

USS

Universities Superannuation Scheme Limited

Registered no. 1167127

Directors' Report and Accounts

for the year ended 31 March 1999



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 1999

The directors submit their report and the accounts for the year ended 31 March 1999.

PRINCIPAL ACTIVITY

The company, which is limited by guarantee and does not have a share capital, was established to undertake and discharge the office of trustee of any superannuation scheme but in particular to act as the trustee of the Universities Superannuation Scheme (USS).

OPERATING COSTS AND REVIEW OF ACTIVITIES

The operating costs for the year amounted to £15,135,000 this amount being recoverable from USS. This compares with £11,242,000 for the year ended 31 March 1998.

The increase in operating costs is due to two factors: increases in investment management fees and costs incurred in replacing computer systems which are not Year 2000 compliant.

The fund's investment management structure was reviewed during the year. This resulted in the replacement of one of the fund's external investment managers and in a change in the asset mix of the fund. In order to minimise the fund's dealing costs a specialist manager was appointed to manage the transition to the new structure which took place from July 1998 to September 1998. The fees of the transition manager were £1.6 million. In addition, the investment management fees of the two retained external managers were increased (backdated to January 1998) which, together with the fee increase arising from the change of manager, resulted in an increase in investment management fees of £2,855,000 compared to the previous year.

Costs incurred during the year in testing computer systems for Year 2000 compliance and in replacing non-compliant systems amounted to £494,000, excluding staff costs.

Apart from the increases in investment management fees and the Year 2000 costs the total operating costs of the company increased by £544,000, an increase of 4.8 % compared to the previous year, while administration costs remained at the same level as the previous year.

Year 2000 work has been given a high priority throughout the year and during October 1998 a major Year 2000 test of all systems was carried out. Test results proved very satisfactory with only relatively few software amendments required.

The pensions administration system supplied by Claybrook Computing Ltd is over 15 years old and is incompatible with modern technology. This system is being replaced by a new product developed by Image Systems Europe (ISE). The Universal Pensions Management system (UPM) from ISE will provide faster and more accurate processing of pensions administration tasks and will integrate with both the accounting and pensions payroll packages. Prior to implementing the UPM package, it has been necessary to create a Year 2000 compliant platform for pensions administration to be used up to the implementation of the UPM and beyond the Year 2000 if necessary and major effort has gone into replacing the Claybrook front-end with ISE software which links to the legacy systems.

The current pensions payroll system is not Year 2000 compliant and is being replaced by the Oracle payroll package. The project is progressing according to plan and the system is anticipated to go live in August 1999.

A system to produce and distribute benefit statements has been completed during the year and following a pilot phase, statements are being issued to members throughout 1999.

FIXED ASSETS

The details of movements in fixed assets are set out in Note 13 to the accounts.

DIRECTORS

The directors of the company during the year were as follows:

Professor Sir Graeme Davies (chairman)
C D Donald (deputy chairman)
A S Bell
L Collinson
Angela Crum Ewing
K F Dibben
Professor Brian Fender

Dr J M Goldstrom (from 1 June 1998)
Professor Martin Harris
Lord Mark Fitzalan Howard
Professor Sir Gareth Roberts
Dr G R Talbot (to 31 May 1998)
J W D Trythall

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the operating costs of the company for that period. In preparing those financial statements, the directors are required to

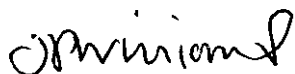
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

AUDITORS

In accordance with section 384 of the Companies Act a resolution proposing the reappointment of PricewaterhouseCoopers will be submitted at the annual general meeting.

