

Research Councils' Pension Schemes
Accounts 2014-15

Research Councils' Pension Schemes Accounts 2014-15

Presented to Parliament pursuant to Schedule 1, paragraph 3(3) of the Science and Technology Act 1965

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HC 139

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Report of the Manager

Statutory Background

- 1 The Research Councils' Pension Schemes' (RCPS) statements have been prepared in accordance with the relevant provisions of the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury and with regard to the Science & Technology Act 1965.
- 2 The RCPS is an unfunded pension scheme operating by-analogy to the Principal Civil Services Pension Scheme (PCSPS), in which payments from the Schemes are funded by current employees' and employers' pension scheme contributions with the difference between these contributions and the Scheme expenditure financed by Grant-in-Aid provided from Department for Business, Innovation and Skills.

Description of Pension Schemes

- 3 The Nuvos scheme commenced on 30 July 2007. This is a career average pension scheme, which together with the Partnership Pension Account, forms the pension options open to 'new starters' since 30 July 2007. However, members who have a past history of membership of the Classic, Classic Plus or Premium schemes may be allowed to rejoin their former arrangement depending on the time that has lapsed since they left their former employment and the terms that they left under.
- 4 The Nuvos scheme has a pension age of 65 and an accrual rate of 2.3 percent of pensionable earnings for each year in the scheme. The total pension accrued at the end of March is then increased by the Consumer Price Index for the year to the previous September.
- 5 A Partnership Pension Account was made available to new staff from 1 October 2002, based on the portable Stakeholder Pension introduced by the Government in 2001. This is a defined contribution scheme. The employers pay an age related contribution to the employee's private pension provider and an additional 0.8% of pensionable pay to the RCPS to cover death in service and ill health benefits.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the PCSPS. New starters were eligible to join the Premium scheme from 1 October 2002 until 29 July 2007. It provides a pension based on 1/60th of salary but without an automatic lump sum. Staff in post as at 1 April 1994 and new starters through to 30 September 2002 were entered in to what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. Some members are in an amalgam of the two schemes known as Classic Plus.
- 7 Each public service pension scheme, with the exception of the armed forces, has been required to deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions by 2014-15. As a consequence, the contributions paid by most members towards their Research Council pension increased on 1 April 2012; 1 April 2013 and 1 April 2014. The employee contribution rates for 2014-15 were as follows:

Annual pensionable earnings (full-time equivalent basis)	Classic % contribution rate before tax relief as at 1 April 2014	Classic Plus; Premium & Nuvos % contribution rate before tax relief as at 1 April 2014
Up to £15,000	1.50	3.50
£15,001 - £21,000	3.00	5.00
£21,001 - £30,000	4.48	6.48
£30,001 - £50,000	5.27	7.27
£50,001 - £60,000	6.06	8.06
Over £60,000	6.85	8.85

- 8 Following Cabinet Office amendment to the PCSPS rules and through its by-analogy arrangement the RCPS has adopted further changes to the employee contribution rates and the method of calculating the amount the employee contributes to the pension scheme. The new method is based on the employees 'annualised earnings', which is the actual earnings in the month multiplied by 12. The employee contribution rate is tested against the 'annualised earnings' each month with the employee paying the appropriate contribution. The new rates from 1 April 2015 are as follows:

Annual pensionable earnings	Classic % contribution rate before tax relief as at 1 April 2015	Classic Plus; Premium & Nuvo % contribution rate before tax relief as at 1 April 2015
Up to £15,000	3.00	4.60
£15,001 - £21,000	4.60	4.60
£21,001 - £47,000	5.45	5.45
£47,001 - £150,000	7.35	7.35
£150,001 and above	8.05	8.05

- 9 The final emolument and career average schemes are operated on a pay-as-you-go basis, and are principally funded by employers' contributions from member Research Councils. The employers' contribution rate has been 26.0 percent since 1 April 2010. The previous rate of 21.3 percent was payable from 1 April 2008 until 31 March 2010. Any annual shortfall forecast between cash outgoings and cash contribution received is met by grant-in-aid received through the Research Councils' sponsoring body, the Department for Business, Innovation and Skills (BIS).

Eligible Staff

- 10 All employees of the Research Councils, apart from Marie Curie fellows and staff on zero hours contracts, are eligible to join the Nuvo scheme or pay into a Partnership Pension Account.

Information for Members

- 11 The Research Councils' Joint Superannuation Service (JSS) gives more information.

Auditors

- 12 The accounts of the Research Councils' Pension Schemes are audited by the Comptroller and Auditor General of the National Audit Office in accordance with paragraph 3(3) of Schedule 1 to the Science and Technology Act 1965. The audit fee payable is £42,000 (2013-14: £43,000).
- 13 In so far as the Accounting Officer is aware, there is no relevant audit information of which the Research Councils' Pension Schemes' auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.
- 14 No non-audit work was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

Employers

15 During 2014-15 the following employers have had members in the Research Councils' Pension Schemes:

- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council and its strategically funded institutes
- Diamond Light Source
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- James Hutton Institute
- Moredun Research Institute
- Natural Environment Research Council and its strategically funded institutes
- UK Shared Business Services Ltd (formerly RCUK Shared Service Centre)
- Science and Technology Facilities Council
- Scotland's Rural College (formerly Scottish Agricultural College)
- Innovate UK (formerly Technology Strategy Board)

Changes during 2014-15

- 16 Formal actuarial valuations are used to determine the contribution rates. The last scheme valuation was as at 31 March 2006 and changes implemented in 2008-09. The following scheme valuation was as at 31 March 2010 which was suspended by HM Treasury whilst Lord Hutton carried out a wide scale review of Public Service pensions. The new scheme valuation process started in 2014 with a valuation as at 31 March 2012. This valuation is underway and dependent on the valuation directions set by HM Treasury which is also dependent on the reform outcome for the RCPS.
- 17 There has been no change to the employer contribution rate but following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules changes to the employee rates were introduced from April 2015 as detailed in paragraph 8 above.

Anticipated Changes During 2015-16

- 18 Under the Public Services Pension Act 2013 (PSPA) a new Civil Service Pension Scheme, called Alpha, was launched on 1 April 2015. Alpha is a separate scheme to the existing Civil Service pension arrangement that is the Principal Civil Service Pension Scheme (PCSPS) which comprises the Classic, Classic Plus, Premium and Nuvos schemes. The RCPS is by analogy to the PCSPS and because Alpha is a separate scheme the RCPS is not automatically by analogy to the new Alpha scheme.
- 19 In accordance with requirements in the PSPA the RCPS was granted permission from the Department of Business, Innovation and Skills (BIS), the 'responsible authority' for the scheme, to continue past 1 April 2015 in its current arrangement to enable the pension reform process to be concluded. The RCPS is working with HM Treasury to develop reform options that meet with HM Treasury policy requirements.
- 20 In the interim the existing RCPS arrangements will remain open with new starters being automatically enrolled in to the Nuvo scheme with an option to switch to a Partnership pension account.
- 21 The reform discussions are expected to be completed in 2015. The outcome may see the RCPS extending its by analogy arrangement to operate by analogy or analogous to the PCSPS as well as Alpha, which would see Joint Superannuation Services implementing Alpha for the RCPS employers and moving eligible members in to the Alpha scheme. Alternatively the outcome may be that the RCPS moves entirely in to the Civil Service Pension arrangements.
- 22 The future of the scheme is expected to be finalised in 2015 with implementation of any changes likely to be April 2016 and no later than 31 March 2018, which is in line with the PSPA 2013.
- 23 New legislation from 6 April 2015 introduced a ban on the transfer out of pension benefits to defined contribution pension schemes from unfunded public sector defined benefit pension scheme. This affects the RCPS and it is likely there will be a decrease in transfers out in 2015-16 consequently reducing scheme expenditure.
- 24 A number of employers are undertaking governance changes with their funded institutes and research centres. This is likely to see a small number of new employers seeking Admitted Body status to the scheme under the New Fair Deal guidelines which will enable affected employees to continue to remain active members in the RCPS.

