USS

For members, for the future.

Universities Superannuation Scheme Limited

Group Report and Accounts
for the year ended
31 March 2023

Company number: 01167127

Contents

Company information

Company registration number	01167127
Registered office	Royal Liver Building Liverpool L3 1PY
Company secretary	Mr M Burt (appointed 1 October 2022) Ms N Mayo (resigned 1 October 2022)
Directors	Dame K M Barker (Chair) Mr R C Picot (Deputy Chair and Senior Director) Mr A C Brown Professor Sir P J Curran Mrs M D'Auria Mr G Dixon Ms E Kelleher Dr A Kerneis Professor Sir V A Muscatelli Ms H M Shay Mr S W Spinks Dr D C H Watts
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 2023

The directors submit their Strategic report, Directors' report and the consolidated financial statements for the year ended 31 March 2023.

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 the 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 incorporated in the United Kingdom. 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 provides monitoring and oversight of USS's operations, ensuring that the scheme is adequately funded, benefits are paid when they fall due, the scheme is effectively administered in line with objectives and continues to meet the needs of the UK higher education sector.

The 2020 valuation, completed in September 2021, revealed the need for higher contributions to fund the pensions and the Joint Negotiating Committee (JNC) agreed revised future service benefits and contributions in response. These changes were implemented from 1 April 2022 following consultation with members.

As explained further below, market conditions have changed substantially since the 2020 valuation, and despite falls across most asset classes reducing the value of the scheme's assets during the year, the scheme ended the year in a much better implied funding position than it has been for some time. With the emergence of a potential surplus and reduced contribution rate, the JNC has been able – for the first time in more than a decade – to consider improving the benefits offered by the scheme and/or lowering the contributions paid by members and employers. Following guidance provided by the company in February, University and College Union (UCU) and Universities UK (UUK) have stated their joint commitment to prioritising the improvement of benefits to pre-April 2022 levels (for accrual from 1 April 2024), subject to confirmation of the pricing from the trustee and completing the required consultations.

One of the key goals for the 2023 valuation will be to work with stakeholders on the JNC to turn an improved funding position into a platform on which to build greater resilience and stability of funding costs and benefits into the future. USSL has been actively facilitating stakeholder discussions with a view to completing the valuation in time to implement any changes they decide to make by April 2024.

During the year, supply disruptions from the Covid pandemic lingered and were heightened by the economic and geopolitical impact of the war in Ukraine. Inflation rose to double-digit levels and central banks increased interest rates in response. September then saw significant turbulence in the gilt market, and the volatility of the UK investment market presented new challenges. Many asset classes, including traditional safe havens like government bonds, posted market value losses of around 20% in the year.

For the Investment Builder, the defined contribution (DC) part of USS, recent turbulent investment markets against a backdrop of high inflation have meant that the one year performance of the USS Growth Fund, which comprises 59% of the total assets, is lower than its long-term return target. Members with Investment Builder pots will have seen these effects on their reported pot values. However, looking over a longer time horizon the fund return since inception is in line with the target.

Despite this challenging backdrop the company's subsidiary USSIM has continued to deliver a robust investment performance. Falls in scheme asset values have been significantly outweighed by reductions in the estimated value of scheme liabilities supporting the improved indicative funding position noted above.

The scheme announced its Net Zero ambition in May 2021, and has since set up a Net Zero programme to ensure focus and delivery across the business. Interim targets have been set to reduce carbon emissions by 25% by 2025 and 50% by 2030. A climate tilt has been introduced to a large portion of the equity investments held, and a £500m sustainable growth mandate has been launched. This mandate will invest globally in growing, private businesses with proven business models supporting energy transition or greenhouse gas mitigation held through third party global funds which have demonstrable track records of scaling such businesses.

Principal risks and uncertainties

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 group's risk framework includes a dedicated risk team and risk governance arrangements, policies and processes. The framework aims to ensure that risks are effectively identified, managed, monitored and reported across the business. Further information about the wider context of the USS risk management framework can be found in the scheme's Annual Report and Accounts which are available on the website **uss.co.uk/about-us/report-and-accounts**.

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.

Strategic report for the year ended 31 March 2023

Continued

Where key risk indicators show that a risk may be greater than the acceptable risk appetite, appropriate remedial actions are developed, implemented and tracked to resolution. This Strategic report analyses the risks relevant to the group's performance as a trustee company with an investment management subsidiary which impact the scheme's performance and might indirectly impact the group, together with the risks which directly impact the group including financial risks, recognising that it generates neither a profit nor a loss.

There are various 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 company is regulated by The Pensions Regulator and is also authorised and supervised under the Master Trust regime by The Pensions Regulator. USSIM is regulated by the Financial Conduct Authority (FCA). The board, together with a dedicated team, regularly assesses regulatory developments and ensures appropriate compliance. The principal risks, potential impacts and mitigations in place for the group are described below.

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

Service delivery 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.

Legal and 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 lead to additional cost and organisational complexity or fines, compensation costs and censure, as well as damage to stakeholder relationships and the scheme'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.

The group has reported two compliance issues to The Pensions Regulator (TPR) within the financial year. The first relates to historic issues in relation to iterations of the Scheme Rules that applied at different points prior to October 2011. While the issues affect a relatively small proportion of members, the group is currently working to identify those affected and will be contacting them in due course. The remediation programme for this issue is complex and will continue into the next financial year. The second issue relates to a small cohort of pensioner members whose DC funds were not correctly allocated as per the lifestyle glidepath. This issue has now been closed with any remediation having been provided to members impacted. 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.

