

Department of Trade and Industry

Combined Resource Account 2004-2005 for the United Kingdom Atomic Energy Authority Pension Schemes

Department of Trade and Industry

**Combined Resource
Account 2004-05
for the United Kingdom
Atomic Energy Authority Pension
Schemes**

(for the year ended 31 March 2005)

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21 November 2005*

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Report

Introduction

This Resource Account for the United Kingdom Atomic Energy Authority's (UKAEA) defined benefit public service pensions schemes for the year to 31 March 2005 covers the payment of pensions and other benefits to retired members or their dependants, transfer values for members transferring to other schemes and repayments of contributions under the UKAEA's pension schemes.

The business, its objectives and strategy

The UKAEA pension schemes are statutory schemes as defined under Section 26(1) of the Finance Act 1970 but are not exempt under Chapter I (1) of Part XIV of the Income and Corporation Taxes Act 1988. Notwithstanding some relatively minor non-approvable benefits, the schemes would be exempt if there were real investments.

The schemes are contracted out under the Pension Schemes Act 1993 and subsequent legislation.

The UKAEA's public service pensions schemes comprise the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme. They relate to the employees of the UKAEA, British Nuclear Fuels plc and National Radiological Protection Board (which became part of the Health Protection Agency with effect from 1 April 2005), together with some employees of the Engineering and Physical Sciences Research Council, the Particle Physics and Astronomy Research Council, the Council for the Central Laboratory of the Research Councils (including former employees of the Science and Engineering Research Council), and former UKAEA employees who transferred to the Ministry of Defence (Atomic Weapons Establishment).

The funding of payments from the UKAEA's pension schemes is provided by a Request for Resources, supplied to the Department of Trade and Industry. It should be noted that any contributions made to the schemes are used to meet the payment of scheme benefits but any surplus of such contributions over payments is surrendered to the Consolidated Fund. Similarly, any deficit is met by Parliamentary Supply with payment from the Consolidated Fund.

The UKAEA is a body corporate by virtue of the Atomic Energy Authority Act 1954.

Management of the Schemes

The schemes are managed by UKAEA. The respective responsibilities of UKAEA and DTI for the schemes are set out in a Management Framework.

The schemes are contributory and were established and became operational on 1 August 1954. The schemes are constituted by Rules determined by the UKAEA and amended from time to time as approved by Ministers.

The public service pensions schemes are statutory schemes and there are no trustees.

Operating review

There is no fund of investments as such but the schemes are run and accounts prepared as though a fund does exist. There are notional portfolios of investments which are deemed to be similar to that of a sample of UK funded pension schemes and the notional investment return and market value are determined by reference to the average performance of such a portfolio. The Government Actuary's Department determines the investment return and fund value.

Actuary's valuation and statement

The Government Actuary's Department (independent actuaries of the schemes) completed their actuarial valuation, based on the value of the fund at 31 March 2005 in June 2005. Their report confirmed that the schemes' liabilities were £3,506 million discounted at a real rate of 3.5% under the rules at the date of the valuation and that the contribution rate was sufficient to provide for benefits in the future. The actuarial statement is reproduced on pages 32 to 34. The actuary has advised that no changes to his report need to be made as a result of events since the end of the financial year.

Changes in scheme rules

A revision to the rules of the Combined Pension Scheme and the Principal Non-Industrial Superannuation Scheme took place in June 2004 whereby part-time members may be able to purchase more Added Years in the UKAEA Schemes. There were two other formal rule amendments to the UKAEA pension schemes during 2004-05. The first amendment was made to reflect more accurately the terms governing employer contribution rates. The second amendment was made to allow members of the Civil Nuclear Constabulary to continue membership of the CPS after the formation of the Civil Nuclear Police Authority on 1 April 2005. These rule changes are described in more detail in the managers' report on page 30.

Contributions

All contributions have been in accordance with the Rules.

Future plans

The government's establishment of the Nuclear Decommissioning Authority ('NDA') is likely to affect the numbers of BNFL and UKAEA members of the CPS. The NDA will be responsible for managing the decommissioning of the UK's civil sector nuclear liabilities, most of which have resided with BNFL and UKAEA. The NDA commenced full operations on 1 April 2005, following Royal Assent in July 2004. The NDA's operations are not expected to affect membership of the CPS before 2006-07.

Financial review

The value of pension cost increased by £6.5 million to £80.2 million with overall pension expenditure increasing by £19.4 million to £286.7 million. The value of benefits payable increased by £2.3 million to £153.1 million. The increase was mainly due to the annual increase in the value of benefits, and to changes in the profile of the pensioners. The numbers of pensioners, deferred pensioners, and dependants fell slightly by 124 to 32,459 at the end of the year.

The value of contributions received increased by 5.2% to £23.5 million principally as a result of higher salaries being paid to contributors. There was a slight decrease in the number of contributing members, which fell by 28 to 14,268 at the end of the year. The value of transfers in to the schemes rose to £17.2 million.

Overall, the net outgoings for the year increased by £8.9 million from last year's net outgoings of £237.2 million to £246.1 million. The net outgoings include group transfers out to other schemes.

The overall scheme liability of £3.51 billion increased by £286 million from last year.

The financial statements on pages 11 to 27 provide an overview of the schemes' income and expenditure.

Benefits

The benefits were increased by 2.8 % (2003-04 – 1.7%). Further information is given in the Manager's Report on pages 28 to 31.

Auditors

These Financial Statements have been audited by the Comptroller and Auditor General (C&AG) whose opinion is expressed on pages 9 to 10. The notional cost of the audit is £50,000.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
31 October 2005

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the department, with responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- A. observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- B. make judgements and estimates on a reasonable basis;
- C. state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- D. prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the **UKAEA Pensions Schemes ("the Schemes")** policies, aims, and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Although I was not in post during the accounting period for the 2004-05 Statement on Internal Control, my predecessor, the Chairman of the Audit Committee and the Head of Internal Audit have advised me about the control environment that operated in the Department up to the approval of the annual report and accounts.