Review of the financial statements

- 25 For the year ended 31 March 2015 there was an overall position of net expenditure of £170.3 million compared to net expenditure of £139.8 million for the year ended 31 March 2014. The main difference for the increase in net expenditure is due to the interest on scheme liabilities per the Government Actuary's Department (GAD) report increasing from £144 million in 2013-14 to £167 million in 2014-15.
- 26 Income was £103 million in 2014-15 compared to £105.6 million for 2013-14. There were no bulk transfers in for 2014-15 (£6.6 million in 2013-14 for NERC).
- 27 In 2014-15 the pension liability rose by £493 million from £3.87 billion to £4.36 billion mainly due to actuarial gains and losses of £366 million, interest on scheme liabilities of £167 million, and current service cost of £96 million and payments out for pensions of £138 million. A full breakdown of the movement in pension liability can be found in note 15.11 of the accounts.

Freestanding Additional Voluntary Contributions

28 Members in service are entitled to make additional voluntary contributions (AVCs) under contracts between the employee and Scottish Widows, Equitable Life Assurance Society and Standard Life, to secure additional pension benefits on a money purchase basis. Participating members each receive an annual statement of their contributions and investments directly from their AVC provider. The AVC arrangements are by analogy to those of the Principal Civil Service Pension Schemes. Employee contributions are paid directly by the participating Research Council and accordingly contributions and AVC investments are not included in these accounts.

Pension Scheme Membership

	31 March 2015	31 March 2014
	No.	No.
New Schemes		
Current members in Service	8,039	8,184
Pensions in Payment	8,128	7,643
Early Retirements	121	194
Preserved Pensions	8,175	7,961
Total	24,463	23,982
Old Schemes		
Pensions in Payment	5,093	5,178
Preserved Pensions	1,343	1,439
Total	6,436	6,617
GRAND TOTAL	30,899	30,599
	2014-15	2013-14
	No.	No.
Members in Service at 1 April	8,184	7,980
Adjustment resulting from changes notified in current year	45	(2)
Adjusted figure for 1 April	8,229	7,978
New members in year	866	1,061
Leavers and retirements in year	(1,056)	(855)
Members in Service at 31 March	8,039	8,184
	31 March 2015	31 March 2014
	No.	No.
Classic Scheme	2,552	2,790
Classic Plus Scheme	239	254
Premium Scheme	1,736	1,878
Nuvos Scheme	3,512	3,262
Members in Service at 31 March	8,039	8,184
Holder of Partnership Pension Accounts	129	126

Enquiries

29 Any enquiries concerning the operation of the Research Councils' Pension Schemes should be addressed to the Schemes' administrators, the Research Councils' Joint Superannuation Service, Polaris House, North Star Avenue, Swindon, SN2 1UY.

Managers, Advisers and Employers

Accounting Officer:

Professor Jackie Hunter
Polaris House, North Star Avenue, Swindon, SN2 1UY

Professor Jackie Hunter was appointed Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) on 21 October 2013, becoming Accounting Officer for BBSRC and for the Research Councils' Pensions Schemes.

Manager:

Kye Honor, Head of Joint Superannuation Service
Polaris House, North Star Avenue, Swindon, SN2 1UY

The Schemes are administered by the Research Councils' Joint Superannuation Service (JSS), a unit within BBSRC. The UK Shared Business Services Ltd (SBS) provides support services to JSS.

Actuary:

Sandra Bell
Government Actuary's Department,
15-17 Furnival Street, London, EC4A 1AB

The Government Actuary's Department (GAD) are the appointed actuaries for the Research Councils' Pension Schemes.

Bankers:

Government Banking Service,
Southern House, 7th Floor, Wellesley Grove, Croydon, CR9 1WW

Banking services for the Pension Schemes in 2014-15 were provided by the Government Banking Service.

Auditors:

Comptroller and Auditor General
National Audit Office, 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP

Employers:

AHRC, ESRC and EPSRC – Peter Ethelston
BBSRC – Liz Hopkinson
NERC – Nigel Sully
STFC - Jerry Snewin
Polaris House, North Star Avenue, Swindon, SN2 1UY

UK Shared Business Services – John Arnott
Technology Strategy Board - Anne Shaw
North Star House, North Star Avenue, Swindon, SN2 1FA

Diamond Light Source - Deepak Kalra
Diamond House, Harwell Science and Innovation Campus, Didcot, Oxfordshire, OX11 0DE

Scottish Institutes – Alison Cartwright
(Moredun Research Institute, Scotland's Rural College, The James Hutton Institute)
The James Hutton Institute, Invergowrie, Dundee, DD2 5DA

Professor Jackie Hunter
Chief Executive and Accounting Officer of BBSRC

26 June 2015

Actuarial Statement for the Research Councils' Pension Schemes for accounts for the year ended 31 March 2015

Appendix F: Statement by the actuary

Introduction

- A.1 This statement has been prepared by the Government Actuary's Department at the request of the Research Council Pension Scheme's Management Board ('the Management Board'). It summarises the pensions disclosures required for the 2014-15 Resource Accounts of the Research Council Pension Scheme ('the scheme', or 'RCPS').
- A.2 The RCPS is a final salary and/or career average salary defined benefit scheme, with benefits calculated by-analogy to the Principal Civil Service Pension Scheme. The PCSPS 1974 was laid before Parliament under section 2(11) of The Superannuation Act 1972. These regulations, and subsequent amendments, set out the rules of the PCSPS, to which RCPS operates by-analogy. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).
- A.3 The statement is based on an assessment of the liabilities as at 31 March 2015, using membership data as at 31 March 2012 and rolling forward the liability to 31 March 2015.

Membership data

- A.4 Tables A to C summarise the principal membership data as at 31 March 2012 used to prepare this statement.

Table A – Active members

	OPEN SCHEME	
	Number	Total pensionable pay* (£'000 pa)
Males	4,731	179,364
Females	3,193	94,784
Total	7,924	274,148

* Full time equivalent as at 31 March 2012, but including assumed increased to pensionable pay to the assessment date as advised by JSS, and including pensionable allowances.

Table B – Deferred members

	OPEN SCHEME		CLOSED SCHEMES	
	Number	Total deferred pension* (£'000 pa)	Number	Total pensionable pay* (£'000 pa)
Males	4,071	18,004	861	1,434
Females	3,988	11,442	838	1,291
Total	8,059	29,446	1,699	2,725

* pension amounts as at 31 March 2012; therefore not including pension increase due in April 2012.

Table C – Pensions in payment

	OPEN SCHEME		CLOSED SCHEMES	
	Number	Annual pension (£'000 pa)	Number	Annual pension (£'000 pa)
Males	3,842	54,590	2,536	22,608
Females	2,290	11,604	1,578	4,983
Spouses & dependants	696	3,464	1,181	4,958
Total	<u>6,828</u>	<u>69,658</u>	<u>5,295</u>	<u>32,549</u>

* pension amounts as at 31 March 2012; therefore not including pension increase due in April 2012

Methodology

- A.5 The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members of the final salary sections, and the principal assumptions applying to the 2014-15 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2015 was determined using the PUCM and the principal assumptions applying to the 2013-14 Resource Accounts.
- A.6 This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

A.7 The principal financial assumptions adopted to prepare this statement are shown in Table D.