Under the Senior Managers and Certification Regime (SMCR), the compliance team maintains the management responsibilities map and the business control team supports the reasonable steps framework. The compliance team facilitates the annual certification and mandatory training of Certified Persons and Senior Managers and updates the FCA Register with the relevant details.

Resilience, technology and change risk

There is a risk that the group's ability to provide important services is compromised as a result of disruption to IT or facilities infrastructure, inadequacy of technology arrangements or changes to business capabilities and processes not being delivered reliably. This could lead to an adverse impact on operational capacity and controls or result in deterioration of the value of the scheme's assets, adversely impacting the scheme's funding and liquidity position and asset valuation in the short term.

To mitigate this risk resilient business continuity management, including IT disaster recovery and governance is in place. A team of experienced business change professionals is employed by the group, augmented by further external resources as necessary. Business change governance is closely monitored and controlled with oversight from the group executive. The key performance indicator for the year is to ensure that greater than 80% of milestones for change projects are completed in line with deadlines laid out in agreed project plans. 88% (2022: 93%) 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 competent and engaged staff to operate key process elements necessary for the organisation to do business in a manner that aligns with the USS core values of Integrity, Collaboration and Excellence. This may lead to an inability to provide the necessary capacity and skills to achieve successful delivery of the group's strategic priorities, leading to poor investment performance, increased incidence of operational error and failure, and ultimately result in 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.

As a responsible employer, employee health and well-being is a priority. The group also has an Equity, Diversity and Inclusion (EDI) strategy to address a range of challenges including improving diversity at senior levels.

Strategic report for the year ended 31 March 2023

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 most recent employee engagement score for the group was 7.7 out of 10 (2022: 7.6 out of 10), which is close to the industry benchmark.

Information security and privacy risk

The group is exposed to the risk that the confidentiality, integrity and availability of the data it holds and manages is not maintained. The impact of this risk may lead to breaches of applicable data protection legislation, potential for regulatory censure or fine, damage to stakeholder relationships and reputation, together with potential monetary loss and remediation costs.

The group's strategies to mitigate this risk include the implementation of an 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 ongoing maintenance of the international information security accreditation, ISO 27001.

In May 2023, one of the scheme's service providers – Capita plc – informed the company that USS member data held on their servers had been compromised by hackers. The company has engaged extensively with Capita on this regrettable issue and members have been provided with access to a leading identity protection service, free of charge. The company will keep this important issue under review, in line with any investigations the Information Commissioner's Office feels necessary to pursue to inform its view on what appropriate action should follow.

Scheme strategy and stakeholder risk

There is a risk that institutions, members or their representative bodies no longer view USS as their preferred service provider for retirement benefits. This may lead to members choosing not to participate in USS, missing out on the scheme's benefits, or employers, or their representative bodies, no longer viewing USS as the right provider to build a secure financial future for their employees and their families.

To mitigate this risk the group holds regular meetings with employers, member representatives and employer representatives, including both UUK and UCU. This engagement is ongoing but is more frequent during actuarial valuations. The group works closely with the scheme's stakeholders, including the JNC, who are responsible for agreeing member benefits and meeting their needs as well as engaging on low-cost options and conditional indexation to ensure the continued suitability of USS benefits for the sector. The covenant has also been strengthened through the implementation of a minimum 20-year rolling moratorium on institutions leaving the scheme and pari passu rules on future institutional secured debt issuance.

In addition, the group performs quarterly 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 individual employer and member webinars. The new My USS digital offering provides better access for members to information about their pension benefits.

Supplier performance failure risk

The group is exposed to the risk that a supplier fails to properly perform a business-critical contracted service. This could result in a failure to perform business-critical activities on a timely basis, failure to obtain value for money for the scheme or performance of the service in a manner that is not in the scheme's best interest. To mitigate this risk the group has a dedicated procurement function with responsibility (together with the Group General Counsel) for controlling supplier onboarding and ongoing monitoring of key suppliers' financial position and performance. The function provides support in taking appropriate remedial actions and ultimately replacement of non-performing suppliers should value for money not be received. Relationship management structures are in place with key suppliers, supported by service-level agreements, management information provision and incident escalation and resolution protocols. The key performance indicator for the year is the completion of key supplier healthchecks on a timely basis. There were no significant issues identified during the year.

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

The group is responsible as the trustee and investment manager of the scheme. While neither the company nor USSIM is the beneficial owner of underlying scheme assets, the company holds them 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.

Funding risk

The risk that USS holds inadequate assets to cover the accrued pension benefits. This may lead to the requirement to substantially increase contributions, amend investment strategy and/or reduce future benefits.

To mitigate this risk, the group has implemented a comprehensive Financial Management Plan (FMP) as part of each actuarial valuation, incorporating the acknowledged strength of the employers' covenant, the appropriate contribution rate and investment strategy, and has a dedicated funding strategy and actuarial team focused on funding of the Retirement Income Builder. The group regularly monitors the funding level, employers' covenant strength, contribution adequacy and liability in the context of the FMP, and regularly analyses the sources of changes in both the liability and the deficit and of the impact of this on the required contribution rate.

Further details relating to 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, the risk that investment returns are below the required return over the medium to long term (5+ years), leading to the scheme funding ratio being below acceptable minimum levels for DB, or member investment return targets not being met for the DC portfolios.

