For members, for the future.

Universities Superannuation Scheme Limited

Group Report and Accounts for the year ended 31 March 2021

Company number: 01167127

Contents

Company information

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Ms N J K Mayo
Directors	Dame K M Barker (Chair, appointed 1 September 2020) (appointed 1 April 2020) Mr A C Brown (appointed 1 August 2020) Dr K J Carter (Deputy Chair and Senior Independent Director) Professor Sir P J Curran (appointed 1 September 2020) Mr G Dixon Professor Sir D S Eastwood (Chair, resigned 31 August 2020) (resigned 31 August 2020) Ms K English (resigned 31 January 2021) Mr I R Maybury Mr M R Merton (resigned 31 January 2021) Professor Sir V A Muscatelli Mr R C Picot (appointed 1 February 2021) Mr M R Poisson Ms H M Shay (appointed 1 September 2020) Mr S W Spinks Dr D C H Watts (appointed 1 March 2021) Dr S Wharton (resigned 31 August 2020)
Bankers	Barclays Bank PLC 48B & 50 Lord Street Liverpool L2 1TD National Westminster Bank PLC 2-8 Church Street Liverpool L1 3BG
Independent auditor	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY
Website	uss.co.uk

Strategic report
for the year ended 31 March 2021

The directors submit their strategic report, directors' report and the consolidated financial statements for the year ended 31 March 2021.

Principal activity

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

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

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

Review of the business

The board is responsible for ensuring the scheme is fit for purpose, that it offers members good support and service, and that it can deliver the pensions promises made.

The financial year was dominated by managing the impact of COVID-19, ensuring our decisions continued to be made for the long-term benefit of our members and focussing more than ever on Environmental, Social and Governance (ESG) issues.

The work of the board has been heavily focused on the 31 March 2020 valuation, which was agreed as part of the conclusion of the 31 March 2018 valuation (completed in September 2019). It is clear that the present overall contribution rate is no longer adequate to support the likely deficit recovery costs and fund future service promises. The 31 March 2018 valuation brought about an initial increase to contributions on 1 October 2019 (employer contributions increased from 19.5% to 21.1% and member contributions from 8.8% to 9.6%), with a subsequent increase scheduled for 1 October 2021 (employers' increasing to 23.7% and members' increasing to 11.0%) subject to the completion of 31 March 2020 valuation. The board shares employers' and members' concerns around the impact of the scheduled increases and the importance of the resolution of the 31 March 2020 valuation and is working as constructively as possible with stakeholders Universities UK (UUK) and Universities and College Union (UCU), to support them in addressing the complex issues the valuation presents.

Further details of the 2018 valuation and deficit recovery arrangements can be found in the section below entitled 'Deficit recovery agreement' and details of its impact on the group balance sheet as an employer within the scheme can be found in note 17.

As a multi-employer scheme offering DC benefits, USS is required to be an authorised Master Trust. USS is required to evidence that the authorisation criteria continues to be met and this is done through providing The Pensions Regulator with copies of various documents such as the scheme report and accounts, which includes the Chair's defined contribution statement and supervisory return as well as notifying them of any significant or triggering events as and when they occur.

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 appropriate and cost-effective to do so. For certain areas of investment, the group does not believe it is in the scheme's interests to build capabilities internally. Sourcing decisions are reviewed periodically.

Principal risks and uncertainties and key performance indicators (KPIs)

The board's approach to risk management within the group is set out in its risk management framework which defines the board's risk appetite, the types of risks the group is exposed to and the related risk governance arrangements. The aim of the framework is to ensure that risks are effectively identified, monitored, reported and managed across the business. Further information about the wider context of the USS risk management framework can be found in the Annual Report and Accounts for the scheme published on the website (uss.co.uk).

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 with an 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 mitigating action where necessary. As noted above, the trustee is regulated by the Pensions Regulator and is also authorised and supervised under the Master Trust regime by the Pensions

Strategic report for the year ended 31 March 2021 *continued*

Regulator. USSL's subsidiary company, USSIM, is regulated by the Financial Conduct Authority (FCA). The board, together with a dedicated team, regularly assesses regulatory developments and ensures compliance with those applicable.

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

Principal risks and uncertainties which are scheme related and directly impact the group

Service risk

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

Key performance indicators relating to pension-related service risk can be found within non-financial Key Performance Indicators (KPIs) on page 5.

Regulatory risk

There is a risk that the group is adversely impacted by changes to policy, legislation or regulation or that the group fails to apply effective oversight of its compliance with such policy, legislation or regulation. This could adversely impact the group's ability to provide investment management and advisory services to the scheme. 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 USS's 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 a pension scheme of our scale and complexity.

The key performance indicator for the year is the completion of the quarterly review process against the group'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.

We have reported two legacy compliance issues to The Pensions Regulator. Monitoring by our Compliance team found that, while rightly setting out the options available, our Early Leaver Letters (for members who have at least three months' qualifying service but less than two years' qualifying service) did not proactively state the then-value of taking a cash transfer sum. This was, instead, only being provided on request. Actions have been taken to ensure prospective early leaver processes are now fully compliant. We are also proactively remediating an issue relating to 'death after retirement' lump sum payments that should have been payable in respect of deferred members who who retired and then died within five years of retirement.