Assumption	31 March 2015	31 March 2014
Rate of return (discount rate)	3.55%	4.35%
Rate of earnings increases	4.20%	4.5%
Rate of future pension increases	2.20%	2.50%
Rate of return in excess of:		
Earnings increases	-0.65%	0.15%
Pension increases (CPI)	1.30%	1.80%
Expected return on assets:	n/a	n/a

A.8 The pension increase assumption as at 31 March 2015 is based on the Consumer Price Index (CPI) expectation of inflation

Demographic assumptions

- A.9 The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
- A.10 The mortality assumptions have been set by the Management Board based on the results of the analysis of scheme experience to 31 March 2012 conducted for the 2012 full valuation of the scheme.
- A.11 The other demographic assumptions adopted for the assessment of the liabilities as at 31 March 2015 are broadly those adopted for the 2006 funding valuation of the RCPS with the exception of age retirement rates discussed in A.13 below and rates of remarriage which have been ignored on the grounds of materiality.

- A.12 The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with the mortality rates adjusted to allow for scheme experience. Mortality improvements are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom.
- A.13 It is proposed that RCPS will be reformed in line with the PCSPS but at a later date which is not expected to be before April 2016. It is expected that the proposed structure under the reformed scheme, together with the increased member contributions which have been phased in from April 2012, may affect the behaviour of members, eg members who are subject to a later normal pension age for accrual after scheme reform has been implemented might be expected to retire later. The Management Board has adopted age retirement rates to reflect recent experience and allow for the expected impact of the reformed scheme on member's retirement behaviour in future. This represents a change from the allowance for future reform made in the 2013-14 Resource Accounts.
- A.14 The contribution rate used to determine the accruing cost in 2014-15 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2013-14 Resource Accounts.

Liabilities

- A.15 Table E summarises the assessed value as at 31 March 2015 of benefits accrued under the scheme prior to 31 March 2015 based on the data, methodology and assumptions described in paragraphs A.4 to A.14. The corresponding figures for the previous four year ends are also included in the table.

Table D – Statement of Financial Position

	31 March 2015	31 March 2014	31 March 2013	31 March 2012	31 March 2011
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	4,360	3,864	3,539	3,195	3,031
Surplus/(Deficit)	(4,360)	(3,864)	(3,539)	(3,195)	(3,031)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

- A.16 The cost of benefits accruing in the year ended 31 March 2015 (the Current Service Cost) is based on a standard contribution rate of 34.1%. Members contributed between 1.5% and 8.85% of pensionable pay, depending on the section of the scheme they belong to and their full-time salary. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members. The corresponding figures for 2013-14 are also included in the table.

Table E – Contribution rate

	Percentage of pensionable pay	
	1 April 2014 to 31 March 2015	1 April 2013 to 31 March 2014
Standard contribution rate	34.1%	30.6%
Members' estimated average contribution rate	6.5%	5.9%
Employers' estimated share of standard contribution rate	27.6%	24.7%

- A.17 For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 26.0%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 1.6% for the 2014-15 Current Service Cost compared with 3.5% a year for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% a year, but this does not affect the current rate of contributions in payment.) A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.
- A.18 The estimated pensionable payroll for the financial year 2014-15 was £280 million (derived from the total Employer contributions of £73 million provided within the cashflow data and the actual Employer contribution rate of 26.0%). Based on this information, the accruing cost of pensions in 2014-15 (at 34.1% of pay) is assessed to be £96 million (including employee normal contributions). There is no past service cost and so this is the total pension cost for 2014-15.

Sensitivity analysis

- A.19 The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty, IAS19 requires that I indicate the approximate effects on the actuarial liability as at 31 March 2015 of changes to the significant actuarial assumptions.
- A.20 Changes to IAS19 published on 16 June 2011 introduced enhanced disclosure requirements for defined benefit pension schemes, including the RCPS. In particular, we understand these include a requirement to disclose a sensitivity analysis for each 'significant' actuarial assumption.
- A.21 The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.
- A.22 As a result of the scheme reform, there remains significant uncertainty on when members are expected to retire. The assumed age retirement rates will have a significant impact on the scheme liabilities and therefore we have included an indication of the approximate effect (on the total past service liability) of all non-Nuvos members retiring one year later than assumed in the main liability calculations.
- A.23 Table G shows the indicative effects on the total liability as at 31 March 2015 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to main assumptions

Change in assumption		Approximate effect on total liability *	
Rate of return			
(i)	discount rate: +½% a year	- 9.0%	- £390 million
(ii)	earnings increases: +½% a year	+ 1.5%	+ £65 million
(iii)	pension increases: +½% a year	+ 8.5%	+ £370 million
Pensioner mortality			
iv)	additional one year increase to life expectancy at retirement:	+ 3.0%	+ £130 million
Age Retirement			
(v)	all non-Nuvos actives retiring (on average) 1 year later	- 0.5%	- £20 million

* Approximate effect rounded to the nearest ½%.

Statement of Accounting Officer's Responsibilities

Under the Science and Technology Act 1965, the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury has directed the Research Councils' Pension Schemes to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The combined financial statements must give a true and fair view of the state of affairs of the Schemes at the year end and of the net income or expenditure and cashflows for the year ended 31 March 2015. The financial statements are required to provide disclosure of any material expenditure or income that has been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. The financial statements must be prepared so as to ensure that the contributions payable to the Schemes during the year have been paid in accordance with the Schemes rules and recommendations of the Actuary.

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the accounts direction issued by the Secretary for Business, Innovation and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

The Accounting Officer for the Department for Business, Innovation and Skills has appointed the Chief Executive of the Biotechnology and Biological Sciences Research Council as Accounting Officer for the Research Councils' Pension Schemes. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in '*Managing Public Money*'.

Governance Statement by Chief Executive

1. Scope of Responsibility

As the Accounting Officer for BBSRC and RCPS, designated as such by the Department for Business, Innovation and Skills (BIS) Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Research Councils' Pension Schemes' policies, aims and objectives, while safeguarding the public funds and Research Councils' Pension Schemes' assets for which I am personally responsible, in accordance with the responsibilities assigned to me and disclosed in 'Managing Public Money'.

The BIS Accounting Officer has designated me as the Accounting Officer of RCPS, responsible for the effective, safe and efficient operation of the RCPS in accordance with the Management Statement and Financial Memorandum agreed between RCPS and its sponsoring department, the Department for Business, Innovation and Skills (BIS).

RCPS, together with the Research Councils, is reliant on the UK Shared Business Services Ltd (UK SBS) for the provision of administration systems and this statement also explains the oversight and assurance process and results for the services supplied.

2. The Purpose of the Governance Statement

The Governance statement, for which I take personal responsibility, gives a clear understanding of the dynamics of the RCPS and its control structure. It records the stewardship of RCPS, and provides a sense of the Schemes' performance during the year and how successfully it has coped with the challenge it faced. The statement explains how RCPS has complied with the principles of Good Governance, reviews the effectiveness of these arrangements, and complies fully with the Corporate Governance Code.

3. Governance Framework

In my role as Accounting Officer for BBSRC and RCPS, I am supported by BBSRC's Council, its Boards, and the Executive team within BBSRC. Further information about BBSRC's governance framework can be found in the BBSRC Annual Report & Accounts 2014-15 (www.bbsrc.ac.uk/annualreport) and on the BBSRC website (www.bbsrc.ac.uk).

RCPS Management Board

The RCPS Management Board act as managers of the Scheme, are responsible for ensuring the Scheme rules are adhered to, ensure that the Scheme is operated according to legislation, and is administered efficiently and effectively.

