

University of Edinburgh response to USS consultation on proposals for debt monitoring and pari passu security arrangements, 3 August 2020

Debt monitoring arrangements

On the face of it the University of Edinburgh considers effective debt monitoring to be an essential element of good financial management overall and as such the University already closely monitors key related metrics on a regular basis. The University submits annual financial covenant calculations to existing lenders of unsecured debt and also has internally agreed gearing limits. Although the University currently has no plans to raise new debt and would be unlikely to arrange secured debt, we are acutely aware that for many employers within the USS scheme the landscape and options available are quite different. We would therefore encourage the alignment of proposed covenants to existing sector experience and lenders with thresholds which do not inadvertently penalise smaller Institutions. There is also a requirement for greater clarity regarding potential mitigations that the Trustee might seek should breaches occur. It is clear that the current pandemic will have significant impacts across the sector that will affect covenant calculations and may result in breaches of the agreed measures, in these circumstances the anticipated potential actions of the Trustee should be shared. The University is content with the proposed implementation date, subject to broad agreement of the redefined framework. We also consider annual reporting to be acceptable, provided the process is not overly complicated or burdensome.

More generally we are concerned that employers have been asked for a view on the proposals for debt monitoring and pari passu security arrangements in isolation from any other measures that may be required to strengthen the employer covenant – for example a potential rule change on employer exits. Whilst it is important to agree a single approach which is not administratively burdensome and provides the Trustee with the comfort they seek, we believe that in this context the current proposals are not balanced and reasonable from the point of view of the sector as a whole, and would suggest that engagement with a representative group of scheme employers would be of benefit.

Pari passu security

The University of Edinburgh does not intend to raise secured debt, but we are concerned about the potential impact on Scheme employers for whom debt options are limited. We understand the need for the Scheme to be protected and the importance of the strong covenant, but the concerns of those employers most likely to be affected should be properly heard and addressed prior to concluding the design of this framework.

Other matters

We believe that a cap on costs associated with managing this framework should be applied, incentivising the Trustee to be proportionate in its management. Additionally we do not believe that mechanisms should be put in place that allows the non-uniform setting of employer contributions, this is at odds with the current mutual approach, which we agree is an inherent strength in the Scheme.

We would like to stress our continuing concern around the long-term affordability and sustainability of the Scheme in its current structure. We believe proposed measures around strengthening the Trustees view of the covenant should be considered in tandem with aspects of scheme design and structure. The need for an holistic review which includes covenant considerations, assumptions around the technical provisions and benefit reform has never been greater.