

Research Councils' Pension Schemes Accounts 2012-13

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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 2012-13 Government Financial Reporting Manual (FRoM) www.financial-reporting.gov.uk issued by HM Treasury and with regard to the Science and Technology Act 1965.
- 2 The RCPS is an unfunded pension scheme, in which payments from the pension scheme are funded by current employees' and employers' pension scheme contributions with the difference between these contributions and scheme expenditure financed by Grant-in-Aid provided from the 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 the RCPS 0.8 percent of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the Principal Civil Service Pension Scheme (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. Members joining from 1 April 1994 until 30 September 2002 entered what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. The Classic member contribution rate is 2 per cent lower than that of the Premium Scheme as a consequence of fewer benefits. 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, from 1 April 2012 the contributions paid by most members towards their Research Council pension increased. The 1 April 2012 increase is equivalent to an average of 1.5 per cent. Further increases are to be applied from 1 April 2013 and 2014.
- 8 The extra amount to be paid has been set according to the member's salary. Members have paid more towards their pension from 1 April 2012 if their pensionable earnings (salary and pensionable allowances) each year are more than £15,000 on a full-time equivalent basis.
- 9 Following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules the Research Councils' Pension Schemes (RCPS) 'by-analogy' arrangement has resulted in increased employee contribution rates from the 1 April 2012 as set out below.

Classic Scheme

Annual pensionable earnings (full-time equivalent basis)	Classic contribution rate before tax relief as at 31 March 2012	New 1 April 2012 contribution rate before tax relief
Up to £15,000	1.5	1.5
£15,001 – £21,000	1.5	2.1
£21,001 – £30,000	1.5	2.7
£30,001 – £50,000	1.5	3.1
£50,001 – £60,000	1.5	3.5
Over £60,000	1.5	3.9

Premium, nuvos and classic plus

Annual pensionable earnings (full-time equivalent basis)	Premium, nuvos and classic plus contribution rate before tax relief as at 31 March 2012	New 1 April 2012 contribution rate before tax relief
Up to £15,000	3.5	3.5
£15,001 – £21,000	3.5	4.1
£21,001 – £30,000	3.5	4.7
£30,001 – £50,000	3.5	5.1
£50,001 – £60,000	3.5	5.5
Over £60,000	3.5	5.9

- 10 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

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

Information for Members

- 12 The Research Councils' Joint Superannuation Service (JSS) website <http://jsspensions.org.uk> gives more information.

Accounting Officer

- 13 Professor Douglas Kell, the Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) is Accounting Officer for BBSRC and for the Research Councils' Pension Schemes.

Administrators

- 14 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.

Actuaries

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

Bankers

- 16 Banking services for the Pension Schemes in 2012-13 were provided by the Government Banking Service.

Auditors

- 17 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 £43,000 (2011-12: £43,000).
- 18 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 he ought to have taken to make himself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.
- 19 No non-audit was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

Employers

- 20 During 2012-13 the following employers have had members in the Research Councils' Pension Schemes:

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

Changes during 2012-13

- 21 From 1 April 2010, 152 members of the University of Southampton staff were transferred to the Natural Environment Research Council (NERC) 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 into the Research Councils' Pension Schemes and 49 members chose to transfer their Universities Superannuation Scheme benefits. The results of the Bulk Transfer will be included in the 2013-14 RCPS accounts.
- 22 The UK Shared Business Services Ltd (SBS), formerly named the RCUK Shared Services Centre Ltd (SSC) provides transactional services to the Research Councils' Pension Schemes. HR and Payroll sections of the Research Councils had previously been responsible for providing the JSS with the necessary data to administer the Research Councils' Pension Schemes. The SBS is now responsible for providing JSS with data for approximately 80 per cent of the active members of the Research Councils' Pension Schemes. A number of interfaces are under development to assist in the data transfer between the SBS and the JSS. The costs of setting up the SBS were not incurred by the Research Councils' Pension Schemes.
- 23 In April 2012, the Minister for the Cabinet Office, Francis Maude, announced that discussions have now concluded with the Civil Service unions on details for a new Principal Civil Service Pension Scheme to be introduced from 1 April 2015.
- 24 Heads of Agreement on the main elements of scheme design had been reached on 20 December 2011 and intensive discussions followed between the Cabinet Office and Civil Service trade unions on the remaining details. Union leaders were asked to put the details of this new scheme to their members.
- 25 During 2011-12, the reorganisation of the governance arrangements between BBSRC and its strategically funded institutes was completed. From the point of completion, no new recruits to the institutes, with the exception of the Institute for Animal Health, are eligible for entry into the Research Councils' Pension Schemes.
- 26 There has been no change to the employer contribution rate but following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules new variable employee rates were introduced from April 2012 as detailed in paragraph 9 above.