By order of the board



J P Williams *Secretary*

29 July 1999

**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED 31 MARCH 1999**

	Note	1999 £000	1998 £000
PERSONNEL COSTS			
Employees' emoluments	4	4,211	4,119
Directors' emoluments and expenses	5	282	233
Recruitment, training and welfare		<u>147</u>	<u>166</u>
		<u>4,640</u>	<u>4,518</u>
PREMISES COSTS			
Rent, rates, service charges and utilities		1,286	1,137
Depreciation and maintenance		<u>333</u>	<u>383</u>
		<u>1,619</u>	<u>1,520</u>
INVESTMENT COSTS			
Securities management		4,702	1,847
Securities management rebates	6	(1,255)	(1,544)
Custodial services		1,166	1,105
Property management		725	744
Legal costs - property management		247	167
- securities management		8	34
- special investigation		(11)	88
Property valuation		128	84
Investment performance measurement		60	60
Consultancy		1	5
Costs met by third parties	7	<u>(37)</u>	<u>(40)</u>
		<u>5,734</u>	<u>2,550</u>
OTHER COSTS			
Computer and information services costs	8	1,337	1,404
Year 2000 costs	9	494	-
Professional fees	10	620	563
Office equipment		363	344
Travel and car costs		289	254
Telephones and postage		149	141
Institution liaison and member communication		117	165
Printing and stationery		116	130
IMRO membership		94	98
Pensions Act Levy		45	68
Insurances		43	51
Auditors' remuneration	11	38	36
Sundry expenditure		5	17
(Profit)/loss on disposal of fixed assets		(15)	(12)
Costs met by third parties	7	<u>(553)</u>	<u>(605)</u>
		<u>3,142</u>	<u>2,654</u>
TOTAL OPERATING COSTS - recoverable from USS	12	<u><u>15,135</u></u>	<u><u>11,242</u></u>

BALANCE SHEET - 31 MARCH 1999

	Note	1999 £000	1998 £000
ASSETS			
FIXED ASSETS			
Tangible fixed assets	13	<u>1,342</u>	<u>1,874</u>
CURRENT ASSETS			
Debtors	14	2,500	966
Cash at bank and in hand		<u>2</u>	<u>1</u>
		<u>2,502</u>	<u>967</u>
TOTAL ASSETS		<u>3,844</u>	<u>2,841</u>
LIABILITIES			
Creditors - amounts falling due within one year	15	<u>3,844</u>	<u>2,841</u>
TOTAL LIABILITIES		<u>3,844</u>	<u>2,841</u>

The financial statements on pages 1 to 13 were approved by the board of directors on 29 July 1999 and were signed on its behalf by:



C D Donald

Deputy Chairman


L Collinson

Director

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1999**

	Note	1999 £000	1998 £000
OPERATING ACTIVITIES			
Cash received from USS		13,698	10,518
Operating costs paid	16	(13,410)	(10,116)
		<u> </u>	<u> </u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>288</u>	<u>402</u>
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(343)	(436)
Sale of tangible fixed assets		56	34
		<u> </u>	<u> </u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(287)</u>	<u>(402)</u>
INCREASE IN CASH		<u><u>1</u></u>	<u><u>~</u></u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1999

- 1 The company, which is limited by guarantee and does not have a share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as the trustee of USS.

2 **FORMAT OF ACCOUNTS**

A Profit and Loss Account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the Statement of Operating Costs.

A separate statement of total recognised gains and losses has not been presented as all gains and losses are included in the Statement of Operating Costs.

A separate note of historical cost profits and losses is not required as the accounts are prepared under the historic cost convention.

3 **ACCOUNTING POLICIES**

Accounting convention

The accounts are prepared under the historic cost convention and on the accruals basis and comply with applicable Accounting Standards in the United Kingdom which have been consistently applied.

Depreciation of fixed assets

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33 1/3
Motor cars	25
Computer software	33 1/3

Year 2000

Costs incurred in testing computer systems for Year 2000 compliance and in replacing computer software and hardware which is not Year 2000 compliant, and where the replacement system does not introduce significant improvements over the previous system, are written off in the year the costs are incurred.

Pensions

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme. The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee company on the advice of the actuary. In the intervening years the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from the employees' services.

