Dear Stuart

As indicated in various previous responses to consultation exercises, the University of Sheffield remains unconvinced by the Trustee’s insistence that the original JEP proposals cannot be adopted.

We are now being consulted on ways in which the USS Trustee might conclude the 2018 Valuation adopting what is being referred to as “Option 3”. “Option 3”, as presented by the USS Trustee, involves maintaining the current benefit levels in USS with an initial total contribution rate of 30.7% from October 2019 to October 2021. The proposal by the Trustee would be to run a new valuation as at 31 March 2020 (1 year early) with the aim being to avoid the contribution increases currently scheduled to rise to 35.6% as determined by the 2017 Valuation outcome.

We remain concerned that given the UCU position of “no detriment” and now live trade dispute, there is a distinct possibility that the sector risks being plunged back into more damaging industrial action for the sake of what appears to be a relatively insignificant level of additional contributions to the scheme over a two year period, compared to those contribution levels indicated by the JEP report. We are also concerned about the potential for further damage to industrial relations and to employers if the higher level of contributions is imposed from 2021 should agreement on the 2020 valuation not be reached in a timely and positive manner.

Notwithstanding the position above, we recognise that UUK has been informed that the majority of employers are prepared to accept “Option 3” as the least worst option.

However, the Trustee has indicated that for Option 3 to be implemented employers would need to engage with steps to ensure the employer covenant remains “strong”. Therefore employers are being asked whether they are willing to accept and support the package of proposed measures to allow the covenant to be confirmed as “strong” and to conclude the 2018 Valuation in line with Option 3.

The package of proposed measures includes:
1. An amendment to the scheme rules which it is stated would “clarify and strengthen” the Trustee’s discretionary powers on employer withdrawal from USS.
2. The introduction of a framework to monitor employers’ debt levels.
3. Pari passu (equal footing) security for the USS in relation to future secured debt being taken on by employers

The University’s view on these in turn is as follows:

1. **Amendment to the scheme rules**
   It remains this University’s view that the USS scheme should strive to be such an attractive option that employers and members actively wish to remain in it. Handcuffing employers to the scheme, and making it more difficult for them to leave, does not present it as such, and may well prove counter-productive, potentially leading to a “rush for the door” ahead of any rule changes.

   To allow time for any permanent rule change to be fully considered UUK have proposed a moratorium on employers leaving USS before the proposed 2020 Valuation is concluded. There are still complexities over how such an approach would need to be introduced as outlined in the advice to UUK by Eversheds-Sutherland which is acknowledged and would need the support of the JNC to introduce.

   However, in principle, the University of Sheffield supports a delay to ensure that full consideration can be given to any permanent rule change restricting an employer’s ability to withdraw from the scheme. Given there is no intention from the University to withdraw from USS at this time, we would be comfortable with the introduction of a moratorium preventing employers withdrawing from the scheme without Trustee consent for the timescales indicated.

   We would, however, wish to be consulted more fully on any further proposals around a more permanent rule change and our position on the moratorium should in no way be taken at this time as support for a full, binding and open ended change to the scheme rules.

2. **Monitoring of employers’ debt levels**
   In principle the University is comfortable with providing information regarding debt levels on an annual basis, subject to those requests being proportionate and not leading to unnecessary discussions with or scrutiny by the Trustee. However, we note that the detail of the proposed monitoring, and the implications of the Trustee seeking to instigate a further discussion with individual employers, is absent from the information provided to date.

   We are therefore comfortable with the principle of USS monitoring debt levels with employers, however we agree that a joint USS/employers working group be established to determine the detail of any future arrangements (on which we would expect to be consulted in detail), and that such future arrangements will be subject to annual review to take account of how employers have experienced them.

   The University would be very uncomfortable should such arrangements be put in place by the USS Trustee that restrict or place other conditions on our ability to operate autonomously.

3. **Pari passu security for the USS in relation to secured debt**
   This proposal is complex and is unclear exactly how it would affect employers, though it is expected that it would affect different employers differently.

   Though the levels of secured debt within the sector remain relatively low, we would need to fully understand the detail of what is being proposed and the consequences for this University before we are in a position to support this proposal. We cannot accept any constraint which fetters our ability to manage the organisation appropriately or increases the costs of borrowing to us. The Aon advice issued to UUK on 3 July 2019 outlines a number of other issues which are yet to be worked through.
These and other potential unanticipated consequences of this proposal should be clear to all employers before being finalised. A joint USS/employer working group is a sensible approach to fully explore the implications before committing to such an arrangement.

**Final comments**

Once again we find ourselves in a position of needing to make important decisions on complex matters with insufficient detail on unacceptably short timescales. The limited time available for consultation is a concern for the University, not least given the previous criticism of this element of the 2017 Valuation process by the Joint Expert Panel (JEP). We appreciate that the timescales are being driven by USS and the potential for increases in contributions arising from the 2017 Valuation outcome, however we would support UUK in pushing USS to present a complete package of proposals with all relevant accompanying detail on which employers can make an informed decision within a reasonable timescale.

The University notes that the default legal position in the absence of any agreement on an alternative Schedule of Contributions following the 2020 Valuation would be a total contribution rate of 35.6%, and we are keen to avoid such levels of contribution which would be damaging for the sector. Our response to this latest consultation should not be taken as an indication that the University is satisfied with the proposals put forward to conclude the 2018 Valuation, nor that we welcome the approach and tone taken by the USS Trustee to date.

The JEP is currently undertaking phase 2 of its work, looking at the valuation methodology and scheme governance. There is a concern that: 1) with a 2020 valuation there could be insufficient time for any recommendations from the JEP to be taken into consideration and implemented, and; 2) based on previous experience, the USS Trustee may fail to adequately engage with any such findings and recommendations. As indicated in our previous responses to UUK the University wishes to have assurances from the USS Trustee on both these points before committing to a 2020 valuation.

Given the timescales involved, this response has been considered and agreed by the University’s Executive Board on the recommendation of the University’s USS Valuation Working Group. It has not been agreed by our University Council.

Yours sincerely

Ian Wright
Deputy Director of Human Resources