The RCPS Management Board met four times during 2014-15 and comprises the following members:

- Peter Ethelston – AHRC, ESRC, and EPSRC
- Liz Hopkinson – BBSRC
- Nigel Sully – NERC
- Jerry Snewin – STFC
- John Arnott – UK SBS
- Anne Shaw – Innovate UK (formerly Technology Strategy Board)
- Deepak Kalia – Diamond Light Source
- Alison Cartwright – Scottish Institutes
- Tony Bell – Unions
- Janet Juillerat – Chair of Board

4. Joint Superannuation Services

RCPS is administered by the Joint Superannuation Services (JSS), which operates as a unit within BBSRC. Therefore control and audit issues facing BBSRC are likely to be of relevance to RCPS.

5. System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of BBSRC's and RCPS' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Research Councils' Pension Schemes for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

6. The Risk and Control Framework

Overall responsibility for risk management within RCPS rests with me as Accounting Officer. I sign this annual Governance Statement as part of the RCPS audited Annual Accounts. The task of implementing and maintaining BBSRC's and RCPS' overall risk management policy and strategy is delegated to the BBSRC Executive Director, Finance and Campus Operations who fulfils the role of the Director responsible for risk. The task of reviewing the Schemes' risk management framework is delegated to the Head of Joint Superannuation Services (JSS). The Head of JSS undertakes a review of the Risk Management Framework three or four times per year. Additionally, a member of the Research Councils' Pension Schemes Management Board will act on behalf of the Board to consider the outcomes of the reviews and endorse any mid-year changes to the Risk Management Framework, which are then advised to the Board. The Research Councils' Pension Schemes Management Board formally considers and agrees the Risk Management Framework documents on an annual basis.

The Audit and Assurance Services Group (AASG) reviews the key risks to the RCPS on an annual basis. A rolling 5 year audit plan is followed to allow for a comprehensive review of the Research Councils' Pension Schemes. The AASG also undertakes a programme of internal audits for BBSRC and UK SBS clients. The findings of these audits are of relevance to RCPS and are described later in this statement.

BBSRC and RCPS actively encourage a culture of effective risk management. This recognises that effective risk management is an essential component of successful business operations, rather than simple risk avoidance.

BBSRC and RCPS adopt HM Treasury best practice on corporate governance and risk management. Risk management and internal control are considered on a regular basis by the BBSRC Executive and Audit Board during the year. The BBSRC Audit Board also reviews the annual accounts of the Research Councils' Pensions Schemes.

The activities of the Audit and Assurance Services Group (AASG) in respect of RCPS are reviewed by BBSRC Audit Board and the scope of the internal audit plan for the coming year, which is based on the overall assessment of risk, is agreed. With this overarching view of audit activities, the Audit Board plays a pivotal role in evaluating and reviewing the evidence supporting the Chief Executive's assurance statement on internal control.

Risk Assessment

RCPS management identifies key risks and the possible threats/opportunities should these risks crystallise. It assesses the probability, impact and proximity, and considers the inherent, current and target exposure levels. Existing controls and mitigation plans are noted alongside an indication of the current trajectory of the risk in the RCPS Risk Register. If risks materialise, they are transferred to the RCPS Issues Register, which is managed alongside the RCPS Risk Register.

The Head of JSS reviews the RCPS risk register with the Chair of the RCPS Management Board three or four times per year or whenever a new risk is identified. Each recorded risk is allocated a risk owner and mitigation owner. The RCPS Management Board have oversight of the RCPS Risk Register which is also reviewed at the RCPS Management Board meetings. The RCPS Management Board ensure that appropriate risks are recorded, that mitigation plans exist and adequate controls are in place or planned. The RCPS Management Board meet three or four times a year reviewing the Risk Register at least twice a year.

As at April 2015, the Register had 10 risks which had been agreed and were being monitored. Of the 10 risks, two were rated with a red risk score, a reduction from three red risks reported on 31 March 2014. The successful delivery of mitigations and implementation of controls reduced the score of those risks and is planned to reduce the risk exposure further for the eight other risks.

The two red residual risks relate to: (i) the continuation of the RCPS between 1 April 2015 and 31 March 2018; and (ii) the impact on RCPS of the Government's Pension Reform. Other risks relate to: new legislation or policies and the impact on core processes or resource; loss of key staff resulting in inability to deliver services; JSS not being advised of new starters or leavers leading to inaccuracies in the JSS database and potential reputational impact.

A new Risk Management System was introduced in BBSRC in October 2014 which enables the RCPS to share its most significant risks with BBSRC therefore increasing transparency and openness throughout the organisation. The BBSRC Risk Register is regularly monitored and reviewed by BBSRC's Executive Group and is circulated at every BBSRC Audit Board meeting.

Counter Fraud

BBSRC and RCPS' Fraud and Bribery Policy was reissued in 2014-15 as part of a package of counter fraud measures. This also included the roll out of a mandatory e-Learning awareness training package covering fraud and bribery which has been completed by all staff.

I consider the level of risk of financial loss to which the RCPS has been exposed to be low and I am confident that the RCPS financial statements for 2014-15 are free from material misstatement from fraud. There were no instances of fraud identified within RCPS during 2014-15.

Regularity

I can confirm that for the financial year ended 31 March 2015, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in *Managing Public Money*, and that HM Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2014-15.

UK Shared Business Services Ltd (UK SBS Ltd)

UK SBS Ltd (UK SBS) provides processing services in human resources, procurement, payroll, finance, grants, and ISS to all seven Research Councils and RCPS. Last year our Annual Governance Statement (AGS) noted that ownership and control of UK SBS passed from the Research Councils to BIS.

In 2014-15 there have been significant changes in the assurance recording arrangements. The Government Internal Audit Agency (GIAA) now has the responsibility for the UK SBS audit programme. The GIAA reports provide input to the UK SBS CEO's Quarterly Assurance Letters which provide the cornerstone of the assurance I received regarding UK SBS. GIAA use the pan government ratings of substantial, moderate, limited, and unsatisfactory.

At the time of writing this AGS I have received three Assurance Letters covering the period up until 31 December 2014. The latest letter concludes that based on the internal audit work to date, the UK SBS CEO anticipates receiving a limited assurance opinion for the effectiveness of internal controls within the Company as a whole. However the Head of Internal Audit (GIAA) has indicated that he anticipates providing a moderate assurance opinion for the effectiveness of internal controls relating to customer processes. I note the positive content of the UK SBS letter and welcome it as a source of assurance for the year and in future years.

As a result of the assurance provided by UK SBS CEO, it is pleasing to note that UK SBS has continued to deliver in a number of areas and many improvements have been noted in their performance. I do however highlight the following key areas of risk:

- UK SBS continues to operate in a challenging environment with often changing and sometimes conflicting priorities. During the year this has included:
 - uncertainty relating to staff reductions resulting from budget pressures and the levels of knowledge and experience of the current UK SBS staff, following a 40% turnover in staff resulting from the 2014-15 Voluntary Exit Scheme,
 - the planned transfer of some transactional services to Shared Services Connected Limited (SSCL), although a decision has now been made to discontinue on this path,

- the upgrade of the Oracle 12.0.6 Platform for new customers,
 - uncertainty around the resilience of the 12.0.6 platform for existing customers and its ability to provide the necessary levels of support, even allowing for the ongoing support arrangements that have been negotiated with Oracle.
 - the transfer of the Peer Review Process back to the Research Councils and
 - uncertainty about the future of UK SBS pending the outcome of the BIS 2020 Review
- The lack of any disaster recovery capability for Oracle 12.0.6 customers
- Whilst some progress has been made in improving the control framework in UK SBS over the last 12 months the controls have yet to become sufficiently embedded in the organisation. The scope and scale of improvements required across parts of the framework for the Company are significant.
- Through the assurance letter, GIAA reviews and the review of procurement undertaken by PWC UK SBS have highlighted the following areas that require improvement:
- IT Governance and Management
 - Procurement
 - Payroll

I particularly highlight procurement which received an Unsatisfactory Assurance level from GIAA.