Notwithstanding the above the control environment has remained robust in the year and the business has continued to strengthen controls in an appropriate and diligent manner. Since coming into force in 2019, Senior Managers and Certification Regime is now a business as usual function. Compliance continues to maintain the Management Responsibilities Map and the Business Control Team facilitate the Reasonable Steps Framework. Compliance facilitated the first annual certification of Certified Persons and updated the FCA Register with the relevant details. Annual mandatory training was rolled out to relevant individuals.

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 80% (2020: 81%) of milestones for change projects are completed in line with deadlines laid out in agreed project plans. 82% (2020: 86%) 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.

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

Strategic report for the year ended 31 March 2021 *continued*

and motivation. The most recent employee engagement score for the group was 7.9 out of 10 (2020: 7.5 out of 10), which is 0.3 above the industry benchmark.

Business disruption risk
There is a risk of prolonged business disruption caused by economic, political or social events, such as the outbreak of the COVID-19 pandemic, impacting financial markets, and causing an inability to provide critical services due to staff unavailability or supplier failure, and financial hardship across the higher education sector. Physical and infrastructural disruption could lead to adverse impact on operational capacity and controls.

To help mitigate this risk, the group has ensured full remote working capability for all key teams, to allow continuity of key processes and physical isolation of employees following the COVID-19 outbreak. Supplier viability is monitored through the supplier framework processes.

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

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

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

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

To mitigate this risk the group holds regular meetings with employers, member representatives and employer representatives, including UUK and UCU, which cover matters including valuation, funding, contributions, product development and investment performance. This engagement is ongoing but is more intensive during actuarial valuations. In addition, the group performs annual member and employer surveys, publishes regular updates, articles, videos for members and institutions in relation to developments impacting them and the scheme on its website uss.co.uk and offers webinars to both employers and members.

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

Principal risks and uncertainties which are scheme related and indirectly impact the group

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

Defined benefit funding risk
There is risk of a deterioration in the financial health of the 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 Retirement Income Builder which regularly monitors funding levels, employers' covenant strength and contribution adequacy and liability.

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

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

Strategic report for the year ended 31 March 2021 *continued*

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

A key performance indicator for DB performance is the five-year relative outperformance of the Implemented Portfolio against the Reference Portfolio. The outperformance weighted target is 0.55% (2020: 0.55%) on an annualised basis over rolling five-year periods to 31 March, net of applicable costs. In the last 12 months as markets strongly recovered from COVID-induced market turmoil, aided by concerted action from governments and central banks, our private market valuations, which are generally less volatile than liquid markets, have materially underperformed their liquid market-based benchmark. This recent weaker performance from private markets has diminished its ongoing positive impact on relative performance over five years. This coupled with adverse asset allocation positioning in the wake of the 2016 Brexit vote has caused the five year relative performance to drop below benchmark for the first time since 2013. As at 31 March 2021, the rolling five-year annualised DB performance was -0.24% (2020: +0.91%) versus the Reference Portfolio.

The key performance indicator for DC fund performance in the Investment Builder is measured on a cumulative asset-weighted basis. On an asset-weighted basis, the Investment Builder range has outperformed the benchmark by 0.4%, on an annualised asset-weighted basis, since inception in October 2016 to 31 March 2021 (2020: 0.3%).

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 2021 and the Statement of Investment Principles that are both available on the website (uss.co.uk).

Climate change risk

There is a risk of material financial impact driven by climate change, including econominc transition in relation to climate change and physical risk of damage to assets from extreme climate and weather events. This risk is mitigated through ongoing monitoring of climate risk exposure on assets, changes in legislation and engaging with policy makers to ensure a smooth transition to a low carbon future.

Non-financial KPIs

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

Member service

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

Some member service highlights for 2020/21 were: we relaunched our website and member portal, widening access and improving members' ability to view and manage their pension online; we began sending communications directly to active members rather than via their employer, which has been enabled by the launch of a preference centre to allow members to tailor the communications that they receive; we provided access to specialist webinars explaining different aspects of the scheme and are piloting 1:1 retirement guidance calls; and, created an in-house Member Service Team with a single contact number for member enquiries. All service level targets were met throughout the year, despite the challenges of home working and lockdowns. In the 2020 Member Perception Survey carried out during the current financial year, 31% of members rated their overall relationship with USS as 'good' or 'very good' (2019 survey: 24%).

Employer service

The group works closely with employers to deliver an efficient, timely and high-quality service to our members. The group seeks feedback from employers through the daily contact it has with their scheme administrators, through the engagement and relationship management teams and through more formal channels, such as the Institutions' Advisory Panel (IAP) and the Institutions' Meeting. In the 2020 survey carried out during the current financial year, 88% of employers rated their overall relationship with USS as 'good' or 'very good' (2019 survey: 83%). The proportion of employers rating their overall relationship with USS as 'very good' has increased by 7% this year to 41%.

