

USS

Universities Superannuation Scheme Limited

Registered no. 1167127

Directors' Report and Accounts

for the year ended 31 March 2003



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COMPANIES HOUSE 28/10/03

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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2003**

The directors submit their report and the accounts for the year ended 31 March 2003.

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 £21,134,000 this amount being recoverable from USS. This compares with £21,369,000 for the year ended 31 March 2002.

Included in the totals for both years were recoveries of costs in prior years. Excluding these recoveries, the total operating costs were £21,227,000 for the year ended 31 March 2003 and £22,905,000 for the year ended 31 March 2002. This represents a 15.8% decrease in investment management costs and a 12.4% increase in other administration costs.

It was reported last year that action had been taken to reduce levels of work in hand in the Liverpool office and ensure satisfactory levels of service. Satisfactory service levels were maintained during the year and further improvements to the scheme's administration introduced. A communications team was established during the year to improve the way that the trustee company communicates with participating institutions and members of USS. Tangible evidence of its success has been the introduction of a new USS website which has received significantly more visitors than the old site.

Costs arising from the introduction of the communications department have contributed to the increase in administration costs this year. Computer costs have also increased during the year, with an upgrade to the Oracle payroll, increased maintenance (from a very low base) on the pensions administration system and increased depreciation on computer systems following the purchase of new equipment for the London office. The increase in professional fees reflects advice obtained on a range of issues during the year including the Myners Review, the surrender of the life assurance policies from Equitable Life, work arising from employment tribunal cases relating to irregular employment and the introduction of new rules particularly those in respect of part-time employees, as well as the cost of the triennial actuarial valuation completed during the year.

Increased staff in the London Investment Office meant that our premises at Angel Court were no longer able to accommodate the internal investment team. For operational reasons it was determined that larger premises in the City, with all staff located on a single floor, were necessary and in October 2002 the London Investment Office relocated to 99 Bishopsgate. Higher rental costs, together with a break penalty for early surrender of the lease on Angel Court, resulted in an increase in premises costs compared to the previous year.

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Investment management costs have fallen from the level of previous years mainly as a result of the relatively poor performance of one of the external investment managers whose fee is performance related.

FIXED ASSETS

The details of movements in fixed assets are set out in Note 16 to the accounts.

DIRECTORS

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

Professor Sir Graeme Davies (chairman)	Howard Jacobs (from 1.10.2002)
C D Donald (deputy chairman)	Sir Howard Newby
A S Bell	Michael S Potts
L Collinson	Professor Charles Sutcliffe
Angela Crum Ewing	J W D Trythall
Professor Sir Martin Harris	Baroness Warwick of Undercliffe

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 and other irregularities.

AUDITORS

PricewaterhouseCoopers transferred its business to a limited liability partnership, called PricewaterhouseCoopers LLP, incorporated under the Limited Liability Partnerships Act 2000, on 1 January 2003. PricewaterhouseCoopers resigned on 27 March 2003 and the vacancy in the office of auditor to the trustee company has been filled by the appointment of PricewaterhouseCoopers LLP with effect from 11 April 2003.

As required by the regulations made under the Pensions Act 1995, PricewaterhouseCoopers confirmed to the trustee company in its notice of resignation that it knew of no circumstances connected with the resignation that significantly affected the interests of the members of the Company.