To mitigate this risk the group has a documented, structured and effective investment process, run by experienced investment professionals, incorporating robust controls and diligent oversight.

Strategic report for the year ended 31 March 2023

Continued

The DB investment portfolio is diversified across various investment types and risk factors. It is managed relative to a balanced scorecard, which reflects the complex and long-term needs of the scheme using a range of quantitative and qualitative factors linking back to the scheme's risk appetite as set by the board.

Over five years to the end of March 2023 the annualised return on the DB asset portfolio (net of costs) was 2.4% (2022: 7.8%). Within the Investment Builder, the DC element of the scheme, investment options are diversified across investment types and an experienced dedicated team monitors the performance of the DC portfolios and the related managers. Further information with more detailed commentary on investment performance risks can be found in the scheme's Annual Report and Accounts for the year ended 31 March 2023 and the Statement of Investment Principles, both of which are available on the website **uss.co.uk.**

Climate change risk
There is a risk of material financial impacts from climate change. The impact of this risk would be loss of value of assets from transition to a low-carbon economy or from actual or potential physical damage, especially where the scheme is a long-term holder of those assets.

To mitigate this risk the scheme has set an ambition to achieve Net Zero for carbon emissions for the scheme investments that USSIM manages by 2050 with interim targets for 2025 and 2030. Climate risk has been integrated into governance and risk management processes with oversight at board level. Climate risk has been integrated into the investment decision making process, and regular scenario analysis and modelling is performed to help identify and quantify the systemic impact of climate change on the economy and markets. USSIM has a dedicated in-house Responsible Investment (RI) team with specialist expertise to support investment teams and the trustee.

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.

Pension services
Members' and employers' experiences of USS, of its systems and processes, and of its people are a crucial barometer of the group's 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.

The group has continued to improve decision support available to members – launching new modellers for contributions and tax calculations enabling members to do more online than ever before, and a more bespoke approach to communicating with members, aligning updates with where they are in their journey to retirement. Following the benefit changes introduced in April 2022, the number of members with individual Investment Builder accounts increased. Significant resource was dedicated to supporting members through this change, holding webinars and providing information and guidance covering the choices available.

These efforts (and others) were formally recognised last year when the scheme achieved the Customer Service Excellence (CSE) quality mark. The accreditation followed an independent assessment of our performance against five criteria: customer insight, culture, information and access, delivery and timeliness, and quality of service.

Member ratings of their overall relationship with USS are likewise improving, with 30% now giving a good or very good rating in response to our quarterly survey, compared with 17% this time last year. Dissatisfaction with the 2020 valuation is understandably still a prominent theme in members' comments, but the proportion of members rating their overall relationship as poor has also decreased from 42% to 32%.

Scheme employer satisfaction scores remain very high – 90% rate their relationship with USS as good or very good.

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 operating costs for the year amounted to £164.7m (2022:£190.7m). A summary of total operating costs for the year analysed by nature of expense is as follows:

	2023 Total £'000	2022 Total £'000
People related expense		
Wages and salaries (inclusive of social security, redundancy and pension costs)	58,232	53,264
Employee incentives (inclusive of social security)	40,655	44,458
Contractor costs	914	244
Pension deficit expense and provision funding cost	105	31,556
Other personnel costs	4,486	3,749
People related expense	**104,392**	133,271
Premises costs	4,014	4,090
Investment costs	17,779	20,016
Other costs	38,551	33,344
Total operating costs	**164,736**	190,721

Strategic report for the year ended 31 March 2023

Continued

Total operating costs have decreased by £26.0m or 14% year-on-year.

The most significant driver of the decrease was the movement in the pension deficit liability which had an impact of £0.1m to the income statement during the year compared to the £31.6m incurred in prior year (in relation to initial recognition of the liability under the deficit recovery plan as agreed as part of the 2020 valuation).

Increased headcount during the year (described below and detailed in note 5) and inflation led to higher wages and salaries costs (£5.0m). This increase is partially offset by reduced investment costs (£2.2m) as a result of the group's in-sourcing strategy and cost efficiency initiatives. In other costs, increases in computer and information services costs (£2.6m) and irrecoverable VAT (£3.8m) related to investment activities contributed to the increase, while spend on professional fees is £2.1m lower as activity related to the 2020 valuation wound down.

Long-term incentive plans (LTIPs)

A significant portion of employee incentives are earned by employees of USSIM. This year the Investment Committee has assessed USSIM's performance under the first full year of the new Investment Balanced Scorecard approach. Prior to 2021, investment performance was assessed in terms of outperformance relative to the Reference Portfolio over a rolling five-year period, and in 2021 on an interim balanced scorecard approach.

Under this revised approach, performance is assessed using a range of quantitative and qualitative factors aligned to USSIM's investment objectives and the interests of the scheme's members and employers. More information about the implementation of the investment balanced scorecard approach is included in the scheme's Annual Report and Accounts.

The group balance sheet contains a £20.7m provision (2022: £20.7m) which represents the present value of estimated future pay-outs and related costs of the LTIPs granted and not yet paid. For USSIM LTIPs issued in the current year this is based on the assessment of the investment balanced scorecard (as discussed above), and on a hybrid approach for LTIPs issued in prior years but not yet paid, which includes performance against relevant balanced scorecards and investment performance benchmarks. After reflecting the assessment of the investment balanced scorecard for the scheme performance year ended 31 December 2022, and the impact of Group LTIPs, a £10.5m charge was made in the group in the current year (2022: £16.9m). This provision represents a critical accounting judgement and a source of estimation uncertainty. Further details are shown in note 13 to the financial statements, and in the remuneration report in the scheme's Annual Report and Accounts.

