The Rt Hon Darren Jones MP
Chief Secretary to the Treasury
1 Horse Guards Road
Westminster
London
SW1A 2HQ

16 October 2024

Dear Chief Secretary

This letter is written jointly by the Universities and Colleges Employers Association (UCEA) and University and Colleges Union (UCU) on behalf of the Higher Education Institutions (HEIs) that participate in the unfunded public service pension schemes across the UK, specifically the Teachers' Pension Scheme and NHS Pension Scheme.

UCEA represents over 170 HEIs and colleges across the UK, including around 100 that participate in the TPS. This includes the 'post-92' modern HEIs, but it also includes a number is specialist institutions and conservatoires. Collectively these institutions employ approximately 110,000 staff, educate 1.1 million students and are major employers and key contributors to economic growth within their local area.

UCU represents approximately 130,000 members in Further and Higher Education, in England, Wales, Scotland and Northern Ireland, including academic and academic related staff in 'post 92' HEIs. Members in these institutions (along with members in FE Colleges, Adult Education and Prisons) mostly have access to the Teachers' Pension Scheme and NHS Pension Scheme as appropriate.

You will be aware that from April 2024 the employer contribution rates to the unfunded public service pension schemes increased substantially. This was further to the previous increases that were implemented in 2019. As an example, in TPS (England and Wales) the employer contribution rate increased from 16.48% to 28.68% of pay over the five-year period from 2019 to 2024. No additional funding has been granted to universities to assist them in meeting the TPS costs and only partial funding has been granted in relation to the NHSPS. Therefore, these increases have severely impacted HE employers during a period of unprecedented financial challenges.

The main driver of this increase in cost was the reduction in the SCAPE discount rate set by HM Treasury. In 2010 the coalition government announced a review of the discount

rate methodology. The outcome of this review linked the SCAPE discount rate to long-term GDP as estimated by the OBR. It also stated that the rate used would be reviewed every 5 years and the methodology every 10 years. A subsequent review of the SCAPE discount rate methodology took place in 2021 and once again HMT decided that the link to long term GDP should remain.

The aims of each review were the same; **to provide a fair reflection of cost** so that employers are fully aware of the cost of pensions and can take this into account when making employment decisions, **reflect future risks to Government income, provide stability** in terms of employer costs and workforce expenditure, **support plurality of provision of public services** by aligning the SCAPE discount rate more with funded schemes, and to be **transparent and simple** to understand**.**

It is our view that these policy aims have not been met by the current methodology. In particular:

- The substantial government subsidy provided to public sector employers to help them fund these increased pension contributions has cushioned them from the full cost of the pension schemes they provide and means it is not considered when making employment decisions. For centrally funded TPS (E&W) employers the previous government allocated £1.1 billion to cover additional pension costs in 2024/25 alone.
- There has been no stability in employer costs, making it hard for HEIs to budget, and the direction of travel is extremely concerning. This is compounded by the speculation that employer pension tax reliefs may be curtailed in the upcoming Budget.
- The attempt to align the SCAPE discount rate with those used by funded schemes has failed which can be seen by the significant divergence between the employer cost of funded schemes such as USS and the LGPS and the unfunded schemes. The employer contribution to USS is half (14.5%) that made to TPS (E&W).
- There is no public definition of which OBR long term GDP estimate figure is used to identify the SCAPE discount rate making it hard for employers to track or predict what the SCAPE discount rate will be at the next valuation.
- The method used does not, therefore, provide stability either for the employer or the Government. This was the conclusion of the consultation on the review of the SCAPE rate published in 2023. The solution to this was to review the GDP rate for each valuation, but this has led to the significant increase in 2024 and it is impossible to predict whether further changes will ensue from the next review for the 2024 valuation. Consideration was given to using the social time preference

rate (STPR) and most respondents favoured this. The rate of the STPR does not seem to have changed since 2003.

We believe that in light of the fact that the current SCAPE discount rate methodology does not meet the initial policy objectives and that the new government may itself have a different view on how public service schemes should be funded, the 2031 review should be brought forward and undertaken as soon as possible. Ideally in advance of the discussion on the 2024 valuation result.

We have already passed the official date for the next public service pension scheme valuations (31 March 2024) and consideration of the outcome of the valuation and the cost to employers will likely begin in 2025/26. Any changes due to the employer contribution rate is expected to apply from April 2027.

You will be aware of the financial challenges facing the HE sector and we have not yet had confirmation of the potential options being considered for the sector by government, but a further increase in employer pension contributions would be unmanageable for many of the institutions we represent. We strongly believe that pension costs need to be tackled as part of any long-term solution.

We would be very happy to discuss these issues further.

Yours sincerely,



Raj Jethwa
Chief Executive
UCEA



Jo Grady
General Secretary
UCU