In accordance with the rules of Government Accounting, I have appointed the Chief Executive of the UKAEA as its Accounting Officer. The Accounting Officer of UKAEA is responsible for the management and administration of the Schemes on my behalf under the terms of a Management Framework, between the UKAEA and the Department, and for the maintenance and operation of the system of internal control in that body. The Chief Executive and Accounting Officer of the UKAEA, has signed a statement relating to that system, which is reproduced in the relevant audited Accounts of the Schemes.

The Schemes are managed and administered by the UKAEA and funded through the Department. The UKAEA disburses pensions and other payments and collects pension contributions and other income with the approval of the Department, which in turn ensures that funds are provided to meet the net cash outflow on pensions. UKAEA prepares three separate audited Accounts for the Schemes and the Department prepares this Resource Account which consolidates those three accounts. Thus the systems of internal control in operation at UKAEA and within the Department are both relevant to this Account.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to 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 the Schemes' 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 for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Management Framework, established between the Department and UKAEA during the 2003-04 financial accounting period, sets out the responsibilities of DTI and UKAEA in respect of the funding and management of the Schemes and incorporates a framework for the management of risks and system of internal control.

DTI and UKAEA management have taken an active lead in embedding risk management within the Schemes by working together to identify the key risks and agree actions plans for their management. A joint risk register has operated throughout 2004-05 and procedures are in place for DTI and UKAEA to review and update the register on a regular basis.

Training on risk has been provided to senior DTI and UKAEA management, who administer the Schemes, through their attendance at a risk workshop in March 2004. Guidance is also available to both DTI and UKAEA staff on the management of risk and DTI has also incorporated the topic in a number of its training courses. The DTI has also embedded risk management in its personal objective setting process for 2005-06.

The risk and control framework

The risk management framework for the Schemes operates through the initial identification of risks against the scheme's objectives. These risks are then evaluated in terms of impact and probability to determine the key risks inherent to the Schemes. Consideration is then given to the controls in place to manage each risk and how effective they are in mitigating the risk. This establishes the level of residual risk and enables management to determine what further action is required to manage the risk. Ownership for each risk is then assigned to a named individual who will report on progress in managing the risk when the risk register is reviewed. Assurance is obtained through regular management reviews and UKAEA Internal Audits of the Schemes.

Risk is identified for the Schemes through regular reviews of risk by DTI & UKAEA management and at risk workshops.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Audit Committee and mechanisms are in place to ensure continuous improvement of the system is in place.

There have been no significant internal control problems during 2004-05.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary
31 October 2005

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 11 to 27 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the accounting policies set out on pages 16 to 18.

Respective responsibilities of the Accounting Officer and auditor

As described on page 6, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether 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. I report whether the contributions payable to the Schemes have been paid in accordance with the Schemes' rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Schemes manager is not consistent with the financial statements, if the Department has not kept proper accounting records for the Schemes or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 7 to 8 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedure.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements and of whether the accounting policies are appropriate to the Schemes' circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the financial transactions of the Schemes for the year ending 31 March 2005, the net outgoings and cash requirement for the year and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;
- 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; and
 - the contributions payable to the Schemes during the year ended 31 March 2005 have been paid in accordance with the Schemes rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP
2 November 2005

SCHEDULE 1

Summary of Resource Outturn

for the Year Ended 31 March 2005

	2004-05						2003-04	
	Estimate			Outturn			Net Total Outturn Compared with Estimated Saving/ (excess)	Prior Year Outturn
	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total		
1	2	3	4	5	6	7	8	
	£000	£000	£000	£000	£000	£000	£000	£000
Civil Superannuation	287,953	38,437	249,516	286,702	38,437	248,265	1,251	238,548
Non-budget	-	-	-	-	-	-	-	196,108
Total Request for Resources	287,953	38,437	249,516	286,702	38,437	248,265	1,251	434,656
Net cash requirement			128,000			113,756	14,244	122,484

Summary of income payable to the Consolidated Fund.

In addition to appropriations-in-aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	Forecast 2004-05		Outturn 2004-05	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts – excess A-in-A	16	-	-	2,179	1,289
Total		-	-	2,179	1,289

Notes 1 to 24 form part of these Accounts.

Department of Trade and Industry: UKAEA Pension Schemes Resource Accounts 2004-05

Reconciliation of resources to cash requirements	Estimate	2004-05		2003-04	
		Outturn	Net Total	Outturn	Prior Year
			<i>Net Total</i>	<i>Outturn</i>	<i>Prior Year</i>
			<i>Compared with</i>	<i>with</i>	<i>Outturn</i>
			<i>Estimated</i>	<i>Saving/</i>	<i>Outturn</i>
			<i>(excess)</i>	<i>Outturn</i>	<i>Outturn</i>
			<i>Net Total</i>	<i>Net Total</i>	<i>Outturn</i>
			<i>£000</i>	<i>£000</i>	<i>£000</i>
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Net total resources	9	249,516	248,265	1,251	434,656
Capital		-	-	-	-
Investments		-	-	-	-
Non-operating appropriations-in-aid		-	-	-	-
Accruals adjustments:					
Non-cash items	19	(287,953)	(286,702)	(1,251)	(267,323)
Changes in working capital other than cash	20	6,326	(944)	7,270	380
Use of provision	18.1	160,111	153,137	6,974	150,879
Prior year adjustment		-	-	-	(196,108)
Net cash requirement (Schedule 4)		128,000	113,756	14,244	122,484

Explanation of variances

- (i) The reason for the variance between Outturn Net Cash Requirement and Estimate being above 10% is due to the following: No allowance for any transfers into the UKAEA schemes from Gemini was made. This accounts for about £9m. With regard to transfers out, the net difference between the original estimate and the outturn was in the region of £6m. Together this accounts for £15m of the difference. We received about £0.4m less in employer contributions than anticipated.