Deficit recovery agreement

The group's balance sheet contains a £46.5m (2022: £47.3m) liability to reflect the discounted cash flow value of the group's share of the pension deficit recovery contributions as defined in the 31 March 2020 actuarial valuation and related deficit recovery agreement, which represents the contractual obligation in respect of the group's current and past employee members. Further details are shown in note 17 to the financial statements.

Employee numbers

The employees of the group are critical to the success of the group and scheme overall. To deliver value for members and institutions, the board ensures 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 554 to 579 largely as a result of continued development in the in-house investment management capability.

Companies Act 2006, Section 172 statement

Section 172 of the Companies Act 2006 (CA2006) sets out the duty of the directors to promote the success of the company. Details of how directors discharge this duty are presented below. The group has also adopted the 'Wates Principles' to provide a framework for disclosure of its corporate governance arrangements and more detail is provided in the scheme's Governance supplement on the website **uss.co.uk/about-us/report-and-accounts**.

Long-term decision making

The group has a long-term focus and purpose to deliver an investment strategy to support the sustainability of the scheme and ensure that pensions can be paid as they fall due. 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 discusses strategic issues and considers the long-term impact on the group and the scheme it serves.

Business relationships

The group recognises the important role it plays in supporting the continued success of the Higher Education (HE) sector in the United Kingdom and the critical relationships it has with its members and beneficiaries. The group works with more than 300 employers and has more than 520,000 (2022: 500,000) members and so has a significant impact on the wider community by working to help build a secure financial future for members and their families and support them through their working life and into retirement.

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 whom the group engages with regularly through the JNC (for more information on the activities of the JNC see the Governance Report provided on the USS website).

The group provides 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.

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.

Strategic report for the year ended 31 March 2023

Continued

Other stakeholders

The group has also identified USS employees and regulators as key stakeholders and additionally recognises its responsibilities in relation to society more broadly in relation to its investments, including financially material environmental, ethical, social and corporate governance impacts.

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

The group has had regular engagement with The Pensions Regulator (TPR) as part of its ongoing supervision of the scheme. 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 continue to be met and this is done through providing TPR with copies of various documents such as the scheme report and accounts, which include the Chair's defined contribution statement and supervisory return as well as notifying it of any significant or triggering events as and when they occur.

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.

		Group 2023	Group 2022	Company 2023	Company 2022
1. UK energy usage					
Electricity[1]	MWh	828	828	537	547
2. Greenhouse gas emissions					
Electricity[1]	tCO_2e	160	176	104	116
Fuel	tCO_2e	–	1	–	1
Mileage[2]	tCO_2e	5	2	2	1
Total		**165**	**179**	**106**	**118**
3. Emissions intensity ratio	Average employees[3]	579	554	365	365
	tCO_2e/FTE	**0.28**	**0.32**	**0.29**	**0.32**

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 have been calculated using a conversion factor of 0.19338 (2022: 0.21233) 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 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 0.27039 (2022: 0.26549) as published alongside the SECR guidance is then used to calculate total GhG.
3 This is the average monthly headcount during the year.

The implementation of a hybrid working framework continues to have an impact on the group's carbon footprint. The group is currently conducting a review of its operational carbon footprint to identify high carbon emission areas and put in place sustainable action plans to reduce carbon emissions. The group has reduced printers on site by over 50% and is set this year to replace lighting with a more energy-efficient infrastructure. The group can confirm that none of its waste goes to landfill. Further information on the group's approach to climate risks and their impact, in line with the Task Force on Climate-related Financial Disclosures (TCFD) regulations is available on the website: **uss.co.uk/how-we-invest/responsible-investment**.

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. The USS Group Code of Conduct provides statements of, and guidance for, behaviours and acceptable business conduct that apply to all staff members.

USS has been approved as a Master Trust, reflecting the high standards that are being met by the company in running the scheme on behalf of universities and in protecting members' benefits.

This report was approved by the board on 20 July 2023 and signed on its behalf.

By order of the board

Michael Burt
Company Secretary

Directors' report

for the year ended 31 March 2023

Directors

The directors who held office during the year or prior to the approval of these financial statements are set out on page 2. Mr M Burt was appointed as Company Secretary on 1 October 2022.

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 directors will work with stakeholders to achieve the ambitious timetable set for completion of the 2023 valuation. This aims to enable stakeholders to reach agreement quickly on any changes to contributions and/or benefits that can be supported by the improved funding position. The directors believe this can also form a platform on which to build greater resilience and stability of funding costs and benefits into the future.

The group will also be engaging with its stakeholders to determine the appropriate investment strategy for the long-term needs of the sector.

Stakeholders will continue to be supported in considering different benefit structures such as conditional indexation and a low-cost option, which are important initiatives to improve the resilience of the scheme and also support a wider range of the academic community.

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 Equality Act 2010, the group strives to ensure that no individual or cohort 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 unions 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 results 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 United Kingdom 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 and/or group 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 group's business activities, together with the principal risks and uncertainties are set out in the Strategic report. As highlighted on page 3, 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 19 July 2024 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 (2022: none).

Employee engagement

Attracting, retaining and rewarding the best talent helps the group to deliver the quality of service, outstanding support, and value for money stakeholders expect. 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.

The group continued to invest in its people during the period, focusing on creating an engaging and inclusive workplace that retains top talent to enable it to deliver its objectives. The well-being and positive motivation of employees is a top priority.