By order of the board



J P Williams
Secretary

24 July 2003

**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED 31 MARCH 2003**

	Note	2003 £000	2002 £000
PERSONNEL COSTS			
Employees' emoluments	4	6,291	6,085
Directors' emoluments and expenses	5	378	337
Recruitment, training and welfare		<u>294</u>	<u>355</u>
		<u>6,963</u>	<u>6,777</u>
PREMISES COSTS			
Rent, rates, service charges and utilities		1,669	1,277
Depreciation and maintenance		<u>178</u>	<u>89</u>
		<u>1,847</u>	<u>1,366</u>
INVESTMENT COSTS			
Securities management		6,849	10,659
Securities management rebates	6	(2,158)	(1,486)
Custodial services		1,329	913
Property management		1,686	1,441
Legal costs - property management		390	307
- securities management		7	9
- special investigation		-	779
- recovery of special investigation costs	13	-	(779)
Property valuation		176	151
Investment performance measurement		85	77
Costs met by third parties	7	<u>-</u>	<u>(62)</u>
		<u>8,364</u>	<u>12,009</u>
OTHER COSTS			
Computer and information services costs	8	2,372	1,937
Professional fees	9	1,433	764
Office equipment		245	325
Travel and car costs		404	358
Telephones and postage		201	194
Institution liaison and member communication		175	151
Printing and stationery		144	146
FSA/IMRO membership		89	48
Pensions Act Levy		55	58
Insurances		97	47
Auditors' remuneration	10	40	36
Sundry (Income)/Expenditure		40	(3)
Profit on disposal of fixed assets		(18)	(6)
Costs met by third parties	7	<u>(1,224)</u>	<u>(1,302)</u>
		<u>4,053</u>	<u>2,753</u>
TOTAL OPERATING COSTS BEFORE PRIOR YEAR ITEMS		<u>21,227</u>	<u>22,905</u>
RECOVERY OF COSTS INCURRED IN PRIOR YEARS			
VAT		(93)	-
Legal costs - special investigation	13	-	(447)
Service charges - Liverpool premises	14	-	(963)
VAT on service charges - Liverpool premises	14	<u>-</u>	<u>(126)</u>
		<u>(93)</u>	<u>(1,536)</u>
TOTAL OPERATING COSTS RECOVERABLE FROM USS	15	<u>21,134</u>	<u>21,369</u>

BALANCE SHEET - 31 MARCH 2003

	Note	2003 £000	2002 £000
ASSETS			
FIXED ASSETS			
Tangible fixed assets	16	<u>2,304</u>	<u>736</u>
CURRENT ASSETS			
Debtors	17	3,530	6,695
Cash at bank and in hand		<u>3</u>	<u>3</u>
		<u>3,533</u>	<u>6,698</u>
TOTAL ASSETS		<u>5,837</u>	<u>7,434</u>
LIABILITIES			
Creditors - amounts falling due within one year	18	<u>5,837</u>	<u>7,434</u>
TOTAL LIABILITIES		<u>5,837</u>	<u>7,434</u>

The financial statements on pages 4 to 14 were approved by the board of directors on 24 July 2003 and were signed on its behalf by:



G J Davies

Chairman



C D Donald

Deputy Chairman

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**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2003**

	Note	2003 £000	2002 £000
OPERATING ACTIVITIES			
Cash received from USS		24,737	21,939
Operating costs paid	19	(22,597)	(21,638)
		<u> </u>	<u> </u>
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>2,140</u>	<u>301</u>
CAPITAL EXPENDITURE & FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(2,167)	(315)
Sale of tangible fixed assets		27	16
		<u> </u>	<u> </u>
		<u>(2,140)</u>	<u>(299)</u>
INCREASE IN CASH		<u>-</u>	<u>2</u>

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**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2003**

- 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 historical cost convention.

3 **ACCOUNTING POLICIES**

Accounting convention

The accounts are prepared under the historical 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

Operating leases

Rental costs under operating leases are charged on a straight line basis over the lease term in the Statement of Operating Costs.

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**2003****2002**

The average weekly number of persons employed by the company during the year (excluding directors) was

142138

Staff costs for the above persons were:

£000**£000**

Wages and salaries

5,300

5,063

Pension costs (superannuation contributions)

566

501

Social security costs (national insurance contributions)

472

447

Restructuring costs

1578

6,353

6,089

Less recovery (see note 11)

(62)(4)6,2916,085**2003****2002****£000****£000**

Emoluments of the chief executive

189178

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 nil (2002: nil).