It is vital that employers can easily access the support they require from USS to assist them in discharging their administrative obligations in an accurate and timely manner. Our formal training programme, which we have successfully delivered to employers over the past two years, has been adapted into a suite of virtual courses to enable uninterrupted delivery of this valued service during the COVID-19 pandemic. Six virtual courses were delivered to 183 delegates, with 100% agreeing that the courses met their intended goals and would be useful in their day-to-day work.

Value for money and effective cost control

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

The operating costs for the year amounted to £144.3m (2020:£158.9m). A summary of total operating costs for the year analysed by nature of expense is as follows:

	2020/21 Total £'000	2019/20 Total £'000
People related expense		
Employee incentives (inclusive of social security)	20,661	40,186
Wages and salaries (inclusive of social security, redundancy and pension costs)	48,456	45,640
Contractor costs	921	3,384
Pension deficit funding	3,682	(8,926)
Other personnel costs	3,189	3,682
People related expense	**76,909**	**83,966**
Premises costs	4,546	4,398
Investment costs	25,916	34,713
Other costs	36,938	35,829
Total operating costs	**144,309**	**158,906**

Total operating costs have decreased by £14.6m (2020: increase of £8.5m) or 9.0% (2020: 5.7%) year-on-year. The key movements in underlying operating costs are:

Incentives have decreased by £19.5m (2020: increased by £16.4m). The decrease this year was linked to a £23.4m (2020: increase of £14.8m) lower charge to the profit and loss account compared to prior year, relating to provisions made in relation to the estimated future payments under long-term incentive plans. The decrease in the charge for long-term incentive plans reflected lower outperformance against the relevant performance benchmarks for eligible staff as explained in more detail below.

Wages and salaries have increased by £2.8m (2020: £5.9m). This reflects the increase in headcount during the year and a pay increase (albeit at a lower level than in prior years). The increase in employee numbers is discussed below. Further details are shown in notes 5 and 19.

The pension deficit funding charge of £3.7m (2020: credit of £8.9m) relates to the deficit recovery liability (see below).

Long-term incentive plans

The group balance sheet contains a £15.1m provision (2020: £25.3m) which represents the present value of an estimate of future pay-outs and other related costs of the long-term incentive plans (LTIPs); this estimate decreased as a result of a partial reversal of the sharp increase in these estimates as at 31 March 2020 following material benchmark outperformance during the COVID-19 related market volatility at that time, with markets having stabilised as at 31 March 2021.

This provision represents a critical accounting judgement and a source of estimation uncertainty. Further details are shown in note 13 to the financial statements.

Deficit recovery agreement

The group's balance sheet contains a £16.0m (2020: £12.5m) liability to reflect the discounted cash flow value of the group's share of the deficit recovery contributions as defined in the 31 March 2018 actuarial valuation and related deficit recovery agreement, which represents the contractual obligation in respect of the group's current and past employee members. The increase was driven by the reduced discount rate applied to future cashflows and increased headcount projections as a result of our investment management resourcing approach. Further details are shown in note 17 to the financial statements.

Employee numbers

The people employed by the group are critical to the success of the scheme overall. To deliver value for members and institutions, the trustee board and its executive management must engage with employees so as to ensure that the group has the right mix of skills and experience. The group continued to invest in its people during the year which saw average headcount increase from 488 to 518 (2020: 464 to 488) largely as a result of continued development in the in-house investment management team and in-sourcing of the member service desk.

Companies Act 2006, Section 172 statement

Section 172 of the Companies Act 2006 (CA2006) sets out a number of general duties which directors owe to the company. Details of how directors discharge these duties are detailed below. We have also adopted the 'Wates Principles' in the year, to provide a framework for disclosure of the group's corporate governance arrangements and more detail is provided in our Governance supplement on our website uss.co.uk.

Long-term decision making

The group has a long-term focus and purpose and is a responsible long-term investor. As part of its decision making the board considers the likely consequences of any decision in the long-term for all significant matters discussed. The board regularly

Strategic report for the year ended 31 March 2021 *continued*

discusses strategic issues and considers the impact on the long-term of the group and the scheme it serves.

Business relationships

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

The group manages business relationships with suppliers through a robust supplier onboarding process followed by ongoing monitoring of critical and key suppliers through regular health-checks, supplier management activity and financial oversight. This year, in response to the COVID-19 crisis, USS has sought additional assurance in regard to supplier resilience via an external source that draws on intelligence from across several data sets, to provide an ongoing impact assessment of COVID-19 on suppliers.

Other stakeholders

The directors have also identified employers, employees and regulators as key stakeholders. The group plays a key role in supporting the continued success of the higher education sector, a sector that is of great importance to the UK economy. The group works with more than 300 (2020: 300) employers and has more than 476,000 (2020: 450,000) members and so has a significant impact on the wider community by working to help build a secure financial future for our members and their families and support them through their working life and into retirement. The group has regular engagement with The Pensions Regulator in particular around the 2018 and 2020 valuations and as part of its ongoing supervision of the scheme.