Directors' report for the year ended 31 March 2023

Continued

The group's hybrid working framework looks to balance the delivery requirements of USS with the work/life balance needs of its employees: an initiative important to the Equity, Diversity & Inclusion strategy. This year, due to the cost-of-living crisis, financial well-being became a key focus. Alongside targeted remuneration interventions access was provided to various assistance focused resources for employees.

As is discussed above in the Strategic report, the group carries out an annual engagement survey to understand and act on the views of staff. The most recent engagement survey had a 65% (2022: 69%) participation rate producing an engagement score of 7.7 out of 10 (2022: 7.6 out of 10) which is close to the 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 2023 and signed on its behalf.

By order of the board

Michael Burt
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 2023 which comprise the group statement of income and retained earnings, the group and parent company balance sheets, the group and parent company cash flow statements and the related notes 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 2023 and of the group's results 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 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 19 July 2024, 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 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.

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 this gives rise to 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.

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.

Independent Auditor's report to the members of Universities Superannuation Scheme Limited

Continued

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 group and the 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, Chief Financial Officer, Deputy Chief Financial Officer, Head of Compliance, Head of Internal Audit and also the Non-Executive Directors including the Chair of the Group Audit and Risk Committee. We corroborated our understanding through our review of board minutes, papers provided to the Group Audit and Risk Committee and correspondence with regulatory bodies.
- We assessed the susceptibility of the group and the 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 group and the company, we have performed specific procedures to gain assurance that the risk associated with recognition of revenue is adequately mitigated.
- Based on this understanding we designed our audit procedures to identify non-compliance 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 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,
London
20 July 2023

Group statement of income and retained earnings for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	3	166,026	190,904
Operating expenses	19	(164,736)	(190,721)
Operating profit	4	**1,290**	**183**
Finance costs – unwinding of discount	13, 17	(1,290)	(183)
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 16 to 30 form part of these financial statements.

Universities Superannuation Scheme Limited
Balance sheets as at 31 March 2023
Company registration number: 01167127

		Group		Company	
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Fixed assets					
Intangible fixed assets	7	1,620	1,556	1,620	1,556
Tangible fixed assets	8	2,969	3,976	2,633	3,542
Investment in subsidiary undertakings	9	–	–	921	921
		4,589	**5,532**	**5,174**	**6,019**
Current assets					
Debtors due within one year	10	124,280	118,240	121,462	115,575
Cash at bank and in hand		473	669	–	1
		124,753	**118,909**	**121,462**	**115,576**
Current liabilities					
Creditors: amounts falling due within one year	11	(53,990)	(46,662)	(107,538)	(100,524)
Net current assets		**70,763**	**72,247**	**13,924**	**15,052**
Total assets less current liabilities		**75,352**	**77,779**	**19,098**	**21,071**
Creditors: amounts falling due after more than one year	12	(7,157)	(8,299)	–	(64)
Provision for liabilities	13	(21,744)	(22,121)	(3,305)	(3,338)
Deficit recovery liability	17	(46,451)	(47,359)	(15,793)	(17,669)
Net assets and reserves		**–**	**–**	**–**	**–**

The notes on pages 16 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 (2022: £nil) as its costs are recharged in full to the scheme.

The financial statements were approved by the board of directors on 20 July 2023 and were signed on its behalf by:

Dame Kate M Barker
Chair

Mr Russell C Picot
Deputy Chair and Senior Director

Cash flow statements for the year ended 31 March 2023

		Group		Company	
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Net cash inflow from operating activities	14	**900**	**3,300**	**1,095**	**2,464**
Investing activities					
Purchase of intangible fixed assets	7	(893)	(1,048)	(893)	(1,048)
Purchase of tangible fixed assets	8	(203)	(1,834)	(203)	(1,419)
Net cash used in investing activities		**(1,096)**	**(2,882)**	**(1,096)**	**(2,467)**
Net (decrease) / increase in cash		**(196)**	**418**	**(1)**	**(3)**
Cash and cash equivalents at the start of the year		**669**	**251**	**1**	**4**
Cash and cash equivalents at the end of the year		**473**	**669**	**–**	**1**

The notes on pages 16 to 30 form part of these financial statements.

Notes to the financial statements for the year ended 31 March 2023

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 2. The nature of the group's operations and principal activity are set out on page 3.

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, Mr M Burt, 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 to 6. 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 19 July 2024. The impact of the war in Ukraine and the period of high inflation seen in the UK have 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.

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%

Notes to the financial statements for the year ended 31 March 2023

Continued

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 income statement 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 an overall deficit, the group recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to a deficit) with related expenses being recognised through the income statement.

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 at the directors' best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the liability, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from the scheme, a receivable is recognised as an asset since it is virtually certain that reimbursement will be received and can be measured reliably. Amounts that the group has provided for are explained in more detail in note 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. For USSIM LTIPs issued in the current year this is based on the assessment of the investment balanced scorecard (a quantitative score derived from a review of performance across six key categories), and on a hybrid approach for LTIPs issued in prior years but not yet paid, which includes performance against relevant balanced scorecards and investment performance benchmarks. For Group LTIPs the assessment is based on performance measures aligned with the strategic objectives of the trustee. The present value of the amount that is likely to be paid is charged to the income statement on a straight-line basis over the vesting period, after allowing for an estimate of the plans that will eventually vest. The level of vesting is reviewed at each reporting date and the charge is adjusted to reflect actual and estimated levels of vesting.

