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

5 February 2025

Dear Chief Secretary to the Treasury

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

There are around 170 HEIs and colleges across the UK, including c.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 academic staff, educate 1.1 million students and are major employers and key contributors to economic growth within their local areas.

We felt it necessary to follow up on our previous letter of 16 October on the SCAPE discount rate due to the recent Budget and the corresponding remodelling of GDP predictions by the Office for Budget Responsibility (OBR).

The last change in the SCAPE discount rate saw a reduction from CPI+2.4% to CPI+1.7% based on the negative sentiment on long-term GDP shown by the OBR. As part of their TPS (England and Wales) valuation analysis, the Government Actuary's Department (GAD) calculated that, in isolation, this would increase the employer contribution rate by 15.6%[1]. Once changes to other assumptions were included, the net impact saw a 5 percentage point increase in the employer contribution that was implemented in April 2024.

GAD also issued information regarding how sensitive the TPS valuation result is to changes in the various assumptions. Looking at the OBR's most recent GDP projections, while we accept that there is a high degree of uncertainty, if long-term GDP

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[1] Teachers' Pension Scheme Valuation results, 23 October 2023

remains at around 1.5% as the OBR suggests[2], this relatively small fall could see employer costs increase by a further 5.6 percentage points, with fewer mitigations available this time to counter the increase.

For our employers this is extremely concerning as it is anticipated that the result of the next TPS valuation will be implemented in April 2027 and follows on from the increases in employer National Insurance contributions.

The 2024 increase in pension costs and any further increases are completely out of the control of institutions. Therefore, we reiterate that public service pension costs must be taken into account in any long-term solution for the HE sector set forth by government as part of the upcoming spending review. We also ask again that the 2031 review of the SCAPE discount rate methodology be brought forward and undertaken as soon as possible, ideally in advance of the discussion on the 2024 valuation results.

We would welcome the opportunity to discuss these issues with you further.

Yours sincerely

Raj Jethwa

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CEO, UCEA

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General Secretary, UCU

[2] Economic and fiscal outlook – October 2024