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

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

Streamlined energy and carbon report (SECR)

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

		USSL 2021	USSIM 2021	Total 2021	USSL 2020	USSIM 2020	Total 2020
1. UK energy usage							
Electricity[1]	MWh	515	284	799	613	342	955
2. Greenhouse gas emissions							
Electricity[1]	tCO2e	132	73	205	157	87	244
Fuel[2]	tCO2e	3	3	6	6	8	14
Mileage[3]	tCO2e	1	-	1	1	1	2
Total		136	76	212	164	96	260
3. Emissions intensity ratio	Average employees[4]	350	168	518	337	151	488
	tCO2e/FTE	0.4	0.5	0.4	0.5	0.6	0.5

1 The electricity data in megawatt hours (MWh) has been taken directly from invoices received from energy providers. The greenhouse gas emissions (GhG) of electricity has been calculated using a conversion factor of 0.2556 as published alongside the SECR guidance. The conversion factor is used to convert this to tonnes of carbon dioxide emissions (tCO2e)
2 The GhG of fuel has been calculated based on the total fuel spend incurred. The miles travelled are calculated using an average price per litre of £1.25 and the miles travelled are calculated using an average miles per gallon of 25. A conversion factor of 0.26775 as published alongside the SECR guidance is then used to calculate total GhG.
3 The GhG of mileage is calculated based on the total mileage claims reimbursed. An average reimbursement of 45p per mile is then used to calculate mileage travelled. A conversion factor of 0.26775 as published alongside the SECR guidance is then used to calculate total GhG.
4 This is the average monthly headcount during the year.

Strategic report
for the year ended 31 March 2021 *continued*

Energy usage has been lower during the current financial year as a result of home working. Home working has also reduced our carbon footprint through reduced travel, and reduced waste.

As we look to return to the office, the company will review its energy usage and consider ways to reduce this further.

Working patterns are expected to be more flexible going forwards therefore reducing travel and our carbon footprint.

Lower reliance on, and consumption of paper is also anticipated resulting from more flexible working and a reduction in printing.

Business conduct

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

This report was approved by the board on 20 July 2021 and signed on its behalf.

By order of the board

Nicola Mayo
Company Secretary

Directors' report
for the year ended 31 March 2021

Directors

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

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

Future developments

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

Employees

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

Policies in place are such that, in respect of the employment of disabled persons, as defined by the Equalities Act 2010, the group strives to ensure that no individual or group is treated more or less favourably than others or will be disadvantaged by any conditions of employment or requirements that cannot be justified as necessary on operational grounds. That principle is enshrined in the group's recruitment and selection policies. The same principle is applied to the continued employment and training of persons who might become disabled while in the group's employment, and to the training, career development and promotion opportunities provided to disabled persons.

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

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

Statement of directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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.

Directors' report
for the year ended 31 March 2021 *continued*

Going concern

The group's business activities, together with the principal risks and uncertainties are set out in the Strategic Report. As highlighted on page 2, the company is the trustee of the scheme and makes neither a profit nor a loss.

The group receives reimbursement for all of its expenditure from the scheme which has sufficient resources to continue supporting the activities of USSL and its subsidiary USSIM. There are no factors of which the directors are aware that would materially impact the ability of the group or company to continue as a going concern up to and including 20 July 2022 and accordingly the financial statements have been prepared on a going concern basis. Further details are provided in note 1c.

Political donations

No political donations were made during the year (2020: none).

Employee engagement

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

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

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

The annual engagement survey received a 79% (2020: 88%) participation rate and an engagement score of 7.9 out of 10 (2020: 7.5 out of 10) which was 0.3 ahead of industry benchmark.

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
- 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 20 July 2021 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 parent company') and its subsidiaries (the 'group') for the year ended 31 March 2021 which comprise the group statement of income and retained earnings, the group and parent company balance sheet, the group and parent company cash flow statements and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including 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 parent company's affairs as at 31 March 2021 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. We are independent of the group and parent 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of 12 months from approval of the financial statements, up to and including 20 July 2022, when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the group report and accounts, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report and accounts.

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.

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 course of 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 themselves. 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.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent 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 parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, 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 parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the parent company and determined that the most significant are those relating to the reporting framework (FRS 102 and the Companies Act 2006)
- We understood how Universities Superannuation Scheme Limited is complying with those frameworks by making enquiries of management, including the Group General Counsel, Group Financial Controller, Chief Financial Officer, Head of Compliance, Head of Internal Audit and also the Non-Executive Directors including the Chair of the Audit Committee. We corroborated our understanding through our review of board minutes, papers provided to the Audit Committee and correspondence with regulatory bodies.
- We assessed the susceptibility of the parent company's financial statements to material misstatement, including how fraud might occur by meeting with directors and management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by directors and management. We considered the financial reporting risk arising from the potential for management override of controls to be a significant risk. Whilst we expect that this override risk is mitigated by the segregation of duties that exists within the parent company, we have performed specific procedures to gain assurance that the risk associated with recognition of revenue is adequately mitigated.

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

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management; and focused substantive testing.

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 parent 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 parent 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 parent company and the parent 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, 20 July 2021

Group statement of income and retained earnings for the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Turnover	3	144,645	159,456
Operating expenses	19	(144,309)	(158,906)
Operating profit	4	**336**	**550**
Finance costs – unwinding of discount	13, 17	(336)	(550)
Result on ordinary activities before and after taxation		–	–

All activities relate to continuing operations in the current and previous financial year.