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

2003**2002**

£50,001 - £60,000

4

3

£60,001 - £70,000

5

4

£70,001 - £80,000

2

-

£80,001 - £90,000

3

4

£90,001 - £100,000

1

2

£100,001 - £110,000

3

-

£110,001 - £120,000

1

2

£120,001 - £130,000

-

3

£130,001 - £140,000

1

1

£140,001 - £150,000

2

2

£170,001 - £180,000

-

1

£280,001 - £290,000

1

1

£430,001 - £440,000

-

1

£450,001 - £460,000

1

-

5 DIRECTORS' EMOLUMENTS AND EXPENSES	2003	2002
	£000	£000
Fees	299	283
Employer's costs – national insurance contributions	29	27
- VAT	4	4
Expenses	<u>46</u>	<u>23</u>
	<u>378</u>	<u>337</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.

No pension contributions are made on behalf of directors. As at 31 March 2003 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

Directors' fees charged to the accounts in the years ended 31 March 2003 and 2002 reflect payments made in each year which related to the previous year and small differences between the amounts accrued in the accounts at each year end and the amounts paid. Actual emoluments paid to each director in respect of each of the last two years were as follows:-

	2003	2002
	£000	£000
Professor Sir Graeme Davies (chairman)	40	40
C D Donald (deputy chairman)	43	42
A S Bell	36	17
J W D Trythall	26	25
Mrs A Crum Ewing	25	24
M S Potts	25	21
L Collinson	23	21
Professor Charles Sutcliffe	23	12
Baroness Warwick of Undercliffe	20	11
Professor Sir Martin Harris	16	16
H Jacobs	12	-
Sir Howard Newby	11	5
Lord Mark Fitzalan Howard	-	33
Dr J M Goldstrom	-	7
Professor Sir Brian Fender	-	5
	<u>300</u>	<u>279</u>

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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	2003 £000	2002 £000
Investment information services	1,042	1,175
Computer running costs	708	334
Investment accounting services	267	242
Software depreciation	196	65
Hardware depreciation	145	99
Computer bureau fees	<u>14</u>	<u>22</u>
	<u>2,372</u>	<u>1,937</u>
9 PROFESSIONAL FEES	2003 £000	2002 £000
Legal	531	302
Actuarial	666	289
Committee members (other than directors)	73	88
Taxation	44	21
Pensioner mortality check	43	-
Public relations	29	21
Member medicals	20	22
Salary surveys	2	9
Other	<u>25</u>	<u>12</u>
	<u>1,433</u>	<u>764</u>
10 AUDITORS' REMUNERATION	2003 £000	2002 £000
USS	36	33
USS Ltd	<u>4</u>	<u>3</u>
	<u>40</u>	<u>36</u>

Remuneration of the company's auditors for provision of services other than for the audit of USS and USS Ltd was £50,400 for advice on taxation and investment matters relating to the Myners Review (2002: £20,939).

11 CORRECTION OF PRIOR YEAR PENSION INCREASE	2003 £000	2002 £000
Other consultancy costs	66	27
Staff costs	62	4
IT consultancy costs	2	84
Legal costs	-	66
Other costs	<u>2</u>	<u>19</u>
	<u>132</u>	<u>200</u>

The above costs were incurred in processing a correction to the increase paid to a number of USS pensioners in 1997. These costs have been recovered from our solicitors and are not included in the statement of operating costs.

12 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.

13 RECOVERY OF LEGAL COSTS

The amount recovered relates to legal costs incurred since 1993 in pursuing our insurers and the former general manager – investments for losses suffered in 1991 in connection with an investment in an unquoted company.

14 SERVICE CHARGES – LIVERPOOL PREMISES

This represents a write back of costs charged to the accounts in previous years in respect of extraordinary service charges for USS Ltd's former premises in Liverpool. These charges were not paid and the landlord has confirmed that the charges are no longer payable.

15 TOTAL OPERATING COSTS – recoverable from USS	2003 £000	2002 £000
Investment management costs	13,464	15,549
Other administration costs	<u>7,670</u>	<u>5,820</u>
	<u>21,134</u>	<u>21,369</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 £590,000 (2002: £401,000).