Notes 1 to 24 form part of these Accounts.

SCHEDULE 2

Combined Revenue Account

for the year ended 31 March 2005

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Contributions and Benefits			
Contributions receivable	4	23,460	22,294
Transfers-in	5	17,156	7,877
		<u>40,616</u>	<u>30,171</u>
Expenditure			
Pension cost	6 & 18.1	80,212	73,673
Transfers-in	7 & 18.1	17,156	10,068
Interest on scheme liabilities	8 & 18.1	189,284	183,520
Admin expenses	10	50	62
		<u>286,702</u>	<u>267,323</u>
Net outgoings for the year	9	<u>(246,086)</u>	<u>(237,152)</u>
Net resource outturn	9	<u>(248,265)</u>	<u>(434,656)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Actuarial loss	18.4	152,135	12,176
Total recognised (gains) and losses for the financial year		152,135	12,176
Prior year adjustment		-	2,968,000
Total (gains) and losses recognised since last annual report		-	2,968,000

Notes 1 to 24 form part of these Accounts.

SCHEDULE 3

Combined Balance Sheet

as at 31 March 2005

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Current assets:			
Debtors	13	3,425	9,519
Cash at bank	14	8,627	(4,250)
		<u>12,052</u>	<u>5,269</u>
Creditors: amounts falling due within one year			
Pensions	15	(3,096)	(2,150)
Amounts due to the Consolidated Fund:			
Excess Appropriations-in-Aid	16	(2,179)	(1,396)
Unspent Supply	17	(6,000)	-
		<u>(11,275)</u>	<u>(3,546)</u>
Net current assets		777	1,723
Provisions for liabilities and charges:			
Pension liability	18.1	(3,506,249)	(3,220,599)
Net liabilities, including pension liability		<u>(3,505,472)</u>	<u>(3,218,876)</u>
Financed by:			
Revenue account:			
Balance brought forward		(3,218,876)	(3,090,698)
Financing from the Consolidated Fund	21	119,756	122,484
Combined net outgoings for the year (Schedule 2)		(246,086)	(237,152)
Actuarial loss (STRGL)		(152,135)	(12,176)
Consolidated Fund Extra Receipts:			
Excess Appropriations-in-Aid for current year	16	(2,179)	(1,396)
Adjustment for Appropriations-in Aid-for prior year		(2)	-
Consolidated Fund Creditor for unspent Supply (current year)	17	(6,000)	-
Adjustment for Consolidated Fund Creditor for unspent Supply (prior year)		-	-
Add: Adjustment for notional Audit fees	10	50	62
Balance carried forward		<u>(3,505,472)</u>	<u>(3,218,876)</u>

These accounts were approved on 31 October 2005

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

Notes 1 to 24 form part of these Accounts.

SCHEDULE 4

Combined Cash Flow Statement

for the Year Ended 31 March 2005

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Net cash outflow from operating activities (note a)		(112,467)	(121,274)
Payments of amounts due to the Consolidated Fund		(1,396)	(15,664)
Financing (note b)		126,740	130,784
Decrease in cash in the year		<u>12,877</u>	<u>(6,154)</u>
<i>Note a: Reconciliation of net outgoings to operating cash flows</i>			
Net outgoings for the year (Schedule 2)		(246,086)	(237,152)
Adjustments for movements in working capital other than cash – debtors	20	(890)	(186)
Adjustments for movements in working capital other than cash – creditors	20	944	(380)
Increase in pension provision	18.1	269,496	257,193
Increase in pension provisions – enhancements and transfers in	18.1	17,156	10,068
Adjustments for other non-cash items	10	50	62
Use of provisions – pension liability	18.2	(148,978)	(144,580)
Use of provisions – refunds and transfers	18.3	(3,298)	(5,556)
Use of provisions – death in service	18.2	(861)	(743)
Net cash outflow from operating activities		<u>(112,467)</u>	<u>(121,274)</u>
<i>Note b: Analysis of financing, and reconciliation to the net cash requirement</i>			
From the Consolidated Fund (Supply) – current year	21	119,756	115,500
From the Consolidated Fund (Supply) – prior year	13	6,984	15,284
Net financing		<u>126,740</u>	<u>130,784</u>
Decrease in cash		(12,877)	6,154
Net cash flows other than financing		113,863	136,938
Adjustments for payments and receipts not related to supply:			
Amounts due to the Consolidated Fund – received in the prior year and paid over – excess appropriations-in-aid relating to prior year		(1,396)	(15,664)
Amounts due to the Consolidated Fund – received and not paid over – excess appropriations-in-aid relating to current year		1,289	1,210
Net cash requirement (Schedule 1)		<u>113,756</u>	<u>122,484</u>
Amount of grant actually issued to support the net cash requirement = £119,756,000.00			
Amount of grant actually issued to support the prior year net cash requirement = £6,984,233.33			

Notes 1 to 24 form part of these Accounts.

Notes to the Combined Resource Account for the Year Ended 31 March 2005

1 Basis of preparation of the scheme statement

The combined scheme statements have been prepared in accordance with the relevant provisions of the *Resource Accounting Manual* for 2004-05 issued by the Treasury which reflect the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate.

2 Accounting policies

2.1 Contributions receivable

2.1.1 Employers' normal pension contributions are accounted for on an accruals basis.

2.1.2 Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid.

2.1.3 Employees' pension contributions are accounted for on an accruals basis.

2.1.4 Employees' contributions include amounts paid in respect of the purchase of added years but exclude contributions to the Additional Voluntary Contribution scheme (AVC) and the Shift pay pension Plan scheme (SPPP).

2.2 Transfers

2.2.1 Transfers in are normally accounted for as income and expenditure (representing the associated increase in scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.3 Income received in respect of enhancements

2.3.1 Amounts receivable in respect of bringing forward the payment of accrued pension lump sums, and in respect of the capitalised costs of pension enhancement either at departure or at retirement, are accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis.