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.

Notes to the financial statements for the year ended 31 March 2023
Continued

2 Critical accounting judgements and key sources of estimation uncertainty

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

ii) Capitalisation of development costs as intangible assets

Costs were incurred during the year ended 31 March 2023 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 their 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 2023 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 30 September 2021 an updated deficit recovery agreement was concluded between the scheme and its participating employers, 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, number of members and the identification of a suitable discount rate. The provision will be updated in future based on experience and changes in assumptions over time. 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 2020. The group deficit recovery liability recognised at 31 March 2023 is £46,451,000 (2022: £47,359,000). Monitoring of the 2020 valuation indicates that there is a likelihood of an improved outcome at the 2023 valuation, however the deficit recovery liability is recognised in full until any changes to the recovery plan are formally introduced. Further disclosures relating to the deficit recovery liability can be found in note 17.

Notes to the financial statements for the year ended 31 March 2023

Continued

2 Critical accounting judgements and key sources of estimation uncertainty continued

ii) Provisioning for long-term incentive plans

Determining the liability for future payment of incentive arrangements depends on certain assumptions and estimates which include the discount rate, the number of plans which will eventually vest and the future performance against relevant balanced scorecards, investment performance benchmarks and scheme performance. Differences arising from actual experience or future changes in assumptions will be reflected in subsequent periods. 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. The cost assessment is carried out by an independent third party, inflation and discount rate are accounting judgements applied to the estimate. The 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 2023 is £1,045,000 (2022: £1,394,000).

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	2023 £'000	2022 £'000
Amortisation of intangible assets	7	825	403
Depreciation of tangible fixed assets	8	1,210	1,132
Operating lease rentals		1,975	2,251

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

The analysis of auditor's remuneration is as follows:

	2023 £'000	2022 £'000
Fees payable to the company's auditors for the statutory audit of the company's annual accounts	32	29
Fees payable in respect of the statutory audit of the subsidiary	69	63
Fees payable to the scheme's auditors for the statutory audit of the scheme's annual accounts	422	390
Total audit fees	**523**	**482**

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

	2023 £'000	2022 £'000
Tax advisory services	18	–
Other assurance services	–	278
Total non-audit fees	**18**	**278**

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.

Notes to the financial statements for the year ended 31 March 2023

Continued

5 Staff costs

The average monthly number of employees was:

	Group		Company	
	2023	2022	2023	2022
Investment management and support	234	207	25	24
Pensions professionals and support	176	170	175	170
Project management	23	34	19	29
Group shared services	146	143	146	142
	579	**554**	**365**	**365**

Staff costs for the above persons were:

		Group		Company	
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Wages and salaries		45,846	40,958	21,878	20,333
Employee incentives		35,938	38,578	4,731	4,585
Social security costs		10,388	10,706	3,426	2,992
Pension costs		5,963	6,818	2,723	3,282
Deficit recovery charge / (release)	17	105	31,556	(1,300)	10,988
Redundancy costs		753	662	572	221
	19	**98,993**	**129,278**	**32,030**	**42,401**

Group employee incentives are split between long-term incentive plans charge of £9,436,000 (2022: £14,718,000) and bonuses charge of £26,502,000 (2022: £23,860,000). Company employee incentives are split between long-term incentive plans charge of £1,146,000 (2022: £1,058,000) and bonuses charge of £3,585,000 (2022: £3,527,000).

Movements in the long-term incentive plan provision have resulted in a charge to group employee incentives of £9,436,000 (2022: £14,718,000) and a charge to social security costs of £1,086,000 (2022: £2,249,000), giving a total charge to the income statement of £10,522,000 (2022: £16,967,000).

Movements in the long-term incentive plan provision have resulted in a charge to company employee incentives of £1,146,000 (2022: £1,058,000) and to social security costs of £146,000 (2022: £160,000), giving a total charge to the income statement of £1,292,000 (2022: £1,218,000). For further details of the provision see note 13.

For further information on the deficit recovery liability see note 17.

Notes to the financial statements for the year ended 31 March 2023

Continued

6 Directors' emoluments and expenses

	2023 £'000	2022 £'000
Total emoluments of the directors of the company:		
Fees (non-executive directors)	**738**	**715**

	2023	2022
The number of company directors who:		
are members of the USS defined benefit scheme as at 31 March	**6**	**6**

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 £156,000 (2022: £150,000). No pension contributions have been made on behalf of directors in either the current or previous financial year.

There was one director who also served as director of the subsidiary company, USS Investment Management Limited during the year, who received £54,000 (2022: two directors received £10,000 and £22,000 respectively) in connection with their directorship of the subsidiary.

The group considers members of the Group Executive to be key management personnel. Such individuals are not trustee company directors and their remuneration is not included within the directors' disclosures above. Total emoluments of the Group Executive are set out below. Further information is available in the Remuneration Report within the scheme Annual Report and Accounts.

