,326	30,236	21,435

The aggregate remuneration above has been restated in prior year to exclude contractors and to reclassify employers national insurance of £2,132,000, arising on long term incentive plans, from wages and salaries to social security costs. The impact on the company has been to reclassify £61,000 from wages and salaries to social security costs.

Movements in the long term incentive plan provision have resulted in a charge to group wages and salaries of £5,806,000 (2018: £4,059,000) and to social security costs of £800,000 (2018: £560,000). Movements in the long term incentive plan provision have resulted in a charge to company wages and salaries of £644,000 (2018: £426,000) and to social security costs of £88,000 (2018: £59,000). For further details of the provision see note 13.

As a result of changes in the USS deficit recovery plan, the group's pension liability increased reflecting changes in the percentage employer contribution and increased length of time over which the recovery plan exists (see note 18). Revisions to the benefit arrangements have increased the group pension liability provision and therefore pension costs by £14,501,000 in the year. The impact in the company was to increase the pension liability provision and therefore pension costs by £7,356,000 in the year.

6 DIRECTORS' EMOLUMENTS AND EXPENSES

	2019 £'000	2018 £'000
Total emoluments of the directors of the company:		
Fees (non-executive directors)	587	627
Employers' National Insurance contributions	84	162
Expenses reimbursed	75	74
	746	863

	2019	2018
The number of company directors who:		
are members of the USS defined benefit scheme as at 31 March	7	7

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

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

The emoluments of the highest paid director were £90,000 (2018: £93,400). 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 £49,850 (2018: one director received £48,616) in connection with their directorship of the subsidiary.

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

	2019 £'000 Charged to the profit and loss account	2018 £'000 Charged to the profit and loss account	2019 £'000 Paid in year	2018 £'000 Paid in year
Total emoluments of the Group Executive Committee:				
Salary and other emoluments excluding long term incentives	3,328	2,836	3,438	2,916
Amounts receivable under long term incentive schemes	1,363	915	867	572
	4,691	3,751	4,305	3,488

Group Executive Committee emoluments increased over the prior year due to improved scheme performance against target in the compensation reference period to 31 December 2018 and due to a reduced level of vacancies.

	2019	2018
The number of Group Executive Committee members who:		
are members of the USS defined benefit scheme	6	7
had awards receivable under a long term incentive scheme	7	7

6 DIRECTORS' EMOLUMENTS AND EXPENSES (CONTINUED)

The emoluments disclosed as charged in the period to the profit and loss account include any charge in relation to changes in the appropriate portion of the provision for long term incentive plans. As such the amounts do not equal amounts paid in the year. The additional disclosure of amounts paid in the year relate to cash amounts paid to and the monetary value of benefits received by the appropriate staff in the year.

7 INTANGIBLE FIXED ASSETS

Group

	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2018	2,386	7,651	10,037
Additions	4	554	558
At 31 March 2019	2,390	8,205	10,595
Accumulated depreciation			
At 1 April 2018	2,158	2,718	4,876
Reclassification	(48)	48	-
Charge for year	89	1,742	1,831
At 31 March 2019	2,199	4,508	6,707
Net book value			
At 31 March 2019	191	3,697	3,888
At 31 March 2018	228	4,933	5,161

Company

	Patents and licences £'000	Internally generated development costs £'000	Total £'000
Cost			
At 1 April 2018	2,386	7,369	9,755
Additions	4	554	558
At 31 March 2019	2,390	7,923	10,313
Accumulated depreciation			
At 1 April 2018	2,158	2,515	4,673
Reclassification	(48)	48	-
Charge for year	89	1,663	1,752
At 31 March 2019	2,199	4,226	6,425
Net book value			
At 31 March 2019	191	3,697	3,888
At 31 March 2018	228	4,854	5,082

7 INTANGIBLE FIXED ASSETS (CONTINUED)

Development costs have been capitalised in accordance with the requirements of FRS 102 and are therefore not treated as an expense in the profit and loss account. £329,000 of research and development costs were incurred by the company in the year (2018: nil).

8 TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2018	3,187	3,602	2,007	8,796
Additions	27	23	56	106
At 31 March 2019	**3,214**	**3,625**	**2,063**	**8,902**
Accumulated depreciation				
At 1 April 2018	1,325	3,083	1,452	5,860
Charge for year	170	322	173	665
At 31 March 2019	**1,495**	**3,405**	**1,625**	**6,525**
Net book value				
At 31 March 2019	1,719	220	438	2,377
At 31 March 2018	1,862	519	555	2,936

Company

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2018	3,187	3,602	459	7,248
Additions	27	23	-	50
At 31 March 2019	**3,214**	**3,625**	**459**	**7298**
Accumulated depreciation				
At 1 April 2018	1,325	3,083	266	4,674
Charge for year	170	322	70	562
At 31 March 2019	**1,495**	**3,405**	**336**	**5,236**
Net book value				
At 31 March 2019	1,719	220	123	2,062
At 31 March 2018	1,862	519	193	2,574