2.4 Other income

2.4.1 Other income, including refunds of gratuities, overpayments recovered other than by deduction from future benefits, [and miscellaneous income] are accounted for on an accruals basis. To the extent that this income also represents an increase in the scheme liability, it is also reflected in expenditure.

2.5 Current service cost

2.5.1 The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on a discount rate of 3.5% real (i.e. 7% including inflation).

2.6 Past service costs

2.6.1 Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

2.6.2 Past service costs are recognised in the Revenue account on a straight line basis over the period in which increase in benefits vest.

2.7 Interest on scheme liabilities

2.7.1 The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 3.5% real, (i.e. 7% including inflation).

2.8 Other payments

2.8.1 Other payments are accounted for on an accruals basis.

2.9 Scheme liability

2.9.1 Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 3.5% real (i.e. 7% after inflation).

2.9.2 Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions.

2.10 Pension benefits payable

2.10.1 Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.11 Pension payments to those retiring at their normal retirement age

2.11.1 Where a retiring member of the pension scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

2.11.2 Where a retiring member of the pension scheme has a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.12 Pension payments to and on account of leavers before their normal retirement age

2.12.1 Where a member of the pension scheme is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

2.12.2 Where a member of the pension scheme has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.13 Injury benefits

2.13.1 Injury benefits are accounted for on an accruals basis. They are not funded through the normal pension contributions (accruing pension liability contributions) and are in respect of injuries sustained. The amounts payable are a charge on the pension scheme and shown in the Revenue account. Those payable after that date are recoverable from employers.

2.14 Lump sums payable on death in service

2.14.1 Lump sum payments payable on death in service are accounted for on an accruals basis. They are a direct charge to the pension scheme as they are not funded through the normal pension contributions.

2.15 Actuarial gains / losses

2.15.1 Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses for the year.

2.16 Additional Voluntary Contributions

2.16.1 Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employing departments to the approved AVC providers.

3. Schedule 1 - Summary of Resource Outturn

The details of actual outturn in terms of resources and cash are as follows:

Actual outturn – resources:

Request for Resources: The total net resource outturn is £248,265k which is £1,251k less than estimate.

Actual outturn – cash:

Request for Resources: The outturn net requirement is £113,756k, which is £14,244k less than estimate.

The actual receipts surrenderable to the Consolidated Fund were £1,289k.

4. Pension contributions receivable

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Members normal contributions	(21,226)	(22,218)
Members additional contributions	(2,191)	-
Employer contributions	(43)	(76)
	<u>(23,460)</u>	<u>(22,294)</u>

5. Pension contribution transfers-in

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Group transfers in from other schemes	(10,075)	(600)
Individual transfers in from other schemes	(7,081)	(7,277)
	<u>(17,156)</u>	<u>(7,877)</u>

6. Pension cost

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Current service cost	18.1	80,212	73,673
		<u>80,212</u>	<u>73,673</u>

7. Transfers in

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Pension transfers in from other schemes	18.1	17,156	10,068
		<u>17,156</u>	<u>10,068</u>

8. Interest charge

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Interest charge for the year	18.1	189,284	183,520
		<u>189,284</u>	<u>183,520</u>

9. Reconciliation of net outgoings for the year and net resource outturn

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Net outgoings (Schedule 2)		246,086	237,152
Add: Income not appropriated-in-aid, payable to the Consolidated Fund	16	2,179	1,396
Add/(less): Prior year adjustment		-	196,108
Net Resource Outturn (Schedule 1)		<u>248,265</u>	<u>434,656</u>

10. Administration fees and expenses

The costs of administration of the schemes, with the exception of notional audit fees of £50,000 (2003-04 – £62,000) is borne by the UKAEA who recover the appropriate proportion of the costs from the other participating employers. Audit fees were in respect of statutory services only.

11. Additional Voluntary Contributions

The UKAEA's pension schemes provide for employees to make additional voluntary contributions (AVCs) to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries for onward payment to one of the approved providers, or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution which offer free standing additional voluntary contribution schemes. The Managers of the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme are responsible for payments made to the Schemes' approved providers. These AVCs are not brought to account in this Resource Account. Members participating in this arrangement receive an annual statement from the approved provider made up to 31 March each year confirming the amounts held to their account and the movements in the year.

Contributions to the AVC and Shift Pay Pension Plan schemes are deducted from employees' salaries and are paid over directly by the employers to the approved provider.

During the year, £4,486,929 (2003-04 - £4,243,233) was paid to the approved providers. The aggregate amounts of AVC investments are as follows:

The Prudential Assurance Company Limited

Movements in the year were as follows:

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Balance at 1 April	45,115	40,984
New investments	4,487	4,243
Sales of investments to provide pensions benefits	(2,155)	(1,912)
Changes in market value of investments	1,868	1,801
Balance at 31 March	<u>49,315</u>	<u>45,115</u>

In the unlikely event of a default by the approved AVC provider, the Department has no liability to guarantee pension payments. Under the UKAEA arrangement with Prudential Assurance Company Ltd, the schemes are classified as "insured" for the purposes of the Policyholders Protection Act 1975, which requires 90% of the value of the policy payable to the policy holders as determined by the Insurance Companies (Winding-Up) Rules 1985.

12. Contingent liabilities

There are no Contingent Liabilities.

13. Debtors – contributions due in respect of pensions

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Contributions due in respect of pensions	1,915	1,822
Pensions	4	-
Individual transfers in	251	713
Group transfers in	1,255	-
Sub-total	3,425	2,535
Supply debtors:		
Consolidated Fund:	-	6,984
	<u>3,425</u>	<u>9,519</u>

Included within these figures is £0.890m (2003-04: £0.186m) that will be due to the Consolidated Fund once the debts are collected

14. Cash at bank and in hand

The balance at 31 March comprises:

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Balance at Office of HM Paymaster General	5,613	(5,891)
Balance at Commercial Banks	3,014	1,641
	<u>8,627</u>	<u>(4,250)</u>

The Paymaster bank account for the UKAEA's pension schemes is a part of the Department of Trade and Industry's total financing arrangements with HM Treasury.