	2023 £'000 Paid in year	2022 £'000 Paid in year
Total emoluments of the Group Executive during the year:		
Salary and other emoluments excluding long-term incentives	4,437	3,831
Amounts receivable under long-term incentive schemes	614	234
	5,051	**4,065**

	2023	2022
The number of Group Executive members who:		
At 31 March are members of the USS defined benefit scheme	**6**	**5**
Received payment under a long-term incentive scheme during the year	**7**	**5**

Notes to the financial statements for the year ended 31 March 2023

Continued

7 Intangible fixed assets

Group and company

	Patents and licences £'000	Development costs £'000	Total £'000
Cost			
At 1 April 2022	649	9,535	10,184
Additions	–	893	893
Disposals	(5)	–	(5)
At 31 March 2023	**644**	**10,428**	**11,072**
Accumulated depreciation			
At 1 April 2022	172	8,455	8,627
Disposals	–	–	–
Charge for year (note 4)	132	693	825
At 31 March 2023	**304**	**9,148**	**9,452**
Net book value			
At 31 March 2023	**340**	**1,280**	**1,620**
At 31 March 2022	477	1,079	1,556

Notes to the financial statements for the year ended 31 March 2023

Continued

8 Tangible fixed assets

Group

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2022	3,620	3,194	1,799	8,613
Additions	–	201	2	203
Disposals	–	–	–	–
At 31 March 2023	**3,620**	**3,395**	**1,801**	**8,816**
Accumulated depreciation				
At 1 April 2022	1,904	1,751	982	4,637
Disposals	–	–	–	–
Charge for year (note 4)	238	809	163	1,210
At 31 March 2023	**2,142**	**2,560**	**1,145**	**5,847**
Net book value				
At 31 March 2023	**1,478**	**835**	**656**	**2,969**
At 31 March 2022	1,716	1,443	817	3,976

Company

	Leasehold improvements £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2022	3,620	3,194	866	7,680
Additions	–	201	2	203
Disposals	–	–	–	–
At 31 March 2023	**3,620**	**3,395**	**868**	**7,883**
Accumulated depreciation				
At 1 April 2022	1,904	1,751	483	4,138
Disposals	–	–	–	–
Charge for year	238	809	65	1,112
At 31 March 2023	**2,142**	**2,560**	**548**	**5,250**
Net book value				
At 31 March 2023	**1,478**	**835**	**320**	**2,633**
At 31 March 2022	1,716	1,443	383	3,542

Notes to the financial statements for the year ended 31 March 2023

Continued

9 Investment in subsidiary undertakings

	Company £'000
At 1 April 2022 and 31 March 2023	**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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Amounts due from related party (scheme)	119,230	113,684	119,230	113,684
Prepayments	4,556	4,160	2,026	1,608
Other debtors	494	396	206	283
	124,280	**118,240**	**121,462**	**115,575**

Amounts due from related party represent recharges to the scheme and are repayable on demand.

11 Creditors: amounts falling due within one year

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Amounts due to subsidiary undertaking	–	–	89,854	83,271
Accrued expenditure	16,831	15,105	12,314	12,230
Other creditors	14,442	10,396	2,090	2,082
Social security and other taxation	22,717	21,161	3,280	2,941
	53,990	**46,662**	**107,538**	**100,524**

12 Creditors: amounts falling due after more than one year

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Other creditors	6,289	7,213	–	55
Social security and other taxation	868	1,086	–	9
	7,157	**8,299**	**–**	**64**

An accrual of £6,289,000 (2022: £7,213,000) 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.

Notes to the financial statements for the year ended 31 March 2023

Continued

13 Provision for liabilities and charges

The table below sets out the movement in the provision for liabilities and charges since 31 March 2022:

Reconciliation of group provision

	Dilapidation £'000	LTIP £'000	Total £'000
At 1 April 2022	1,394	20,727	22,121
(Credited) / charged to income statement	(384)	10,522	10,138
Utilisation of provision	–	(10,550)	(10,550)
Unwind of the discount (included in finance costs)	35	–	35
At 31 March 2023	**1,045**	**20,699**	**21,744**

Reconciliation of company provision

	Dilapidation £'000	LTIP £'000	Total £'000
At 1 April 2022	1,394	1,944	3,338
(Credited) / charged to income statement	(384)	1,292	908
Utilisation of provision	–	(976)	(976)
Unwind of the discount (included in finance costs)	35	–	35
At 31 March 2023	**1,045**	**2,260**	**3,305**

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:

	2023	2022
Vesting period	3, 4 or 5 years	4 or 5 years
Liability due within one year – £'000	£7,713	£7,809
Assumed leaver rate over vesting period	12% to 20%	16% or 20%
Discount rate	5.25%	2.58%

LTIPs granted after 1 January 2023 will vest over a 3 year period and payment will be made at vesting other than for executive directors where payment will be made after an additional 2 year holding period. LTIPs granted prior to this date will continue to vest after 4 or 5 years.

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 an index comprised of 1 to 5 year AAA-A rated sterling corporate 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 amount included in the provision balance in relation to full provision being made for future estimated obligations for good leavers at 31 March 2023, inclusive of national insurance, is £1,253,000 (2022: £2,396,000).

Dilapidations

The carrying amount of the provision at 31 March 2023 is £1,045,000 (2022: £1,394,000). 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:

	2023	2022
Risk adjusted discount rate	5.25%	2.58%
Inflation	2.5%-6%	3%-4%
Length of lease	3 and 7 years	4 and 8 years
Range of price per square foot (on a lease-by-lease basis)	£16.81-£25.68	£15.00-£25.68

Notes to the financial statements for the year ended 31 March 2023

Continued

14 Notes to the cash flow statement

Reconciliation of net cash flows from operating activities

		Group		Company	
	Note	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Operating profit		1,290	183	503	87
Increase in creditors		4,021	37,409	4,606	41,373
(Decrease)/increase in provisions		(412)	4,970	(69)	(178)
(Increase) in debtors		(6,039)	(40,977)	(5,887)	(40,420)
Amortisation of intangible assets (note 7)		825	403	825	403
Depreciation of tangible assets (note 8)		1,210	1,132	1,112	1,019
Loss on disposal of intangible fixed assets (note 7)		5	180	5	180
Net cash flows from operating activities		**900**	**3,300**	**1,095**	**2,464**

15 Operating lease arrangements

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

	Group and company			
	Land and buildings		Other	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Less than one year	2,181	2,181	60	25
Between two and five years	7,686	8,082	106	–
Over five years	2,364	4,150	–	–
Total	**12,231**	**14,413**	**166**	**25**

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.