9 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Company
	£'000
At 1 April 2018 and 31 March 2019	921

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

10 DEBTORS

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Amounts due from related party (scheme)	55,174	34,476	55,174	34,476
Prepayments	3,839	3,614	1,573	1,507
Other debtors	187	101	50	47
	59,200	38,191	56,797	36,030

11 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Amounts due to subsidiary undertaking	-	-	35,736	26,228
Accrued expenditure	13,628	12,764	11,523	9,756
Other creditors	6,128	6,667	589	715
Social security and other taxation	13,125	10,013	1,798	1,474
	32,881	29,444	49,646	38,173

The above prior year amounts have been restated to reflect that portion of taxation and social security creditors which relates to deferred remuneration obligations due after more than one year. The impact is to reclassify £606,000 to creditors amounts due after more than one year. In addition, the prior year amounts have been restated to reflect that portion of taxation and social security creditors which relates to amounts due under long term incentives plans. The impact is to reclassify £767,000 to provisions for liabilities and charges. The impact to the company is to reclassify £101,000 to provisions for liabilities and charges.

12 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Other creditors	4,717	4,381	-	-
Social security and other taxation	652	606	-	-
	5,369	4,987	-	-

The above prior year amounts have been restated to reflect that portion of taxation and social security creditors which relates to deferred remuneration obligations due after more than one year. See note 11.

An accrual of £4,717,000 (2018: £4,381,000) has been made for the long-term element of deferred remuneration obligations. Where the variable element of an individual's remuneration package exceeds a certain threshold, a percentage is not paid to the employee for a further three years and is subject to continued employment conditions. The thresholds and percentages are deferral of 30% of the bonus earned if the total bonus is over £50,000; 40% over £200,000 and 50% over £400,000. The deferred remuneration is also adjusted in line with scheme performance over the deferral period.

13 PROVISION FOR LIABILITIES AND CHARGES

The table below sets out the movement in the provision for liabilities and charges since 31 March 2018:

Reconciliation of group provision

	2019 £'000 Dilapidation	2019 £'000 LTIP	2019 £'000 Total
As at 1 April 2018	1,811	6,331	8,142
(Credited) / charged to profit and loss account	(50)	6,606	6,556
(Utilisation of provision)	-	(4,559)	(4,559)
Unwind of the discount included in finance costs	30	-	30
As at 31 March 2019	1,791	8,378	10,169

The above prior year amounts have been restated to reflect that portion of taxation and social security creditors which relates to amounts due under long term incentives plans. The impact is to reclassify £767,000 from creditors amounts falling due within one year.

Reconciliation of company provision

	2019 £'000 Dilapidation	2019 £'000 LTIP	2019 £'000 Total
As at 1 April 2018	1,811	833	2,644
(Credited) / charged to profit and loss account	(50)	732	682
(Utilisation of provision)	-	(299)	(299)
Unwind of the discount included in finance costs	30	-	30
As at 31 March 2019	1,791	1,266	3,057

13 PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)

The above prior year amounts have been restated to reflect that portion of taxation and social security creditors which relates to amounts due under long term incentives plans. The impact is to reclassify £101,000 from creditors amounts falling due within one year.

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:

	2019	2018
Vesting period	3, 4 or 5 years	3, 4 or 5 years
Liability due within one year	£2,386,000	£1,922,000
Assumed leaver rate over vesting period	30%	40%
Discount rate	1.64%	1.67%

Awards are forfeited if the employee leaves during the vesting period unless deemed to be a good leaver under the provisions of each plan.

Dilapidation
The carrying amount of the provision at 31 March 2019 is £1,791,000 (2018: £1,811,000). The provision is expected to be utilised on the finalisation of each lease between the next two to eleven years.

The key assumptions are shown below:

	2019	2018
Risk adjusted discount rate	1.64%	1.67%
Inflation	3.00%	3.00%
Length of lease	2, 7 or 11 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

14 NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Operating costs	150,370	127,226	77,530	68,223
Decrease / (increase) in creditors	(3,819)	1,008	(11,473)	(1,953)
(Increase) / decrease in provisions	(15,954)	(1,995)	(7,457)	(245)
(Decrease) / increase in debtors (excluding amounts due from related party)	311	(2,677)	69	(1,871)
Amortisation of intangible assets	(1,831)	(1,955)	(1,752)	(1,881)
Depreciation of tangible assets	(665)	(797)	(562)	(698)
Operating costs paid	128,412	120,810	56,355	61,575

14 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES

The above prior year group amounts have been restated to reflect that portion of taxation and social security creditors which relates to amounts due under long term incentives plans. The impact is to increase creditors by £767,000 and reduce provisions by the same amount.

The above prior year company amounts have been restated to reflect that portion of taxation and social security creditors which relates to amounts due under long term incentives plans. The impact is to increase creditors by £101,000 and reduce provisions by the same amount.

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.