15. Creditors – amounts falling due within one year for pensions

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Contributions	(1)	-
Pensions	(5)	(1)
Lump Sums	(63)	(45)
Refund of Contributions	(25)	(10)
Individual transfers out to other schemes	(313)	(116)
Group transfers out to other schemes	-	-
Inland Revenue and voluntary contributions	(1,916)	(1,868)
Cash held on behalf of employees	(773)	(110)
	<u>(3,096)</u>	<u>(2,150)</u>

16. Creditors – amounts falling due within one year for Consolidated Fund excess appropriations-in-aid

	Note	<u>2004-05</u>	<u>2003-04</u>
		£000	£000
Appropriations-in-aid realised (Schedule 2)		(40,616)	(30,171)
Less: appropriations-in-aid authorised (Schedule 1)		38,437	28,775
Income not appropriated-in-aid, payable to the Consolidated Fund		<u>(2,179)</u>	<u>(1,396)</u>
Add: Working capital movement	20	(890)	(186)
Total Cash Consolidated Fund creditor		<u>(1,289)</u>	<u>(1,210)</u>
Total consolidated fund creditor		<u>(2,179)</u>	<u>(1,396)</u>

17. Creditors – amounts falling due within one year: Unspent supply (see Schedule 1)

	Note	<u>2004-05</u>	<u>2003-04</u>
		£000	£000
Net Cash Requirement (Schedule 1)		113,756	122,484
Parliamentary Funding:			
Drawn down (Schedule 4)		(119,756)	(115,500)
Deemed Supply (settlement of prior year's creditor for supply)		-	-
Amounts issued from the Consolidated Fund for supply, but not spent		<u>(6,000)</u>	<u>-</u>

18. Provision for pension liability

This statement is based on a full actuarial valuation of the Combined Pension Scheme carried out as at 31 March 2003, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2003 to 31 March 2005. Figures for the Principal Non-Industrial Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2001, updated approximately for the subsequent financial years to reflect known changes over the period 31 March 2001 to 31 March 2005. Figures for the Protected Persons Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2002, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2002 to 31 March 2005. A valuation at 31 March 2004 is currently being undertaken.

It is emphasised that the projection of the liabilities from the last valuation date to the current date is approximate. More accurate assessments will be available following the next formal valuation.

The major assumptions used by the Actuary were:

	At 31 March 2005	At 31 March 2004
Rate of increase in salaries	4.9%	4.9%
Rate of increase in pensions in payment and deferred pensions	3.4%	3.4%
Inflation assumption	3.4%	3.4%
Discount rate	7.0%	7.0%

Most pension benefits under the scheme are increased in line with inflation. In accordance with the Resource Accounting Manual, the scheme liability has been discounted at a real rate of 3.5% (7% nominal).

During the year ended 31 March 2005, employer contributions were in the range 0 to 0.5 per cent of pensionable pay. It is expected that contributions will remain at this level for the next year.

18.1 Analysis of movement in scheme liability

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Scheme liability at 1 April		(3,220,599)	(3,092,041)
Current service cost	6	(80,212)	(73,673)
Interest on pension scheme liability	8	(189,284)	(183,520)
		(269,496)	(257,193)
Pension transfers in	7	(17,156)	(10,068)
		(17,156)	(10,068)
Benefits paid	18.2	149,839	145,323
Pension payments to and on account of leavers	18.3	3,298	5,556
		153,137	150,879
Actuarial loss	18.4	(152,135)	(12,176)
Scheme liability at 31 March		<u>(3,506,249)</u>	<u>(3,220,599)</u>

18.2 Analysis of benefits paid

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Pensions or annuities to retired employees and dependents (net of recoveries of overpayments)	134,145	129,960
Commutations and lump sum benefits on retirement:	14,833	14,620
Death in service benefits	861	743
Per cash flow statement (schedule 4)	<u>149,839</u>	<u>145,323</u>

18.3 Analysis of payments to and on account of leavers

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Group transfers to other schemes	-	-
Individual transfers to other schemes	2,800	5,061
Refund of contributions including interest	498	495
Per cash flow statement (schedule 4)	<u>3,298</u>	<u>5,556</u>

18.4 Analysis of actuarial gain/(loss)

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Experience gains and losses arising on the scheme liabilities	(28,798)	(12,176)
Changes in assumptions underlying the present value of scheme liabilities	(123,337)	-
Per Statement of Total Recognised Gains and Losses	<u>(152,135)</u>	<u>(12,176)</u>

18.5 History of experience gains and losses

	<u>2004-05</u>	<u>2003-04</u>
Experience gains and losses on scheme liabilities:		
Amount (£000)	28,798	12,176
Percentage of the present value of the scheme liabilities	0.8%	0.4%
Total actuarial loss:		
Amount (£000)	152,135	12,176
Percentage of the present value of the scheme liabilities	4.3%	0.4%

19. Non-cash items

	Note	<u>2004-05</u> £000	<u>2003-04</u> £000
Increase in pension provision	18.1	269,496	257,193
Increase in pension provision – enhancements and inward transfers	18.1	17,156	10,068
Notional Audit Fee	10	50	62
Non cash items per Schedule 1		<u>286,702</u>	<u>267,323</u>

20. Movements in working capital, other than cash (see Schedules 1 and 4)

	2004-05 Consolidated Fund Non-operating movements	2004-05 Operating movements	2004-05 Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>
(Decrease)/increase in debtors (see Note 13)	(6,984)	890	(6,094)
Decrease/(increase) in creditors (see Notes 15,16 and 17)	(6,783)	(944)	(7,727)
Net decrease in working capital other than cash (Schedule 4)	(13,767)	(54)	(13,821)
Add back: movement in non-supply debtors	-	(890)	(890)
Net decrease in working capital other than cash excluding non-supply balances (Schedule 1)	<u>(13,767)</u>	<u>(944)</u>	<u>(14,711)</u>

Movements in the Department's working capital are split between 'Consolidated Fund Non-operating movements' and 'Operating movements'. The former relate to balances arising from the collection and subsequent surrender to HM Treasury of Consolidated Fund Extra Receipts. They are therefore excluded from the calculation of the Department's own working capital balances.