Notes to the financial statements for the year ended 31 March 2023

Continued

17 Deficit recovery liability

The table below sets out the movement in the liability since 31 March 2022:

	Note	Group £'000	Company £'000
At 1 April 2022		47,359	17,669
Charged/(credited) to income statement	5	105	(1,300)
Utilisation of liability		(2,268)	(1,044)
Unwinding of discount (in finance costs)		1,255	468
At 31 March 2023		**46,451**	**15,793**

Deficit recovery contributions due within one year for the group are £2,757,000 (2022: £2,392,000).

Deficit recovery contributions due within one year for the company are £1,206,000 (2022: £1,055,000).

The latest available complete actuarial valuation of the Retirement Income Builder is at 31 March 2020 (the valuation date), which was carried out using the projected unit method.

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 2020 valuation was the sixth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £66.5 billion and the value of the scheme's technical provisions was £80.6 billion indicating a shortfall of £14.1 billion and a funding ratio of 83%.

The key financial assumptions used in the 2020 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**).

CPI assumption	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves less: 1.1% p.a. to 2030, reducing linearly by 0.1% p.a. to a long-term difference of 0.1% p.a. from 2040
Pension increases (subject to a floor of 0%)	CPI assumption plus 0.05%
Discount rate (forward rates)	Fixed interest gilt yield curve plus: Pre-retirement: 2.75% p.a. Post-retirement: 1.00% p.a.

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 2020 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2020 Valuation
Mortality base table	101% of S2PMA "light"for males and 95% of S3PFA for females
Future improvements to mortality	CMI 2019 with a smoothing parameter of 7.5 an initial addition of 0.5% p.a. and a long-term improvement rate of 1.8% p.a. for males and 1.6% p.a. for females

Notes to the financial statements for the year ended 31 March 2023

Continued

17 Deficit recovery liability continued

The current life expectancies on retirement at age 65 are:

	2023	2022
Males currently aged 65 (years)	24.0	23.9
Females currently aged 65 (years)	25.6	25.5
Males currently aged 45 (years)	26.0	25.9
Females currently aged 45 (years)	27.4	27.3

A deficit recovery plan was put in place as part of the 2020 valuation, which requires payment of 6.2% of salaries over the period 1 April 2022 until 31 March 2024, at which point the rate will increase to 6.3%. The 2023 deficit recovery liability reflects this plan. The liability figures have been produced using the following assumptions:

	2023	2022
Discount rate	4.75%	2.65%
Pensionable salary growth (average for the group over the recovery plan period)	3.0%	2.53%

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 £166,026,000 (2022: £190,904,000), with a balance due from the scheme, as disclosed in note 10, of £119,230,000 as at 31 March 2023 (2022: £113,684,000).

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 2023

Continued

19 Operating costs breakdown – Group

	Note	2023 Total £'000	2022 Total £'000
Personnel			
Staff costs	5	98,993	129,278
Contractor costs		914	244
Directors' fees and expenses		786	736
Recruitment, training and welfare		3,699	3,013
		104,392	**133,271**
Premises			
Rents, rates, service charges and utilities		3,807	3,995
Depreciation and maintenance		591	654
Dilapidation costs		(384)	(559)
		4,014	**4,090**
Investment Management			
Securities research		2,361	2,413
Securities management fees		6,050	9,332
Property management fees		2,390	2,745
Custodial services		3,276	2,279
Legal costs – property management		–	–
Legal costs – other		1,177	727
Property valuation fees		248	250
Investment accounting services		2,168	2,138
Investment performance measurement		109	132
		17,779	**20,016**
Other costs			
Computer and information services costs	19(a)	13,236	10,650
Pension Protection Fund levy		4,758	4,266
Professional fees	19(b)	10,615	12,726
Travel and car costs		1,011	355
Office equipment		443	445
Institution liaison and member communication		305	381
Telephones and postage		161	174
Printing and stationery		302	265
Insurance		405	439
Auditors' remuneration		553	466
Regulatory fees		208	118
Subscriptions		632	733
Sundry income		(10)	234
Unrecovered VAT expense		5,932	2,092
		38,551	**33,344**
Total operating costs		**164,736**	**190,721**

Notes to the financial statements for the year ended 31 March 2023

Continued

19 Operating costs breakdown continued

19a) Computer and information services costs

	2023 £'000	2022 £'000
Investment information services	9,089	7,368
Computer running costs	2,514	2,109
Software amortisation	132	88
Development costs amortisation associated with scheme changes	692	315
Hardware depreciation	809	770
	13,236	**10,650**

19b) Professional fees

	2023 £'000	2022 £'000
Legal	1,258	2,600
Consultancy	7,296	7,408
Actuarial	870	1,520
Committee members	555	574
Public relations	240	330
Other	292	225
Member matters	104	69
	10,615	**12,726**