- In relation to a wider review with cross-council customer governance groups and other cross-council groups I highlight: A number of improvements in performance and control. Also reflected is a challenging and changing business environment and the loss of experienced staff. This is coupled with a decline in the pace at which change and improvements are being delivered.
- The need to revisit the continued relevance of the Business Services Agreement (BSA) and Critical Performance Indicators (CPIs) across all services. Action is in hand to review CPIs relating to HR/Payroll, Procurement and ISS system bandwidth.
- Shortfalls on a significant number of existing CPIs across all services, with a caveat, that performance within Finance Service Delivery has, overall, been fairly steady with some exceptions.
- Across service areas councils continue to work with UK SBS and seek improvements in relation to:
 - Procurement
 - iRecruitment
 - Debt management
 - Payroll overpayments
 - Non-employee expenses
 - The Fixed Asset module
 - Service Requests
 - Business Continuity and Disaster Recovery

I accept the general picture provided by UK SBS CEO in that the organisation has undergone significant change and reorganisation in 2014-15. I am pleased to note that UK SBS have clearly recognised that problems and issues exist and have been transparent and open in reporting these in the most recent assurance letter.

Nevertheless, the current assurance picture gives me cause for concern. Although the overall audit opinion is moderate, many basic controls do not seem to be in place – e.g. revision of Standard Operating Procedures, checking batch payments, checking of Government Procurement Cards/expenses, checking journal authorisations. This may be indicative of resource issues, the impact of which we have yet to fully feel as most personnel left at the end of December.

Overall Assurance

There is no room for complacency and I will expect a significant improvement in the assurance levels and the level of service through 2015-16. BBSRC and RCPS, in concert with the other Research Councils, will support UK SBS going forward and continue to monitor on-going performance both by UK SBS and within Research Council operations.

Significant Audit Findings

Seven core audits were carried out in BBSRC - which included JSS as an operating unit within BBSRC- and all received substantial or moderate assurance. AASG carried out the audit of JSS in 2014 giving an overall opinion of substantial assurance with one high and two low recommendations, all of which were addressed. No significant control weaknesses were identified in the seven core audits that should be disclosed in the governance statement.

19 cross-client audits were carried out of which one was advisory (5%) and 18 (90%) received substantial or moderate assurance. One review (5%) received Limited Assurance, This review was Research Funding Programme (RFP) – Programme Management. The Limited assurance reflects key strategic weaknesses in the current programme and its rationale.

No significant control weaknesses were identified that should be disclosed in the governance statement.

BBSRC and RCPS receive services from UK SBS. Responsibility for the internal audit of UK SBS transferred to the Government Internal Audit Agency (GIAA) from 1st April 2014. In response to this, a review of Retained Functions was included in the cross-client programme which has received an overall rating of Moderate Assurance. The assurance provided by UK SBS on their customer processes is consistent with that provided by AASG on retained functions.

Conclusion

From the internal audit programme as a whole, I am able to gain the necessary confidence and assurance on the workings of the audit framework, but note that progress on the resulting actions needs to continue.

7. Review of Effectiveness

As Accounting Officer, I have responsibility for conducting and annual review of the effectiveness of the BBSRC and RCPS governance, risk management and system of internal control. My review is informed by the work of the internal auditors, and the executive directors within the BBSRC and Research Councils' Pension Schemes, and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The principle elements of support for the Accounting Officer's assurance statement are the work of the Audit Board the BBSRC Executive, RCPS Management Board, including the review of business critical programmes, the annual report from the Director of AASG, BBSRC and RCPS' Executive Directors' stewardship statements, the risk management frameworks developed by BBSRC and RCPS, and responses to external management letters which identify if control gaps exist.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Research Councils' Pension Schemes Management Board and the BBSRC Audit Board and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

There are still significant issues which require close scrutiny going forwards:

- UK SBS Ltd service delivery – BBSRC and RCPS continues to work closely with UK SBS Ltd to achieve stabilisation.
- UK SBS Ltd technical platform - there is a separate but linked issue which also has a potentially significant impact on future shared services provision. BBSRC and RCPS, like all Research Councils, is currently operating with a technical platform (Oracle) provided by UK SBS Ltd which requires upgrading. This upgrade will be a major project due to the current system being significantly customised and the associated need to decouple the Grants system (Siebel).

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that RCPS's overall governance and internal control structures result in risk being managed to a reasonable level and I can provide assurance that it supports the achievement of the RCPS's policies, aims and objectives.

Professor Jackie Hunter
Chief Executive and Accounting Officer of BBSRC

26 June 2015

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Research Councils' Pension Schemes for the year ended 31 March 2015 under the Science & Technology Act 1965. These comprise the Combined Statements of Comprehensive Net Expenditure, Financial Position, Changes in Taxpayer's Equity, Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Science & Technology Act 1965. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Research Councils' Pension Schemes' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Research Councils' Pension Schemes; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Manager and the Report of the Actuary to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Research Councils' Pension schemes' affairs as at 31 March 2015, and of their total combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Secretary of State for Business, Innovation and Skills directions issued under the Science and Technology Act 1965.

Opinion on other matters

In my opinion, the information given in Report of the Manager and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

6th July 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Combined Statement of Comprehensive Net Expenditure for the period ended 31 March 2015

	Notes	31 March 2015 £'000	£'000	2013-14 £'000
Principal Arrangements - Research Councils' Pension Schemes				
Income				
Contributions receivable	3		95,484	92,172
Transfers in: individuals	4		6,247	4,921
Transfers in: bulk	4		-	6,682
Other pension income	7		-	121
Recoveries			1,300	1,716
			103,031	105,612
Expenditure				
Pension cost	5	96,000		84,000
Transfers out		-		5,291
Transfers in	4	6,247		6,000
Enhancements	6	3,000		5,000
Interest on scheme liabilities	10	167,000		144,000
Administration costs	9	1,107		1,131
			(273,354)	(245,422)
Combined Net (Expenditure) for the year			(170,323)	(139,810)
Other Comprehensive Net Expenditure				
Actuarial (losses)/gains	15.15		(366,000)	(221,000)
Total Comprehensive Net Expenditure for the period ended 31 March 2015			(536,323)	(360,810)

All activities are regarded as continuing.

The notes on pages 25 to 36 form an integral part of these accounts.

Combined Statement of Financial Position as at 31 March 2015

	Notes	31 March 2015	2013-14
Current assets			
Receivables	12	2,173	1,986
Cash and cash equivalents	13	9,619	8,407
Total current assets		11,792	10,393
Current liabilities			
Payables (amounts falling due within one year)	14	(2,464)	(5,398)
Net current assets, excluding pension liability		9,328	4,995
Pension liability	15.11	(4,359,978)	(3,867,322)
Net liabilities, including pension liabilities		(4,350,650)	(3,862,327)
Combined schemes - Total net liabilities		(4,350,650)	(3,862,327)
Taxpayers' equity			
General fund		(4,350,650)	(3,862,327)

Professor Jackie Hunter,
Chief Executive BBSRC,
Accounting Officer

Date: 26 June 2015

The notes on pages 25 to 36 form an integral part of these accounts.

Combined Statement of Changes in Taxpayers' Equity for the period ended 31 March 2015

	Notes	31 March 2015 £'000	2013-14 £'000
Balance at 1 April		(3,862,327)	(3,537,017)
Grant in Aid: drawn down	17	48,000	35,500
Combined net outgoings		(170,323)	(139,810)
Actuarial (losses)/gains		(366,000)	(221,000)
Balance at 31 March		<u>(4,350,650)</u>	<u>(3,862,327)</u>

The notes on pages 25 to 36 form an integral part of these accounts.