15 OPERATING LEASE ARRANGEMENTS

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

	Group and company Land and buildings		**Group and company** Other	
	2019	**2018**	**2019**	**2018**
	£'000	**£'000**	**£'000**	**£'000**
Less than one year	2,062	2,062	67	122
Between two and five years	6,523	7,031	14	46
Over five years	8,373	9,927	-	-
Total	16,958	19,020	81	168

16 CONTINGENT LIABILITIES AND ASSETS

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

17 CAPITAL COMMITMENTS

Capital commitments are as follows:

	Group and company	
	2019	**2018**
	£'000	**£'000**
Contracted for but not provided for:		
Software development assets	-	51

18 PENSION LIABILITY PROVISION

The table below sets out the movement in the provision since 31 March 2018:

	Group £'000	Company £'000
As at 1 April 2018	7,073	3,790
Charged to profit and loss account (in staff costs)	14,501	7,356
Utilisation of provision	(544)	(282)
Unwinding of discount (in finance costs)	187	101
As at 31 March 2019	21,217	10,965

Deficit recovery contributions due within one year for the group are £nil (2018: £544,000).

Deficit recovery contributions due within one year for the company are £nil (2018: £282,000).

The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2017 (the valuation date), which was carried out using the projected unit method. A valuation as at 31 March 2018 is underway but not yet complete.

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

The 2017 valuation was the fourth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £60.0 billion and the value of the scheme's technical provisions was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%.

The key financial assumptions used in the 2017 valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% p.a.
Discount rate (forward rates)	Years 1-10: CPI – 0.53% reducing linearly to CPI – 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 21 +: CPI + 1.7%

18 PENSION LIABILITY PROVISION (CONTINUED)

The main demographic assumption used relates to the mortality assumptions. These assumptions are based on analysis of the scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2017 valuation
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females Post retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 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

The current life expectancies on retirement at age 65 are:

	2019	**2018**
Males currently aged 65 (years)	24.6	24.5
Females currently aged 65 (years)	26.1	26.0
Males currently aged 45 (years)	26.6	26.5
Females currently aged 45 (years)	27.9	27.8

A new deficit recovery plan was put in place as part of the 2017 valuation, which requires payment of 5% of salaries over the period 1 April 2020 to 30 June 2034. The 2019 pension liability provision reflects this plan. The provision figures have been produced using the following assumptions as at 31 March 2018 and 2019.

	2019	**2018**
Discount rate	2.44%	2.64%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.11%	2.02%

Further details on how the liabilities of the scheme have been calculated can be found in the actuarial section of the Annual Report and Accounts.

19 RELATED PARTY TRANSACTIONS

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

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

The group provides administration and investment management services to the scheme charging £150,587,000 (2018: £127,472,000), with a balance due from the scheme of £55,174,000 as at 31 March 2019 (2018: £34,476,000).

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

20. OPERATING COSTS BREAKDOWN

	Note	2019 £'000 Total	2018 £'000 Total
PERSONNEL			
Employee costs	5	78,113	56,326
Contractor costs		4,070	4,411
Directors' emoluments and expenses	6	746	863
Recruitment, training and welfare		3,237	2,701
		86,166	64,301
PREMISES			
Rents, rates, service charges and utilities		3,970	3,994
Depreciation and maintenance		385	373
Dilapidation costs		(50)	119
		4,305	4,486
INVESTMENT MANAGEMENT			
Securities research		9,589	9,970
Securities management fees		11,124	11,501
Property management fees		4,132	2,958
Custodial services		1,891	1,885
Legal costs - property management		526	284
– other		326	435
Property valuation fees		256	224
Investment accounting services		1,729	1,622
Investment performance measurement		120	82
		29,693	28,961
OTHER COSTS			
Computer and information services costs	20(a)	11,581	11,665
Pension Protection Fund levy	20(b)	3,316	3,109
Professional fees	20(c)	10,840	10,183
Travel and car costs		1,721	1,611
Office equipment (including depreciation of £173,000 (2018: £166,000))		525	592
Institution liaison and member communication		412	345
Telephones and postage		226	352
Printing and stationery		421	350
Insurance		308	270
Auditors' remuneration		356	354
Regulatory fees		172	126
Subscriptions		492	559
Sundry income		(164)	(38)
		30,206	29,478
TOTAL OPERATING COSTS		150,370	127,226

20a) COMPUTER AND INFORMATION SERVICES COSTS

	2019 £'000	2018 £'000
Investment information services	6,113	6,055
Computer running costs	3,316	3,181
Software amortisation	89	326
Development costs amortisation associated with scheme changes	1,741	1,628
Hardware depreciation	322	475
	11,581	11,665

20b) PENSION PROTECTION FUND

	2019 £'000	2018 £'000
Scheme-based and risk based levies	2,400	2,248
Administration levy	575	541
General levy	341	320
	3,316	3,109

20c) PROFESSIONAL FEES

	2019 £'000	2018 £'000
Legal	2,376	1,474
Consultancy	6,542	6,238
Actuarial	959	1,318
Committee members	550	575
Public relations	51	196
Other	301	310
Member matters	61	72
	10,840	10,183

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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