

University of Birmingham response: USS 2018 actuarial valuation - consultation with USS employers on the USS trustee's requirements to enable a conclusion in line with option 3, July 2019

Name of Respondent: Professor Tim Jones
Position: Provost and Vice-Principal
E-mail address: T.S.Jones@bham.ac.uk
USS Employer: University of Birmingham

In the consultation exercise conducted in May, the University of Birmingham expressed support for Option 3 as a means of achieving as swift a conclusion to the 2018 valuation as possible.

We noted that although a combined contribution of 30.7% for a minimum of two years from October 2019 exceeded our preference for the lower bookend combined with the previous model of contingent contributions, Option 3 represents an alternative which gives time for the development of a long term solution for USS on the back of a 2020 valuation of the scheme, while being closest (as AON points out) to JEP 1's recommendations. Our support was on the understanding that Option 3 provides a bridge to a long term, sustainable and affordable model for USS which addresses benefit reform and the balance of contributions and risks.

In this additional exercise, we have been asked the following three questions, to which we provide responses as follows:

(a) What are the views of employers on the principle of a moratorium on employers leaving USS, so that the USS trustee is given the consent in legal form to decide whether or not an employer can withdraw from USS? This moratorium would run until the completion of the next actuarial valuation as at 31 March 2020 (with the precise date to be decided), with a commitment to work to secure longer-term rule amendments.

We support this proposal as a means of underpinning the sector's covenant rating as "strong" until the conclusion of the 2020 valuation, noting that the moratorium should in due course be replaced by appropriate scheme rule changes.

(b) Are employers supportive of providing a "firm commitment" to meet the USS trustee's requirements in relation to debt monitoring and the prioritisation of USS as a creditor on any new secured debt (on the basis that the details and practicalities will be further defined in the coming period following detailed engagement, and potentially a joint USS / employer working group involving institutional finance directors and other specialists)?

As noted in our previous response, this University has no secured borrowing and has no plans to enter into such arrangements.

The University of Birmingham accepts the principles in relation to debt monitoring and pari passu security for the Scheme. Seeing and evaluating the details of how this will work, together with any resultant impact on the ability of the University's Council to make decisions around funding in future, will need to be completed before we can commit to final proposals. Although the University

has no plans to seek borrowing secured on its assets, we note that in such a scenario there would be a requirement to establish the size of our Section 75 obligations.

In relation to the annual attestation process we would ask the Trustee to consider the use of the relevant notes in the audited financial statements as the basis for any return, rather than a different format. This will reduce the burden of the process for employers.

Currently operating lease arrangements which under the current UKGAAP are off balance sheet are expected to come onto the balance sheet when IFRS16 Leases is applied. We do not believe that the liabilities arising as a result of this change in accounting should be defined as debt for USS purposes.

Similarly we do not believe that sale and leaseback arrangements should be treated as debt. Rather the definition of debt should be restricted to those items that under FRS102 para 11.9 would be deemed debt instruments; this definition would for example exclude interest rate swaps, leases, provisions and contingent liabilities.

Finally in assessing EBITDA we would note that as a result of the 2017 valuation the salary costs of all USS employers will increase significantly in the 2018/19 financial statements. For consistency we recommend that as the debt element excludes the provision, the EBITDA element should only include the cash in year cost of USS to the employer thus excluding the impact of any provision movement. We note that the OfS is replacing EBITDA in monitoring the financial health of universities with alternatives and we recommend that USS considers using operating cashflow as a better indicator for monitoring purposes.

(c) Do employers wish to express any other comments on the trustee's requirements as set out in the letter and explanatory note from USS's CEO dated 26 June 2019?

We have no comments additional to those listed above.

As with all previous responses from the University of Birmingham relating to both the 2017 and 2018 valuations, this response has been discussed and agreed by a sub-group of the University's Council.

12 July 2019