Combined Statement of cash flows for the period ended 31 March 2015

	Notes	31 March 2015 £'000	2013-14 £'000
Cash flows from operating activities			
Combined net (expenditure)/income for the year		(170,323)	(139,810)
Decrease/(Increase) in receivables - principal arrangements		(187)	389
(Decrease)/increase in payables		(2,934)	81
Increase in provision for non cash transactions			
Current service cost	5	96,000	84,000
Interest cost	10	167,000	144,000
Enhancements	6	3,000	5,000
Decrease in pension provision for use of pension liabilities			
Net movement on transfers	15.11	(710)	6,000
Benefit payments	15.13	(137,888)	(132,579)
Payments to or on account of leavers	15.14	(746)	(650)
Net cash outflow from operating activities		<u>(46,788)</u>	<u>(33,569)</u>
Cash flows from financing activities			
Grant-in-Aid	17	48,000	35,500
(Decrease)/increase in cash and cash equivalents		<u>1,212</u>	<u>1,931</u>
Cash and cash equivalents at the beginning of the period	13	8,407	6,476
Cash and cash equivalents at the end of the period	13	9,619	8,407
(Decrease)/increase in cash		<u>1,212</u>	<u>1,931</u>

The notes on pages 25 to 36 form an integral part of these accounts.

Notes to the Schemes' Statements

1. Basis of preparation of the Schemes' statements

The Schemes' statements have been prepared in accordance with the relevant provisions of the 2014-15 Government International IFRS Financial Reporting Manual (FReM) issued by HM Treasury, which reflect the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Retirement Benefit Plans. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the Science and Technology Act 1965.

Where the FReM permits a choice in accounting policy, the accounting policy judged to be the most appropriate to the particular circumstances of RCPS for the purpose of giving a true and fair view have been selected. The particular policies adopted by RCPS are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

a) Research Councils' Pension Schemes – principal arrangements

The Schemes' statement summarises the transactions of the RCPS which acts as a principal. The statement of financial position shows the deficit on the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things the movements in the liability analysed between the pension cost, enhancements and transfers in and out and the interest on the Scheme liability. The actuarial position of the Pension Scheme is dealt with in the Report of the Actuary, and the Scheme statement should be read in conjunction with that Report.

b) Early Retirement Lump Sums - agency arrangements

The RCPS acts as an agent for employers in the payment of Early Retirement Lump Sums (ERLS). ERLS paid out are invoiced and generally recovered from employers within a month. These financial flows are not brought into account in the financial statements. However, they do recognise the liabilities arising from the timing difference between amounts paid and recovered (see note 15 of accounts).

c) Adoption of new or amended standards effective in 2014-15

There have been no new revised standards and interpretation applied by the Schemes since 1 April 2014.

2. Accounting Policies

a) Contributions Receivable

Income includes contributions received and receivable from payrolls run during the year by contributing employers. Transfers in are included when cash is received.

b) Other Pension Income

Other pension income is accounted for when the income becomes due.

c) Pension Cost and Interest on Scheme Liabilities

The pension cost, including current and past service cost and interest cost on scheme liabilities are calculated by the Government Actuary's Department (GAD). Payments by the schemes are treated as a reduction in the pension liability.

d) Transfers Out

Transfers out are included once notified by the person transferring and by their new pension scheme and the payment is due. We have changed the way we disclose transfers in and transfers out, which has no material impact on total comprehensive net expenditure or net liabilities, so we have not adjusted prior years' figures on the Statement of Comprehensive Net Expenditure. Transfers In and Out are now accounted for in accordance with the FReM.

e) Transfers In

Transfers in are included once notified by the person transferring and agreed by their previous pension scheme administrators and the receipt is made.

f) Bulk Transfers

These relate to groups of members who are transferred under TUPE arrangements (Transfer of Undertakings (Protection of Employment) Regulations) mostly due to the closure of a site(s) or changes to governance arrangements in their organisation.

g) Administration Costs

The schemes pay for the Joint Superannuation Services (JSS) unit hosted by BBSRC. The accrued costs of JSS are charged as an administration expense in the schemes' Combined Statement of Comprehensive Net Expenditure. Any amounts owing to BBSRC are included in payables. Any amounts owed by BBSRC are included in receivables.

h) Agency Arrangements - Early Retirement Lump Sums

Some pension schemes pay a retirement lump sum when a member reaches the appropriate scheme retirement age. If a leaver has yet to reach the scheme retirement age then the Early Retirement Lump Sum (ERLS) is not payable from the pension scheme. Under an agency agreement with the Research Councils, the ERLS is calculated and paid from pension scheme funds and then invoiced to the respective employing Research Council. Any ERLS paid but not yet recovered is accrued in recoveries and included in receivables.

Where pension schemes pay retirement lump sums when the member reaches the scheme retirement age they will, where there was an ERLS recovered from the respective Council, pay the retirement lump sum to that Council.

i) Pension Liability

The movements and balance on the pension liability are supplied by the Government Actuary's Department (GAD).

Accrued payments by the schemes are shown as reductions in the pension liability. GAD estimate these payments before the year end. Any difference is included as other actuarial gains and losses.

Actuarial gains and losses can occur for a number of reasons. These are changes to financial assumptions used from year to year i.e. change in inflation rate used, changes in demographic assumptions i.e. mortality rate, changes in the methodology used and other experience gains and losses. All information is included in the accounts in accordance with the GAD report.

Lump sums on retirement and pensions are payable from the first day of retirement.

Refunds of contributions to members leaving the service are made up of any required transfer to the state scheme pension and income tax due with the balance refunded to the member.

j) General Fund

Grant-in-Aid is provided from Department for Business, Innovation and Skills (BIS) Request for Resources to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the schemes' finances. The cash received is not treated as income but credited to the Statement of Tax Payers' Equity in accordance with the FReM.

Additional grant funding required to fund bulk transfers out of the scheme that is not met by the employers is credited to the General Fund in accordance with the FReM.

k) Derivatives and Financial Instruments

The Pension Scheme is not exposed to the same level of risk as many business entities and the financial assets and liabilities at the reporting date are included at amortised cost. Where the time value of money is material, the amount of the asset or liability will be the present value of the expenditures/income expected to be required to settle the obligation. The discount rate used will be the real discount rate set by HM Treasury, currently at 2.7%.

Trade receivables

Trade receivables are not interest bearing and are carried at original invoice amount less allowance for impairment. Provision for impairment is established when there is objective evidence that the Pension Scheme will not be able to collect all amounts due according to the original terms of the receivable. The amount of provision is the difference between the carrying amount and recoverable amount and is recognised in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognised in the period in which related money, goods or services are received or when a legally enforceable claim against the Pension Scheme is established or when the corresponding assets or expenses are recognised.

l) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Pension Scheme's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

m) Pension Benefits Payable

These are payments due to eligible members which arise from accrued service.

n) Lump Sums Payable on Death in Service

A death benefit lump sum is payable to whoever the scheme member has nominated as their 'death benefit nominee' and is accounted for when due.

o) Additional Voluntary Contributions

Employee contributions are paid directly by the participating Research Council to the pension provider and accordingly contributions and AVC investments are not included in these accounts.

3. Contributions receivable

	31 March 2015	2013-14
	£'000	£'000
Employers' contributions	72,958	72,069
Employees' contributions: normal	20,875	18,407
Employees' contributions: purchase of added years and added pension	1,651	1,696
	<u>95,484</u>	<u>92,172</u>

In 2015-16, £73 million employers contributions, £18.2 million employees contributions and £1.6 million added years contributions are expected.