21. Reconciliation of financing from Consolidated Fund to net cash requirement per Schedule 1

	<u>2004-05</u> £000	<u>2003-04</u> £000
Voted from Consolidated Fund (Schedule 1)	128,000	127,225
Less: Surplus cash grant (Schedule 1)	(14,244)	(4,741)
Net cash requirement (Schedule 4)	113,756	122,484
Opening adjustment	-	-
Financing from Consolidated Fund (Schedule 3)	<u>113,756</u>	<u>122,484</u>
Voted from Consolidated Fund (Schedule 1)	128,000	127,225
Un-drawn grant	(8,244)	(11,725)
Cash financing from Consolidated Fund - current year (Schedule 4)	<u>119,756</u>	<u>115,500</u>

22. Intra-Government Balances

	Debtors: Amounts falling due within one year	Debtors: Amounts falling due after more than one year	Creditors: Amounts falling due within one year	Creditors: Amounts falling due after more than one year
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	-	-	(10,095)	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	3,425	-	(1,180)	-
At 31 March 2005	3,425	-	(11,275)	-
Balances with central government bodies	6,984	-	(3,264)	-
Balances with local authorities	-	-	-	-
Balances with NHS Trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	2,535	-	(282)	-
At 31 March 2004	9,519	-	(3,546)	-

23. Related-party transactions

The UKAEA Pension Schemes fall within the ambit of the Department of Trade and Industry, which is regarded as a related party. During the year, the schemes have had material transactions with the department and other departments, executive agencies and trading funds whose employees are members of the schemes. None of the Managers of the schemes, key managerial staff or other related parties has undertaken any material transactions with the schemes during the year.

24. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which Government Departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

The Department's financial instruments comprise of cash, loans, investments, public dividend capital, provisions, trade debtors, and trade creditors. Details of these can be found in the relevant notes.

24.1 Liquidity, Interest Rate and Foreign Currency risk

Resources voted annually by Parliament finance the Department's net revenue resource requirements and its capital expenditure and there is therefore no exposure to significant liquidity risks. The Department does not access funds from commercial sources and so is not exposed to significant interest rate risk.

The Department had no exposure to exchange rate risk during the year.

There is no material difference between the fair values and book values of the Group's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures, as allowed by FRS13.

Report of the Managers

1 Constitution of the Schemes

The three UKAEA public service pension schemes, (the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme) are unusual in their constitution. Contributions made to the schemes are used to meet the payment of scheme benefits. Any surplus of contributions over payments is surrendered to the Consolidated Fund. Any deficit is met by Parliamentary Vote with payment from the Consolidated Fund. The Government does not maintain a separate fund to provide for the schemes' future liabilities and future benefits will be paid out of the Consolidated Fund to the extent that, at the time of payment, benefits exceed contributions and Parliament votes the necessary funds.

There is no fund of investments. However, the schemes are run and accounts prepared as though a fund does exist. There are notional portfolios of investments which are deemed to be similar to that of a sample of UK funded pension schemes and the notional investment return and market value are determined by reference to the average performance of such a portfolio.

The Government Actuary's Department determines the investment return and fund value.

2 Managers, Advisers and Employers

Managers

UKAEA Pensions Manager Richard Stoneham, Marshall Building, 521 Downs Way, Harwell, Didcot, Oxfordshire OX11 0RA

Address for correspondence Pensions Administration Office, Brownhill Lodge, Thurso, Caithness KW14 7BA

Advisers

Actuary The Government Actuary, Finlaison House 15-17 Furnival Street London EC4A 1AB

Principal Bankers Royal Bank of Scotland plc, Olrig Street, Thurso, Caithness KW14 7BL

Legal advisers UKAEA Legal Branch, Marshall Building, 521 Downs Way, Harwell, Didcot, Oxfordshire OX11 0RA

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

Employers

The following employers participate in the schemes:

- United Kingdom Atomic Energy Authority (UKAEA)
- British Nuclear Fuels plc (BNFL)
- National Radiological Protection Board (NRPB) - with effect from 1 April 2005 NRPB became part of the Health Protection Agency
- Ministry of Defence (MOD)
- Engineering and Physical Science Research Council (EPSRC)
- Particle Physics and Astronomy Research Council (PPARC)
- Council for the Central Laboratory for the Research Councils (CCLRC)

On 1 April 1994 EPSRC took over those employees previously employed by the Science and Engineering Research Council (SERC) who were members of the Principal Non-Industrial Superannuation Scheme. On 1 April 1995 CCLRC was created out of EPSRC. In these accounts the acronym SERC is used to refer to the sub-scheme relating to the research councils.

3 Membership Statistics

Contributing members	UKAEA	BNFL	NRPB	MOD	SERC	Total
At 1 April 2004	2952	10856	322	33	133	14296
New Entrants	248	384	37	0	0	669
Retirements	78	163	5	2	11	259
Deaths	1	12	0	0	0	13
Leavers	106	295	23	1	0	425
At 31 March 2005	3015	10770	331	30	122	14268
Deferred Pensioners	UKAEA	BNFL	NRPB	MOD	SERC	Total
At 1 April 2004	4538	5243	142	115	96	10134
New	66	230	17	2	0	315
Retirements	93	108	3	7	3	214
Deaths	9	9	1	0	0	19
Leavers (now transfers)	32	32	2	0	0	66
At 31 March 2005	4470	5324	153	110	93	10150
Pensioners	UKAEA	BNFL	NRPB	MOD	SERC	Total
At 1 April 2004	7756	6451	140	1269	611	16227
New Retirements	171	271	8	9	15	474
Deaths	316	214	2	66	17	615
At 31 March 2005	7611	6508	146	1212	609	16086
Dependants' Pensions	UKAEA	BNFL	NRPB	MOD	SERC	Total
At 1 April 2004	2889	2375	32	759	167	6222
New Retirements	169	135	1	33	10	348
Deaths	150	137	1	50	9	347
At 31 March 2005	2908	2373	32	742	168	6223

4 Scheme records

Records are maintained in separate parts for UKAEA, BNFL, NRPB, MOD, and SERC to enable the actuary to advise on the contributions to be made by the participating employers to the schemes.