4 EMPLOYEES' EMOLUMENTS	1999	1998
The average weekly number of persons employed by the company during the year (excluding directors) was	<u>117</u>	<u>112</u>
Staff costs for the above persons were:	£000	£000
Wages and salaries	3,523	3,426
Social security costs (national insurance contributions)	304	269
Pension costs (superannuation contributions)	384	354
Restructuring costs	<u>-</u>	<u>70</u>
	<u>4,211</u>	<u>4,119</u>

The above costs include £112,000 which is directly attributable to Year 2000 projects.

	1999	1998
	£000	£000
Emoluments of the chief executive	<u>148</u>	<u>133</u>

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions for him to USS amounted to £13,300 (1998: £12,600). These were paid at the standard rate for the scheme to December 1998, at which point they ceased except for an additional payment in respect of life assurance.

Remuneration of other higher paid staff, excluding employer's pension contributions but including benefits in kind:

	1999	1998
£50,001 - £60,000	5	3
£60,001 - £70,000	4	4
£70,001 - £80,000	2	2
£80,001 - £90,000	-	1
£90,001 - £100,000	-	2
£100,001 - £110,000	2	-
£110,001 - £120,000	1	-
£130,001 - £140,000	-	1
£140,001 - £150,000	1	-
£190,001 - £200,000	-	1
£200,001 - £210,000	1	-
£270,001 - £280,000	-	1
£310,001 - £320,000	1	-

5 DIRECTORS' EMOLUMENTS AND EXPENSES	1999	1998
	£000	£000
Fees	224	198
Employer's costs - national insurance contributions	22	18
- VAT	7	5
Expenses	<u>29</u>	<u>12</u>
	<u>282</u>	<u>233</u>

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of USS Ltd and their legal responsibilities. Revised remuneration levels were introduced from 1 October 1998 in line with the recommendations of a consultant's report.

No pension contributions are made on behalf of directors. As at 31 March 1999 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

	1999	1998
	£000	£000
The emoluments of the chairman, who was also the highest paid director, amounted to:	<u>33</u>	<u>32</u>

The number of other directors whose annual emoluments fell into the following bands was:

	1999	1998
Nil - £ 5,000	1	1
£ 5,001 - £10,000	2	3
£10,001 - £15,000	5	5
£15,001 - £20,000	2	1
£20,001 - £25,000	1	1
£30,001 - £35,000	1	1

6 SECURITIES MANAGEMENT REBATES

Management fees and other charges incurred by securities managers on investment in their own in-house funds are rebated from the fees chargeable to USS Ltd. These costs are included within the book cost of the investments held by USS.

7 COSTS MET BY THIRD PARTIES

Costs met by third parties represent the amount of the commission paid by USS to certain stockbrokers which is directed by the stockbrokers to the purchase of equipment and services for USS Ltd for investment management purposes.

8 COMPUTER AND INFORMATION SERVICES COSTS	1999 £000	1998 £000
Investment information services	498	472
Computer running costs	283	275
Investment accounting services	201	186
Software depreciation	180	265
Hardware depreciation	152	186
Computer bureau fees	<u>23</u>	<u>20</u>
	<u><u>1,337</u></u>	<u><u>1,404</u></u>
9 YEAR 2000 COSTS	1999 £000	1998 £000
Computer software	295	-
Computer hardware	106	-
Consultancy	85	-
Test equipment	<u>8</u>	<u>-</u>
	<u><u>494</u></u>	<u><u>-</u></u>
10 PROFESSIONAL FEES	1999 £000	1998 £000
Actuarial	189	225
Legal	126	117
Review of investment management structure	60	-
Committee members (other than directors)	59	43
Review of casually employed staff at institutions	33	-
Information technology consultancy	29	90
Salary surveys	29	3
Taxation	20	9
London office rent review	19	-
Public relations	18	17
Investment research	14	30
Member medicals	13	6
Other	<u>11</u>	<u>23</u>
	<u><u>620</u></u>	<u><u>563</u></u>
11 AUDITORS' REMUNERATION	1999 £000	1998 £000
USS	34	32
USS Ltd	<u>4</u>	<u>4</u>
	<u><u>38</u></u>	<u><u>36</u></u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £23,000 for taxation advice (1998: £9,000).