4. Pension transfers in

	31 March 2015	2013-14
	£'000	£'000
Individual Transfers in	6,247	4,921
Bulk Transfers in	-	6,682
	<u>6,247</u>	<u>11,603</u>

The bulk transfer in 2013-14 relates to 152 members of the University of Southampton staff, who were transferred to the Natural Environment Research Council (NERC) in 2010 and became members of the Research Councils' Pension Schemes following a 'Transfer of Undertakings Protection of Employment (TUPE)'. The staff members that were formerly in the Pension and Assurance Scheme for Non Academic Staff have been dealt with on an individual basis. Former members of the Universities Superannuation Scheme were given the opportunity to Bulk Transfer their accrued benefits in to the Research Councils' Pension Schemes and 49 members chose to transfer their Universities Superannuation Scheme benefits and the receipt from this was received in June 2013.

5. Pension cost

	Notes	31 March 2015	2013-14
		£'000	£'000
Current service cost	15.11	<u>96,000</u>	<u>84,000</u>
		96,000	84,000

6. Enhancements

	31 March 2015	2013-14
	£'000	£'000
Enhancements	<u>3,000</u>	<u>5,000</u>
	3,000	5,000

7. Other pension income

	31 March 2015	2013-14
	£'000	£'000
Amounts receivable in respect of :		
Other (outgoings)/income	-	121
	<u>-</u>	<u>121</u>

8. Additional Voluntary Contributions

There are no AVC payments made through the Pension Schemes. Any AVCs made are free standing additional voluntary contributions which are private arrangements between the employee and the relevant institutions, and details cannot be included in these accounts. Details of arrangements whereby employees can make AVCs can be found in paragraph 28 of the Annual Report.

9. Administration costs

	31 March 2015	2013-14
	£'000	£'000
Total running costs	598	695
Pensioner payroll agency fees	18	18
Auditors' remuneration	42	42
Actuarial charges	444	372
Bank Charges	5	4
	<u>1,107</u>	<u>1,131</u>

10. Interest on Scheme liabilities

	Notes	31 March 2015	2013-14
		£'000	£'000
Interest charge for the year	15.11	<u>167,000</u>	<u>144,000</u>

11. Compensation benefits payable

There is no liability to the Pension Schemes as all compensation payments are funded by the Research Councils.

12. Receivables - contributions due in respect of pensions

	31 March 2015	2013-14
	£'000	£'000
12a Analysis by receipt type		
Prepaid lump sums	1,024	832
Pension contributions due from employers and employees	754	424
Other receivables	395	730
	<u>2,173</u>	<u>1,986</u>

12b Intra-Government Balances**Amounts falling due within one year**

	31 March 2015	2013-14
	£'000	£'000
Other central government bodies	477	376
Other organisations	1,696	1,610
	<u>2,173</u>	<u>1,986</u>

There are no Intra Government Balances falling due after more than one year for 2014-15 or 2013-14.

13. Cash and cash equivalents

	31 March 2015	2013-14
	£'000	£'000
Balance at 1 April	8,407	6,476
Net change in cash balances	1,212	1,931
Balance at 31 March	<u>9,619</u>	<u>8,407</u>

The following balances at 31 March were held at:

Government Banking Service	9,619	8,407
Balance at 31 March	<u>9,619</u>	<u>8,407</u>

14. Payables - in respect of pensions**14a Analysis by expenditure type**

	31 March 2015	2013-14
	£'000	£'000
Payables to other Research Councils	-	2,833
Other payables (including administration expenses)	2,422	2,522
Audit fee payable	42	43
	<u>2,464</u>	<u>5,398</u>

The Payables to other Research Councils in 2013-14 comprises monies due to BBSRC. In 2010-11 £7,833K was paid to RCPS to cover the costs of pensions when the payroll moved to the new shared services system. In 2011-12, £5M was repaid against this balance. Final repayment of the outstanding balance was made during 2014-15.

14b Intra-Government Balances**Amounts falling due within one year**

	31 March 2015	2013-14
	£'000	£'000
Other central government bodies	610	3,521
Other organisations	1,854	1,877
Balance at 31 March	<u>2,464</u>	<u>5,398</u>

There are no Intra Government Balances falling due after more than one year for 31 March 2015.

15. Provisions for pension liabilities

15.1 The Research Councils' Pension Schemes are unfunded defined benefit schemes. The Report of the Actuary on pages 8 to 11 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2015 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2015	At 31 March 2014	At 31 March 2013	At 31 March 2012
Inflation	2.20%	2.50%	1.70%	2%
Warnings increase	4.20%	4.50%	3.95%	4.25%
Notional discount rate used to discount the Schemes' liabilities	3.55%	4.35%	4.10%	4.85%
Discount rate net of inflation	1.60%	2.35%	2.35%	2.8%
Increase in pensions CPI	1.30%	1.80%	2.35%	2.8%

The life expectancy of normal health current pensioners at age 60 for men is 29.7 (2013-14: 28.3) and women is 31.1 (2013-14: 29.1). The life expectancy of normal health future pensioners at age 60 for men is 32.6 (2013-14: 30) and women is 34.2 (2013-14: 30.7)

The life expectancy of normal health current pensioners at age 65 for men is 24.8 (2013-14: 23.4) and women is 26.2 (2013-14: 24.2). The life expectancy of normal health future pensioners at age 65 for men is 28.1 (2013-14: 25.6) and women is 29.6 (2013-14: 26.3)

15.2 The Schemes' administrators are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- Scheme membership, including age and gender profile, active membership, deferred pensioner and pensioners;
- Benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- Income and expenditure, including details of any bulk transfers into or out of the scheme; and
- Following consultation with the actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

15.3 Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. The variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

15.4 These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the Schemes' Managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

15.5 The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in the FRem, and as required by IAS 19, the Schemes' Managers use the AA corporate bond rate to discount liabilities. From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the Schemes' Managers of the rate for the year. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

- 15.6 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Schemes' Managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Schemes' Managers, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.
- 15.7 The value of the liability on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The administrators of the schemes accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 15.11. Note 15.15 analyses "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.
- 15.8 The reforms due to be implemented in April 2015 relating to age retirement and the increased member contributions being phased in from April 2012, may affect the behaviour of members. The age retirement rates adopted reflect recent experience and allow for the expected impact of the reformed scheme on members retirement behaviour in future. This represents a change from the allowance for future reform made in the 2013-14 Resource Accounts.
- 15.9 In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years". The last formal actuarial valuation undertaken for the RCPS as at 31 March 2006 was completed in 2008-09. Consequently, a formal actuarial valuation as at 31 March 2010 was initiated but this was not completed as formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury on value for money grounds while consideration was given to recent changes to public service pensions and while future scheme terms were developed as part of the reforms to public service pension provision. Since 31 March 2012, HM Treasury have reinstated the requirement for a full actuarial valuation as at 31 March 2012. The scheme administrators have provided GAD with the RCPS membership data as at 31 March 2012 in order that a full actuarial valuation can be carried out as at this date. The primary purpose of the formal 2012 actuarial valuation will be to set employer and employee contribution rates to take effect from 1 April 2015. An actuarial valuation of the scheme for IAS19 has been carried out as at 31 March 2012 using the data provided for the 2012 actuarial valuation. Sufficient additional data has been supplied to GAD to enable the IAS19 liability as at 31 March 2015 to be approximately assessed based on the calculated IAS19 liability as at 31 March 2012.