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

The notes on pages 17 to 30 form part of these financial statements.

Universities Superannuation Scheme Limited
Balance sheets
as at 31 March 2021

Company registration number: 01167127

	Note	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Fixed assets					
Intangible fixed assets	7	911	2,356	911	2,356
Tangible fixed assets	8	3,455	1,951	3,323	1,731
Investment in subsidiary undertakings	9	–	–	921	921
		4,366	**4,307**	**5,155**	**5,008**
Current assets					
Debtors due within one year	10	77,263	78,503	75,155	76,521
Cash at bank and in hand		251	4,076	4	1
		77,514	**82,579**	**75,159**	**76,522**
Current liabilities					
Creditors: amounts falling due within one year	11	(42,217)	(41,081)	(69,989)	(71,761)
Net current assets		**35,297**	**41,498**	**5,170**	**4,761**
Total assets less current liabilities		**39,663**	**45,805**	**10,325**	**9,769**
Creditors: amounts falling due after more than one year	12	(6,573)	(6,110)	(57)	–
Provision for liabilities	13	(17,135)	(27,154)	(3,501)	(3,244)
Deficit recovery liability	17	(15,955)	(12,541)	(6,767)	(6,525)
Net assets and reserves		**–**	**–**	**–**	**–**

The notes on pages 17 to 30 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 (2020: £nil) as its costs are recharged in full to the scheme.

The financial statements were approved by the board of directors on 20 July 2021 and were signed on its behalf by:

Dame Kate M Barker
Chair

Dr Kevin Carter
Senior Independent Director and Deputy Chair

Cash flow statements for the year ended 31 March 2021

		Group		Company	
	Note	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Net cash (outflow)/ inflow from operating activities	14	**(933)**	**337**	**2,895**	**433**
Investing activities					
Purchase of intangible fixed assets	7	(714)	(315)	(714)	(315)
Purchase of tangible fixed assets	8	(2,178)	(117)	(2,178)	(117)
Net cash used in investing activities		**(2,892)**	**(432)**	**(2,892)**	**(432)**
Net (decrease) / increase in cash		**(3,825)**	**(95)**	**3**	**1**
Cash and cash equivalents at the start of the year		**4,076**	**4,171**	**1**	**–**
Cash and cash equivalents at the end of the year		**251**	**4,076**	**4**	**1**

The notes on pages 17 to 30 form part of these financial statements.

Company information

Strategic report

Directors' report

Independent auditor's report

Financial statements

Notes to the financial statements for the year ended 31 March 2021

1 Significant accounting policies and general information

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

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

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

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

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

c) Going concern
In performing their going concern assessment, the directors have reviewed the principal risks and uncertainties facing the group as set out on pages 2 to 5. The group's fundamental objective and purpose is to manage the day-to-day administration of the scheme and therefore the main risks from a going concern perspective relate to the ability of the company to continue to administer the scheme. These risks identified are not considered to be of a magnitude which casts significant doubt on the group's ability to continue as a going concern. The group receives reimbursement for all of its expenditure from the scheme which has sufficient resources to continue supporting the activities of USSL and its subsidiary USSIM. The directors have reviewed the cash flow forecasts of the group, including the scheme, for a period of 12 months after the date of signing these financial statements, up to and including 20 July 2022 and in doing so have considered the impact of COVID-19. COVID-19 has brought about increased market uncertainty, however, the directors consider the group to be operationally resilient. There have been no material operational incidents or losses post year end. Consequently, the financial statements have been prepared on the going concern basis.

d) Turnover
Turnover from the recharge of costs to the scheme is recognised when the corresponding expenditure has been incurred and therefore the services provided under the scheme rules which state that all costs and expenses of managing and administering the scheme incurred by the trustee company during the year are to be paid out by the scheme. Turnover is stated net of value added tax 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.

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

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

Notes to the financial statements for the year ended 31 March 2021 *continued*

g) Tangible fixed assets and depreciation

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

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

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

j) Provisions

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

k) Long-term incentive plans

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

l) Foreign currency

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

m) Value Added Tax (VAT)

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

n) Investment in subsidiary

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

2 Critical accounting judgements and key sources of estimation uncertainty

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

a) Critical judgements in applying the group's accounting policies

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

i) Deficit recovery liability

FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as Universities Superannuation Scheme. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in profit or loss in accordance with section 28 of FRS 102. The directors are satisfied that Universities Superannuation Scheme meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the recovery plan in existence at the date of approving these financial statements.

ii) Capitalisation of development costs as intangible assets

Costs were incurred during the year ended 31 March 2021 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 during the year ended 31 March 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 for the year ended 31 March 2021 is appropriate, in conjunction with recognition of the unwind of the discount rate included within finance costs over the life of each lease.

b) Key source of estimation uncertainty

i) Deficit recovery liability assumptions

On 16 September 2019 a deficit recovery agreement was concluded between the scheme and its members, which included the company and its direct subsidiary. Determining the liability for future contributions requires an estimation of the present value of future cash flows which depends on the percentage of contributions which will be attributed to deficit elimination along with future salary inflation and the identification of a suitable discount rate. In determining the appropriate liability, the directors have considered the assumptions used in the recovery plan and the last completed actuarial valuation as at 31 March 2018. Changes in the numbers of participating employees are reflected in the year in which they occur. The group deficit recovery liability recognised at 31 March 2021 is £15,955,000 (2020: £12,541,000). Further disclosures relating to the deficit recovery liability can be found in note 17.