5 Additional voluntary contributions

In addition to allowing members to pay additional contributions to purchase added years of service within the schemes, additional contributions may be made to two defined contribution schemes (the Additional Voluntary Contribution (AVC) scheme and the Shift Pay Pension Savings Plan (the Plan)) These are fully insured schemes administered by Prudential Assurance Company Limited to whom contributions are paid.

The AVC scheme is open to members of the public service schemes who have opted to pay additional voluntary contributions. No employer contributions are made to this scheme. The Plan is open to shift workers who are members of the public service schemes. The costs of the Plan, which are directly linked to shift pay earnings, are borne by the relevant employers.

The transactions relating to the AVC scheme and the Plan are not included in these accounts as separate accounts are prepared to these defined contribution arrangements.

6 Benefits improvements

A revision to the rules of the Combined Pension Scheme and the Principal Non-Industrial Superannuation Scheme took place in June 2004 whereby part-time members who wish to purchase more Added Years in the UKAEA Schemes, and who have a mix of full time and part-time service, may be able to have additional scope for purchasing Added Years based on their actual reckonable service at the time of purchasing Added Years and the projected part-time service until retirement age.

7 Other rule amendments

There were two other formal rule amendments to the UKAEA pension schemes during 2004-05.

In practice employers have always been fully aware of the level of contributions required and there has not been any dispute arising from the rate of employer contributions which are recommended by the Government Actuary's Department. However, the scheme rules have been amended to reflect more accurately the terms of the position contained in the appropriate legislation.

The Civil Nuclear Police Authority was formed on 1 April 2005, and the rules of the Combined Pension Scheme (CPS) have been amended to allow members of the Civil Nuclear Constabulary to continue in membership of the CPS in accordance with the terms of the Energy Act 2004.

The Energy Bill received Royal Assent during the year and as a consequence, British Nuclear Fuels plc has split into separate designated companies. The rules of the Combined Pension Scheme are being amended to give effect to the relevant provisions of the Energy Act 2004.

Under the Health Protection Agency Act 2004, the National Radiological Protection Board became part of the Health Protection Agency with effect from 1 April 2005. The rules of the Combined Pension Scheme are being amended to give effect to the provisions of the Health Protection Agency Act 2004.

8 Pensions review

Under the rules of the Schemes, benefits are increased in line with increases in the cost of living to the extent corresponding to and upon like terms and conditions as apply in relation to official pensions in accordance with the Pension Schemes Act 1993. The increase for 2004-05 was effected on 12 April 2004 and amounted to 2.8% (2003-04 -1.7%).

9 Transfer values paid

Individual transfer values paid have been calculated using either "a cash equivalent method" in accordance with the Pension Schemes Act 1993 or, for eligible members, a "mixed transfer" method in accordance with the rules, where this was more favourable. Where there has been a compulsory transfer of employment, bulk transfer values paid have been calculated with Treasury agreement using a "past service reserve" method. Under these arrangements, which are generally more favourable than "cash equivalent" transfers, account is taken of potential salary increases to Normal Retirement Age rather than price increases over the same period.

At the end of 2004-05 £1,254,754 is still due to be paid by BNFL and AEA Technology in respect of the Gemini Project. In December 2004 BNFL paid the first of five annual payments of £82,943. There are three annual payments of £600,434 from AEA Technology plc, the first of which was paid on 28 January 2004, the second on 20 December 2004 with the remaining payment of £600,434 due in December 2005. A final payment due in December 2006 is currently estimated to be £322,548.

10 Premature retirements

The rules of the schemes provide for certain benefits to be paid to members retiring early. These benefits may include a lump sum and annual payments until normal retirement age. The payments are not chargeable to the schemes' accounts and are fully funded by the appropriate participating employer.

The extent of activity for the schemes under the above arrangements, for all participating employers, is shown in the following table:

	<u>2004-05</u>	<u>2003-04</u>
	£000	£000
Amount due to employers at 1 April	107	713
Received from employers during year	26,623	26,255
Paid to members during year	(23,762)	(23,588)
Repaid to employers during year	(2,218)	(3,273)
Amount due to employers at 31 March	<u>750</u>	<u>107</u>

The figures shown above reflect only those activities administered by the UKAEA Pensions Administration Office.

Other benefits, paid directly by participating employers to members retiring early, are excluded.

11 Actuarial position

The last approved triennial actuarial valuation of the Combined Pension Scheme was completed in respect of the scheme's position at 31 March 2003. The advice and recommendations made by the Actuary were accepted and did not require any change to the existing contribution rates.

The last approved triennial actuarial valuation of the Principal Non-Industrial Superannuation Scheme was completed in respect of the scheme's position at 31 March 2001. The advice and recommendations made by the Actuary were accepted and did not require any change to the existing contribution rates.

The last approved triennial actuarial valuation of the Protected Persons Superannuation Scheme was completed in respect of the scheme's position at 31 March 2002. The advice and recommendations made by the Actuary were accepted and did not require any change to the existing contribution rates.

The main purpose of the triennial actuarial valuations have been to determine each employers' contribution rate. However, from 1 April 2006 a different way of accounting for pensions cost in respect of the contributions due from employers will be introduced, Superannuation Contributions Adjusted for Past Experience (SCAPE).