12 TOTAL OPERATING COSTS - recoverable from USS	1999 £000	1998 £000
Investment management costs	8,723	5,316
Other administration costs	<u>6,412</u>	<u>5,926</u>
	<u>15,135</u>	<u>11,242</u>

Investment management costs are those costs which are directly attributable to investment activities and include relevant personnel, premises and other costs.

Included in operating costs is a charge for depreciation of £834,000 (1998: £995,000).

13 TANGIBLE FIXED ASSETS

	Alterations to Rented Premises £000	Computer Equipment £000	Computer Software £000	Office Equipment £000	Motor Cars £000	Total £000
Cost						
At 1 April 1998	1,628	1,074	1,759	1,080	325	5,866
Additions	21	106	40	31	145	343
Disposals	-	(5)	(1)	-	(121)	(127)
At 31 March 1999	<u>1,649</u>	<u>1,175</u>	<u>1,798</u>	<u>1,111</u>	<u>349</u>	<u>6,082</u>
Accumulated Depreciation						
At 1 April 1998	978	884	1,506	487	137	3,992
Charge for year	266	153	180	147	88	834
Disposals	-	(4)	-	-	(82)	(86)
At 31 March 1999	<u>1,244</u>	<u>1,033</u>	<u>1,686</u>	<u>634</u>	<u>143</u>	<u>4,740</u>
Net Book Value						
31 March 1999	<u>405</u>	<u>142</u>	<u>112</u>	<u>477</u>	<u>206</u>	<u>1,342</u>
Net Book Value						
31 March 1998	<u>650</u>	<u>190</u>	<u>253</u>	<u>593</u>	<u>188</u>	<u>1,874</u>

14 DEBTORS	1999 £000	1998 £000
Due from USS	1,734	297
Prepayments	721	612
Other debtors	<u>45</u>	<u>57</u>
	<u>2,500</u>	<u>966</u>

15 CREDITORS - amounts falling due within one year	1999	1998
	£000	£000
Accrued expenditure	2,054	1,583
Taxation and social security	107	100
Other creditors	<u>1,683</u>	<u>1,158</u>
	<u>3,844</u>	<u>2,841</u>
16 RECONCILIATION OF OPERATING COSTS PAID	1999	1998
	£000	£000
Operating costs - recoverable from USS	15,135	11,242
Depreciation	(834)	(995)
Profit on sale of tangible fixed assets	15	12
Increase/(decrease) in debtors (excluding USS)	97	(62)
Increase in creditors (excluding USS)	<u>(1,003)</u>	<u>(81)</u>
Operating costs paid	<u>13,410</u>	<u>10,116</u>

17 VALUE ADDED TAX

USS Ltd is registered for Value Added Tax activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment activities.

18 PENSION COSTS

USS Ltd participates in the Universities Superannuation Scheme, a pension scheme which provides benefits based on final pensionable salary for employees of all the 'old' UK Universities and some other employers. The assets of the scheme are held in a separate fund administered by the company.

The latest actuarial valuation of the scheme was at 31 March 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salary and pensions. It was assumed that the investment return would be 8½% per annum, that salary scale increases would be 6½% per annum and that pensions would increase by 5% per annum. At the date of the last actuarial valuation, which was carried out using the projected unit method, the market value of the assets of the Scheme was £12,087 million and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the company was £384,000 (1998 : £354,000). The contribution rate payable by the company was 14% of pensionable salaries. The actuary to the Universities Superannuation Scheme has confirmed that it is appropriate to take the pensions cost in the company's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 1996 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

19 CAPITAL COMMITMENTS**1999**
£000**1998**
£000

Authorised and contracted but not provided for

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20 RELATED PARTY TRANSACTIONS

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £6.4 million and £8.7 million respectively, with a balance due from the scheme of £1.7 million at 31 March 1999.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
UNIVERSITIES SUPERANNUATION SCHEME LIMITED**

We have audited the financial statements on pages 1 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1999 and of its results and cash flow for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

Liverpool
29 July 1999