ii) Provisioning for long-term incentive plans
Determining the liability for future payment of incentive arrangements requires an estimation of future scheme performance in comparison to the hurdle rates and the number of plans that will vest. The calculation requires the application of a suitable discount rate in order to calculate the present value. The estimated value of future payments was assessed for each plan by modelling the potential achievement of annualised investment outperformance relative to pre-determined benchmarks over the applicable multi-year periods and estimating expected staff retention rates. The group liability recognised at 31 March 2021 is £15,075,000 (2020: £25,311,000). Given the performance achieved to date, the outperformance hurdles set in the plans, and the fact that future outperformance cannot be guaranteed, it is considered that the provision reflects the best estimate of the present value of the amount to be paid out in relation to employees' services rendered up to 31 March 2021. 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 in the group and company at 31 March 2021 is £2,060,000 (2020: £1,843,000).

3 Turnover

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

4 Operating profit

Operating profit is stated after charging:

	Note	**2021** £'000	**2020** £'000
Amortisation of intangible assets	7	2,159	1,847
Depreciation of tangible fixed assets	8	543	543
Operating lease rentals		2,164	2,318

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

The analysis of auditor's remuneration is as follows:

	2021 £'000	**2020** £'000
Fees payable to the company's auditors for the statutory audit of the company's annual accounts	34	26
Fees payable in respect of the statutory audit of the subsidiary	67	58
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	404	327
Total audit fees	**505**	**411**

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

	2021 £'000	**2020** £'000
Tax advisory services	–	66
Other assurance services	380	161
Total non-audit fees	**380**	**227**

All non-audit related services were provided to the company with no such services provided to the subsidiary company, USS Investment Management Limited, during the current or prior financial year.

5 Staff costs

The average monthly number of employees was:

	Group		Company	
	2021	**2020**	**2021**	**2020**
Investment management and support	185	165	20	19
Pensions professionals and support	157	154	157	154
Project management	27	24	25	20
Group shared services	149	145	148	144
	518	**488**	**350**	**337**

Staff costs for the above persons were:

	Group		Company	
	2021 £'000	**2020** £'000	**2021** £'000	**2020** £'000
Wages and salaries	37,839	34,498	19,967	18,009
Employee incentives	17,975	35,392	3,347	3,123
Social security costs	7,033	8,959	2,697	2,465
Pension costs	5,761	5,189	2,986	2,729
Deficit recovery charge/(release)	3,682	(8,926)	381	(4,566)
Redundancy costs	509	1,788	493	358
	72,799	**76,900**	**29,871**	**22,118**

Group employee incentives are split between long-term incentive plans credit of £1,810,000 (2020: charge of £18,815,000) and bonuses charge of £19,785,000 (2020: charge of £16,577,000). Company employee incentives are split between long-term incentive plans charge of £781,000 (2020: £730,000) and bonuses charge of £2,566,000 (2020: £2,393,000).

Movements in the long-term incentive plan provision have resulted in a credit to group wages and salaries of £1,810,000 (2020: charge of £18,815,000) and a credit to social security costs of £249,000 (2020: charge of £2,596,000), giving a total credit to the profit and loss account of £2,059,000 (2020: £21,411,000). Movements in the long-term incentive plan provision have resulted in a charge to company wages and salaries of £781,000 (2020: £730,000) and to social security costs of £108,000 (2020: £100,000), giving a total charge to the profit and loss account of £889,000 (2020: £830,000). For further details of the provision see note 13.

As a result of increased headcount during the year and forecast increases over the deficit recovery period, the pension deficit liability has increased which has resulted in a charge of £3,682,000 (2020: release of £8,926,000) in the group in the year, and £381,000 (2020: release of £4,566,000) in the company.

Notes to the financial statements for the year ended 31 March 2021 *continued*

6 Directors' emoluments and expenses

	2021 £'000	2020 £'000
Total emoluments of the directors of the company:		
Fees (non-executive directors)	683	615

	2021	2020
The number of company directors who:		
are members of the USS defined benefit scheme as at 31 March	6	4

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

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

The emoluments for duties to the company of the highest paid director during the current financial year were £101,000 (2020: £91,000). No pension contributions have been made on behalf of directors in either the current or previous financial year.

There is one director who also serves as a director of the subsidiary company, USS Investment Management Limited, who received £52,000 (2020: one director received £51,000) 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.