Following the introduction of SCAPE, the participating employers will pay contributions based on the expected cost of the members' benefits as they accrue. These contributions will be set by the scheme actuary at each regular valuation of the scheme, based on the expected demographic and financial experience of the scheme at the time of the valuation.

REPORT OF THE ACTUARY

UNITED KINGDOM ATOMIC ENERGY AUTHORITY

- **COMBINED PENSION SCHEME**
- **PRINCIPAL NON-INDUSTRIAL SUPERANNUATION SCHEME**
- **PROTECTED PERSONS SUPERANNUATION SCHEME**

Accounts for the year ended 31 March 2005

A Liabilities

The capitalised value as at 31 March 2005 of expected future benefit payments under the three UKAEA pension schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2005, has been assessed using the methodology and assumptions set out in sections C and D. The results are as follows:

Table 1 - Combined Pension Scheme

Value of liabilities					£ million
	UKAEA	BNFL	NRPB	MOD	Total
Pensions in payment	784.4	566.8	14.8	0.3	1,330.3
Deferred pensions	143.7	152.7	3.5	-	299.9
Active members (past service)	324.3	1,146.9	39.0	-	1,510.3
Total	1,216.4	1,866.4	57.4	0.3	3,140.4

Table 2 - Principal Non-Industrial Superannuation Scheme

Value of liabilities				£ million
	Research Councils	MOD		Total
Pensions in payment	80.9	166.2		247.1
Deferred pensions	4.7	12.1		16.8
Active members (past service)	53.8	18.3		72.1
Total	139.4	196.7		336.1

Table 3 - Protected Persons Superannuation Scheme

Value of liabilities				£ thousand
	UKAEA	BNFL	MOD	Total
Pensions in payment	8,786	20,626	323	29,735
Deferred pensions	-	-	-	-
Active members (past service)	-	-	-	-
Total	8,786	20,626	323	29,735

For the three schemes combined, the total liabilities are as follows:

Table 4 – Combined CPS, PNISS and PPSS

	£ million					
Value of liabilities	UKAEA	BNFL	NRPB	Research Councils	MOD	Total
Pensions in payment	757.2	587.4	14.8	80.9	166.8	1,607.1
Deferred pensions	143.7	152.7	3.5	4.7	12.1	316.7
Active members (past service)	324.3	1,146.9	39.0	53.8	18.3	1,582.4
Total	1,225.2	1,887.0	57.4	139.4	197.2	3,506.2

In each of the tables 1 to 4, the liabilities have been split approximately by membership status at the latest formal valuation.

B Accruing Costs

Combined Pension Scheme

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost met by the employer. The cost of benefits accruing in the year 2004-05 has been assessed as follows:

Table 5 – Combined Pension Scheme

	% of pensionable pay			
	UKAEA	BNFL	NRPB	MOD
Standard contribution rate	20.5	18.9	20.4	-
Members' contribution rate	5.0	5.0	5.0	-
Employers' share of standard cost	15.5	13.9	15.4	-
Actual rate charged to employers for current year	0.0	0.0	0.5	-

In the case of UKAEA and BNFL the employer paid no contributions during the financial year. For NRPB, the employer's charge was £44,205.71 for the financial year. The actual contributions paid by each of these employers are less than the standard cost because allowance has been made for a (notional) surplus based on the experience of the scheme in relation to previous charges. The MOD section has no active members and so no benefits are accruing.

Principal Non-Industrial Superannuation Scheme

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost met by the employer. The cost of benefits accruing in the year 2004-05 has been assessed as follows:

Table 6 – Principal Non-Industrial Superannuation Scheme

	% of pensionable pay	
	Research Councils	MOD
Standard contribution rate	21.1	19.3
Members' contribution rate	7.5	7.5
Employers' share of standard cost	13.6	11.8
Actual rate charged to employers for current year	0.0	0.0

No employer contributions were paid during the financial year. The actual employer contributions are less than the standard cost because allowance has been made for a (notional) surplus based on the experience of the scheme in relation to previous charges.

Protected Persons Superannuation Scheme

There are no active members in the scheme, and the scheme is closed. Therefore, there are no further benefits accruing. There were no contributions to the scheme in the year 2004-05.

C Methodology

In all three schemes, the value of liabilities has been obtained using the projected accrued benefit method, with allowance for expected future pay increases in respect of any active members.

Combined Pension Scheme and Principal Non-Industrial Superannuation Scheme

The standard contribution rate for accruing costs has been determined using the projected unit method with a three year control period. Under the projected unit method, for a closed scheme such as the PNISS, the standard contribution rate will rise as the members of the scheme approach retirement.

Protected Persons Superannuation Scheme

There are no active members and hence there is no standard contribution rate.

D Assumptions

The principal financial assumptions adopted for the assessment made in relation to this statement are an investment return of 3.5% a year in excess of price increases and 2% a year in excess of earnings increases. A nominal investment return of 7% was used, though this is less significant to the assessment. The nominal rate of earnings increases implied by these assumptions is about 5%. The demographic assumptions adopted for the assessment are largely derived from the experience of the membership of the schemes.

E Notes

- (1) This statement is based on the preliminary results of a full actuarial valuation of the Combined Pension Scheme carried out as at 31 March 2003, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2003 to 31 March 2005. Figures for the Principal Non-Industrial Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2001, updated approximately for the subsequent financial years to reflect known changes over the period 31 March 2001 to 31 March 2005. Figures for the Protected Persons Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2002, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2002 to 31 March 2005. It is emphasised that the projection of the liabilities from the last valuation date to the current date is approximate. More accurate assessments will be available following the next formal valuation.
- (2) The pension benefits taken into account in this assessment are those provided from the rules of the pension scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits), or redundancy benefits which might arise in respect of current employees. Nor do the assessments include the cost of redundancy benefits which are already in payment to members below normal retirement age or pension payments to members between ages 60 and 65 where the members' retirement age has been reduced from 65 to 60 and the cost is met directly by the employer.

Andrew Johnston
Deputy Government Actuary
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