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16 TANGIBLE FIXED ASSETS

	Alterations to Rented Premises	Computer Equipment	Computer Software	Office Equipment	Motor Cars	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2002	1,655	1,465	1,713	1,159	385	6,377
Additions	780	343	474	484	86	2,167
Disposals	(364)	(251)	(91)	(110)	(113)	(929)
At 31 March 2003	<u>2,071</u>	<u>1,557</u>	<u>2,096</u>	<u>1,533</u>	<u>358</u>	<u>7,615</u>
Accumulated Depreciation						
At 1 April 2002	1,645	1,304	1,384	1,072	236	5,641
Charge for year	103	145	196	69	77	590
Disposals	(364)	(251)	(91)	(110)	(104)	(920)
At 31 March 2003	<u>1,384</u>	<u>1,198</u>	<u>1,489</u>	<u>1,031</u>	<u>209</u>	<u>5,311</u>
Net Book Value						
31 March 2003	<u>687</u>	<u>359</u>	<u>607</u>	<u>502</u>	<u>149</u>	<u>2,304</u>
Net Book Value						
31 March 2002	<u>10</u>	<u>161</u>	<u>329</u>	<u>87</u>	<u>149</u>	<u>736</u>

17 DEBTORS - amounts falling due within one year	2003	2002
	£000	£000
Due from USS	2,675	6,278
Prepayments	835	373
Other debtors	<u>20</u>	<u>44</u>
	<u>3,530</u>	<u>6,695</u>
18 CREDITORS - amounts falling due within one year	2003	2002
	£000	£000
Accrued expenditure	3,275	4,158
Other creditors	2,402	3,132
Taxation and social security	<u>160</u>	<u>144</u>
	<u>5,837</u>	<u>7,434</u>
19 RECONCILIATION OF OPERATING COSTS PAID	2003	2002
	£000	£000
Operating costs - recoverable from USS	21,134	21,369
Decrease in creditors (excluding USS)	1,597	559
Profit on sale of tangible fixed assets	18	6
Depreciation	(590)	(401)
Increase/(decrease) in debtors (excluding USS)	<u>438</u>	<u>105</u>
Operating costs paid	<u>22,597</u>	<u>21,638</u>

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20 OPERATING LEASE COMMITMENTS

USS Ltd is committed to making future annual payments under operating leases which expire as follows:-

	2003	2002
	£000	£000
Less than one year	2	1
Between two and five years	18	317
Over five years	1,162	398

The payments relate to ongoing rent, rate and equipment leasing commitments in respect of USS Ltd's offices in Liverpool and London.

21 PENSION COSTS

The company participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme, the cost recognised within the statement of operating costs for the year being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of pensionable salaries but it was agreed that the institution contribution rate will be maintained at 14% of pensionable salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current active members of the scheme) required the use of £82.5m of the surplus. This left a past service surplus of £79.5m (including the Supplementary Section) to be carried forward

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Surpluses or deficits which arise at future valuations may impact on the company's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the company was £565,505 (2002 : £501,000). The contribution rate payable by the company was 14% of pensionable salaries.

22 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 £7.6 million and £13.5 million respectively, with a balance due from the scheme of £2.7 million at 31 March 2003.

23 SPECIAL PURPOSE COMPANIES

USS Ltd owns the share capital of a number of special purpose companies. The companies are dormant and have made neither a profit nor a loss in the period. Full details of these companies may be obtained by writing to the Company Secretary of USS Ltd, Mr John P Williams, at Royal Liver Building, Liverpool L3 1PY.

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

We have audited the financial statements which comprise the Statement of Operating Costs, the balance sheet, the cash flow statement and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


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 1985. 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. The other information comprises only the Report of the Directors.

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.

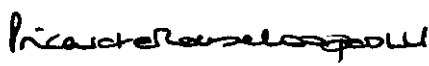
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 2003 and of its result and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Liverpool
24 July 2003


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

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