	2021 £'000 Paid in year	2020 £'000 Paid in year
Total emoluments of the Group Executive Committee during the year:		
Salary and other emoluments excluding long-term incentives	3,667	3,414
Amounts receivable under long-term incentive schemes	1,029	664
	4,696	**4,078**

	2021	2020
The number of Group Executive Committee members who:		
At 31 March are members of the USS defined benefit scheme	4	4
Received payment under a long-term incentive scheme during the year	4	3

7 Intangible fixed assets

Group

	Patents and licences £'000	Development costs £'000	Total £'000
Cost			
At 1 April 2020	2,399	8,511	10,910
Additions	247	467	714
At 31 March 2021	**2,646**	**8,978**	**11,624**
Accumulated depreciation			
At 1 April 2020	2,245	6,309	8,554
Charge for year	45	2,114	2,159
At 31 March 2021	**2,290**	**8,423**	**10,713**
Net book value			
At 31 March 2021	**356**	**555**	**911**
At 31 March 2020	154	2,202	2,356

Company

	Patents and licences £'000	Development costs £'000	Total £'000
Cost			
At 1 April 2020	2,399	8,229	10,628
Additions	247	467	714
At 31 March 2021	**2,646**	**8,696**	**11,342**
Accumulated depreciation			
At 1 April 2020	2,245	6,027	8,272
Charge for year	45	2,114	2,159
At 31 March 2021	**2,290**	**8,141**	**10,431**
Net book value			
At 31 March 2021	**356**	**555**	**911**
At 31 March 2020	154	2,202	2,356

8 Tangible fixed assets

Group

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2020	3,214	3,735	2,070	9,019
Additions	–	2,174	4	2,178
Disposals	–	(133)	–	(133)
At 31 March 2021	**3,214**	**5,776**	**2,074**	**11,064**
Accumulated depreciation				
At 1 April 2020	1,664	3,617	1,787	7,068
Charge for year	169	241	133	543
Disposals	–	(2)	–	(2)
At 31 March 2021	**1,833**	**3,856**	**1,920**	**7,609**
Net book value				
At 31 March 2021	**1,381**	**1,920**	**154**	**3,455**
At 31 March 2020	1,550	118	283	1,951

Company

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2020	3,214	3,735	466	7,415
Additions	–	2,174	4	2,178
Disposals	–	(133)	–	(133)
At 31 March 2021	**3,214**	**5,776**	**470**	**9,460**
Accumulated depreciation				
At 1 April 2020	1,664	3,617	403	5,684
Charge for year	169	241	45	455
Disposals	–	(2)	–	(2)
At 31 March 2021	**1,833**	**3,856**	**448**	**6,137**
Net book value				
At 31 March 2021	**1,381**	**1,920**	**22**	**3,323**
At 31 March 2020	1,550	118	63	1,731

9 Investment in subsidiary undertakings

	Company £'000
At 1 April 2020 and 31 March 2021	921

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

10 Debtors due within one year

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Amounts due from related party (scheme)	73,812	74,787	73,812	74,787
Prepayments	3,047	3,285	1,004	1,469
Other debtors	404	431	339	265
	77,263	**78,503**	**75,155**	**76,521**

11 Creditors: amounts falling due within one year

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Amounts due to subsidiary undertaking	–	–	51,924	52,829
Accrued expenditure	16,715	18,862	14,200	14,844
Other creditors	9,477	9,109	1,655	2,016
Social security and other taxation	16,025	13,110	2,210	2,072
	42,217	**41,081**	**69,989**	**71,761**

12 Creditors: amounts falling due after more than one year

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Other creditors	5,776	5,369	50	–
Social security and other taxation	797	741	7	–
	6,573	**6,110**	**57**	**–**

An accrual of £5,776,000 (2020: £5,369,000) 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 2020:

Reconciliation of group provision

	Dilapidation £'000	LTIP £'000	Total £'000
As at 1 April 2020	1,843	25,311	27,154
Charged to profit and loss account	206	(2,059)	(1,853)
Utilisation of provision	–	(8,177)	(8,177)
Unwind of the discount (included in finance costs)	11	–	11
As at 31 March 2021	**2,060**	**15,075**	**17,135**

Reconciliation of company provision

	Dilapidation £'000	LTIP £'000	Total £'000
As at 1 April 2020	1,843	1,401	3,244
Charged to profit and loss account	206	889	1,095
Utilisation of provision	–	(849)	(849)
Unwind of the discount (included in finance costs)	11	–	11
As at 31 March 2021	**2,060**	**1,441**	**3,501**

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:

	2021	2020
Vesting period	4 or 5 years	4 or 5 years
Liability due within one year – £'000	£5,596	£11,878
Assumed leaver rate over vesting period	16% or 20%	16% or 20%
Discount rate	0.81%	2.50%

The leaver rate assumption reflects observed leaver rates, and the provision calculation approach applies an annual expected attrition rate rather than a single rate across the life of the plan.

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

Awards are forfeited if the employee leaves during the vesting period, unless deemed to be a good leaver under the provisions of each plan. The provision for the future estimated obligations for good leavers during the year ended 31 March 2021, inclusive of national insurance, is £2,981,000 (2020: £6,032,000).

Dilapidations
The carrying amount of the provision at 31 March 2021 is £2,060,000 (2020: £1,843,000). The provision is expected to be utilised on the finalisation of each lease between the next one to eight years.