15.10 Analysis of the provision for pension liability

	2014-15	2013-14	2012-13	2011-12
	£ million	£ million	£ million	£ million
RCPS				
Active members	1,538	1,332	1,232	1,094
Deferred members	805	694	604	540
Current pensioners	1,487	1,358	1,252	1,135
Total	3,830	3,384	3,088	2,769
Closed schemes				
Deferred members	80	71	62	57
Current pensioners	450	409	390	370
Total	530	480	452	427
Total provision for pension	4,360	3,864	3,540	3,196

Sensitivity analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty, IAS19 requires that I indicate the approximate effects on the actuarial liability as at 31 March 2015 of changes to the significant actuarial assumptions.

The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

As a result of the ongoing discussions on scheme reform, there remains significant uncertainty on when members are expected to retire. The assumed age retirement rates will have a significant impact on the scheme liabilities and therefore we have included an indication of the approximate effect (on the total past service liability) of all non-Nuvos members retiring one year later than assumed in the main liability calculations.

The table that follows shows the indicative effects on the total liability as at 31 March 2015 of changes to these assumptions (rounded to the nearest ½ %).

Change in assumption		Approximate effect on total liability *	
Rate of return			
(i)	discount rate: +½ % a year	-9.00 %	-£390 million
(ii)	earnings increases: +½ % a year	1.50 %	+£65 million
(iii)	pension increases: +½ % a year	8.50 %	+£370 million
Pensioner mortality			
iv)	additional one year increase to life expectancy at retirement:	3.00 %	+£130 million
Age Retirement			
(v)	all non-Nuvos actives retiring (on average) 1 year later	-0.50 %	- £20 million

15.11 Analysis of movements in the Schemes' liability

	Notes	31 March 2015 £'000	2013-14 £'000
Schemes' liability at 1 April		3,867,322	3,540,551
Current service cost	5	96,000	84,000
Enhancements		3,000	5,000
Interest on the Schemes' liabilities		167,000	144,000
Benefits payable	15.13	(137,888)	(132,579)
Payments to or on account of leavers	15.14	(746)	(650)
Net movement on transfers		(710)	-
Analysis of actuarial losses/(gains) on the Schemes' liabilities	15.15	366,000	221,000
		492,656	320,771
		4,359,978	3,861,322
Net bulk staff transfer in		-	6,000
Net bulk staff transfer out		-	-
Schemes' liability at 31 March		4,359,978	3,867,322

15.12 During the year ended 31 March 2015, employers and employees contributions represented an average of 34.1 percent of pensionable salaries (2013-14: 30.6 percent). The employers pension rate for 2014-15 and future years until further notice will be 26.0 percent.

15.13 Analysis of benefits paid

	31 March 2015	2013-14
	£'000	£'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	(121,133)	(114,990)
Commutations and lump sum benefits on retirement or death	(16,755)	(17,589)
As per Combined Statement of Cash Flows	<u>(137,888)</u>	<u>(132,579)</u>

15.14 Analysis of payments to or on account of leavers

	31 March 2015	2013-14
	£'000	£'000
Refunds to members leaving service	(746)	(650)
As per Combined Statement of Cash Flows	<u>(746)</u>	<u>(650)</u>

15.15 Analysis of actuarial gains/(losses) on the Schemes' liabilities

	31 March 2015	2013-14
	£'000	£'000
Experience gains arising on the Schemes' liabilities	(103,000)	(19,000)
Change in assumptions underlying the present value of Schemes' liabilities	469,000	240,000
Per Statement of Recognised gains and losses	<u>366,000</u>	<u>221,000</u>

15.16 History of experience gains/(losses) - all recognised in the Statement of Total Recognised Gains and Losses

See note 15.15	Experience gains / (losses) £'000	Percentage of the Schemes' liabilities at 31 March	Amount recognised in Statement of Changes in Taxpayers Equity	Percentage of the Schemes' liabilities at 31 March
2014-15	103,000	2.4%	103,000	0.2%
2013-14	19,000	0.5%	19,000	0.5%
2012-13	24,000	0.7%	24,000	0.7%
2011-12	(1,000)	0.0%	(1,000)	0.0%
2010-11	65,000	2.1%	65,000	2.1%
2009-10	(34,000)	-1.0%	(34,000)	-1.0%
2008-09	47,000	1.6%	47,000	1.6%
2007-08	3,000	0.1%	3,000	0.1%

16. Annual compensation payments pre-funded by employers

Annual compensation payments are payments to early retirees in advance of their pension entitlements under the Research Councils' Pension Schemes. These payments are made by the Pension Schemes and are reimbursed by the employer. The balances are for ACPs payable in the next 10 years as employees can leave employment at 55 instead of 65 for men and 60 for women.

	31 March 2015	2013-14
	£'000	£'000
Balance at 1 April	6,276	7,558
Amount paid in year to the Pension Schemes	(1,817)	(1,440)
Addition in year	60	158
Balance at 31 March	<u>4,519</u>	<u>6,276</u>
To be used in the next 12 months	1,387	1,839
To be used after more than 12 months	3,132	4,437

17. Grant-in-Aid

Grant-in-Aid is provided from the Department for Business, Innovation and Skills (BIS) Request for Resources to the Biotechnology and Biological Sciences Research Council (BBSRC) as the Council with responsibility for administering the Schemes' finances. The allocation for 2014-15 was £48 million (2013-14 was £35.5 million) all of which was drawn down by the Pension Schemes.

18. Related Party Transactions

The Research Councils are Non-Departmental Public Bodies sponsored by the Department for Business, Innovation and Skills (BIS).

The BIS is regarded as a related party. During the period 1 April 2014 to 31 March 2015 the Research Councils' Pension Schemes had various material transactions with BIS and with other entities for which BIS is regarded as the parent Department. These were the Biotechnology and Biological Sciences Research Council (BBSRC), the Engineering and Physical Sciences Research Council (EPSRC), the Economic and Social Research Council (ESRC), the Natural Environment Research Council (NERC), the Science and Technology Facilities Council (STFC), and Innovate UK (previously TSB).

During the year none of the senior and other key management staff, or other related parties, has undertaken any material transactions with the Research Councils' Pension Schemes. In addition the Schemes have had material transactions in the form of contributions from Research Councils whose employees are members of the Schemes.

	Pension Contributions		Receivables		Payables	
	31 March 2015 £'000	2013-14 £'000	31 March 2015 £'000	2013-14 £'000	31 March 2015 £'000	2013-14 £'000
Transactions with Research Councils						
BBSRC	2,728	2,596	36	211	610	3,521
EPSRC	1,775	1,770	-	-	-	-
ESRC	1,092	1,079	99	-	-	-
NERC	19,453	19,013	4	76	-	-
STFC	16,018	15,506	35	83	-	-
Innovate UK	2,596	2,055	376	-	-	-
AHRC	757	608	-	1	-	-
Transactions with other employers						
SERAD	2,965	7,754	227	-	-	-
UK SBS Ltd	4,713	5,498	44	4	-	-
Other	20,361	16,231	1,352	1,610	-	1,877
Other related parties	-	-	-	-	1,854	-
Total	72,458	72,110	2,173	1,985	2,464	5,398

19. Losses and Special Payments

No losses were incurred, or special payments made during the year.

20. Events after the reporting Period

There were no reportable events after the Reporting Period between the year end and the Comptroller and Auditor General certified the accounts, the date when the accounts were authorised for issue. The financial statements do not reflect events after this date. Reference has been made to events that are likely to occur in 2015-16 in paragraphs 18 to 24 of the Annual Report.

21. Financial Instruments

As the cash requirements of the Schemes are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The majority of financial instruments relate to contracts for non financial items in line with the Schemes' expected purchase and usage requirements and the Schemes are therefore exposed to little credit, liquidity or market risk.

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