The key assumptions are shown below:

	2021	2020
Risk adjusted discount rate	0.81%	2.59%
Inflation	1.5%	2.00%
Length of lease	1,4 or 8 years	5 or 9 years
Range of price per square foot (on a lease-by-lease basis)	£15.00-£33.85	£15.00-£33.54

14 Notes to the cash flow statement

Reconciliation of net cash flows from operating activities

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Operating profit	336	550	180	300
Increase/(decrease) in creditors	4,688	(253)	(1.642)	17,407
(Decrease)/increase in provisions	(10,030)	16,953	246	155
Decrease/(increase) in debtors	1,240	(19,303)	1,366	(19,724)
Amortisation of intangible assets	2,159	1,847	2,159	1,847
Depreciation of tangible assets	543	543	455	448
Loss on disposal	131	–	131	–
Net cash flows from operating activities	**(933)**	**337**	**2,895**	**433**

15 Operating lease arrangements

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

	Group and company			
	Land and buildings		Other	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Less than one year	1,960	1,936	3	13
Between two and five years	8,417	8,246	–	–
Over five years	5,890	4,792	–	–
Total	**16,267**	**14,974**	**3**	**13**

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 Deficit recovery liability

The table below sets out the movement in the liability since 31 March 2020:

	Group £'000	Company £'000
As at 1 April 2020	12,541	6,525
Charge to profit and loss account (in staff costs)	3,682	381
Utilisation of liability	(593)	(308)
Unwinding of discount (in finance costs)	325	169
As at 31 March 2021	**15,955**	**6,767**

Deficit recovery contributions due within one year for the group are £1,305,000 (2020: £576,000).

Deficit recovery contributions due within one year for the company are £630,000 (2020: £300,000).

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

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

The 2018 valuation was the fifth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was

£63.7 billion and the value of the scheme's technical provisions was £67.3 billion indicating a shortfall of £3.6 billion and a funding ratio of 95%.

The key financial assumptions used in the 2018 valuation are described below. More detail is set out in the Statement of Funding Principles (uss.co.uk/about-us/valuation-and-funding/statement-of-funding-principles).

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

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

	2018 Valuation
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females Post retirement: 97.6% of SAPS S1NMA "light" for males and 102.7% of RFV00 for females
Future improvements to mortality	CMI_2017 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% pa for males and 1.6% pa for females

The current life expectancies on retirement at age 65 are:

	2021	2020
Males currently aged 65 (years)	24.7	24.4
Females currently aged 65 (years)	26.1	25.9
Males currently aged 45 (years)	26.7	26.3
Females currently aged 45 (years)	27.9	27.7

A new deficit recovery plan was put in place as part of the 2018 valuation, which requires payment of 2% of salaries over the period 1 October 2019 until 30 September 2021, at which point the rate will increase to 6%. The 2021 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2021	2020
Discount rate	1.05%	2.59%
Pensionable salary growth (average for the group)	7.45%	4.20%

18 Related party transactions

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

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

The group provides administration and investment management services to the scheme charging £144,645,000 (2020: £159,456,000), with a balance due from the scheme, as disclosed in note 10, of £73,812,000 as at 31 March 2021 (2020: £74,787,000).

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.

Notes to the financial statements for the year ended 31 March 2021 *continued*

19 Operating costs breakdown

	Note	2021 Total £'000	2020 Total £'000
Personnel			
Employee related costs	5	72,799	76,900
Contractor costs		921	3,384
Directors' fees and expenses		678	696
Recruitment, training and welfare		2,511	2,986
		76,909	**83,966**
Premises			
Rents, rates, service charges and utilities		3,864	3,902
Depreciation and maintenance		476	476
Dilapidation costs		206	20
		4,546	**4,398**
Investment Management			
Securities research		2,233	7,896
Securities management fees		12,684	15,191
Property management fees		6,052	6,438
Custodial services		2,066	1,952
Legal costs – property management		5	830
Legal costs – other		435	308
Property valuation fees		239	243
Investment accounting services		2,118	1,797
Investment performance measurement		84	58
		25,916	**34,713**
Other costs			
Computer and information services costs	19(a)	11,498	11,164
Pension Protection Fund levy		4,113	3,713
Professional fees	19(b)	14,409	13,911
Travel and car costs		102	1,530
Office equipment (including depreciation of £133,000 (2020: £162,000))		499	499
Institution liaison and member communication		263	422
Telephones and postage		196	201
Printing and stationery		251	371
Insurance		353	348
Auditors' remuneration		565	353
Regulatory fees		137	128
Subscriptions		637	649
Sundry income		(64)	(77)
Unrecovered VAT expense		3,979	2,617
		36,938	**35,829**
Total operating costs		**144,309**	**158,906**

Notes to the financial statements for the year ended 31 March 2021 *continued*

19a) Computer and information services costs

	2021 £'000	2020 £'000
Investment information services	6,868	6,132
Computer running costs	2,232	2,973
Software amortisation	45	46
Development costs amortisation associated with scheme changes	2,114	1,801
Hardware depreciation	239	212
	11,498	**11,164**

19b) Professional fees

	2021 £'000	2020 £'000
Legal	2,307	3,878
Consultancy	8,918	7,506
Actuarial	1,966	1,512
Committee members	508	490
Public relations	397	186
Other	252	265
Member matters	61	74
	14,409	**13,911**