Review of the financial statements

- 27 For the year ended 31 March 2013 there was an overall position of net expenditure of £148.6 million compared to net expenditure of £167.3 million (restated) for the year ended 31 March 2012. The main difference for the decrease in net expenditure is due to the interest on scheme liabilities per the GAD report decreasing from £169 million in 2011-12 to £154 million in 2012-13.
- 28 Income was £85.8 million compared to £86.2 million for 2011-12. There are no bulk transfers in 2012-13 compared to the bulk transfer in 2011-12 of AHRC of £3 million. This decrease in income is compensated by an increase in pension contributions from £81.7 million in 2011-12 to £84.0 million in 2012-13 due to the increase in percentage payable by employees from 1 April 2012.
- 29 In 2012-13 the pension liability rose by £344 million from £3.20 billion (restated) to £3.54 billion mainly due to actuarial gains and losses of £241 million, interest on scheme liabilities of £154 million, current service cost of £72 million and payments out for pensions of £128 million. A full breakdown of the movement in pension liability can be found in note 15.11 to the accounts.
- 30 The closing pension liability figure for 2011-12 has been restated from £3.188 billion to £3.196 billion due to a restatement by GAD on their report to reflect an updated understanding of the cash flow information supplied for the 2011-12 accounts.

Anticipated changes during 2013-14

- 31 Increases to the employee contribution rates as detailed below apply from 1 April 2013. Employer contribution rates are unaffected.

Annual Pensionable Earnings (full time equivalent basis)	classic scheme		premium, classic plus and nuvos	
	Current contribution rate %	New 2013 contributions %	Current contribution rate %	New 2013 contributions %
Up to £15,000	1.50	1.50	3.50	3.50
£15,001 – £21,000	2.10	2.70	4.10	4.70
£21,001 – £30,000	2.70	3.88	4.70	5.88
£30,001 – £50,000	3.10	4.67	5.10	6.67
£50,001 – £60,000	3.50	5.46	5.50	7.46
Over £60,000	3.90	6.25	5.90	8.25

- 32 The Bulk Transfer of 49 former members of the Universities Superannuation Scheme who TUPE transferred from the University of Southampton to NERC on 1 April 2010 will be paid and the results will feature in the 2013-14 RCPS Accounts.
- 33 Employer legislation to require 'Auto Enrolment' into a qualifying 'Workplace Pension Scheme' commenced from October 2012. The date the legislation bites is dependent on the size of the employer, with larger employers affected first, followed by medium and small sized employers over the next six years.
- 34 The legislation would have affected the different Research Councils' Pension Schemes employers at different dates but within the legislation there is an opportunity for an employer to adopt an earlier 'Staging Date'. Each Research Councils' Pension Schemes employer, with the exception of Scotland's Rural College, agreed to adopt the same 'Staging Date' of 1 July 2013.
- 35 All existing scheme members on 30 June 2013 will be sent a letter, under the terms of the legislation, advising them of the new legislation but confirming that as scheme members they would be unaffected. Additionally, all employees eligible to join the Research Councils' Pension Schemes that are not members on 30 June 2013 will be sent a letter advising them that they have been auto entered into the scheme on 1 July 2013. All members retain the ability to 'opt out' of the scheme should they so wish.
- 36 Employees not eligible to join the Research Councils' Pension Schemes as at 30 June 2013, that are required to be auto enrolled in a 'Workplace Pension Scheme', will be auto entered into the National Employment Savings Trust (NEST) and will not therefore be included in these accounts.

Freestanding Additional Voluntary Contributions

- 37 Members in service are entitled to make additional voluntary contributions (AVC's) 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 2013	31 March 2012
	No	No
New Schemes		
Current members in Service	7,980	7,822
Pensions in Payment	7,209	6,894
Early Retirements	266	337
Preserved Pensions	7,932	7,593
Total	<u>23,387</u>	<u>22,646</u>
Old Schemes		
Pensions in Payment	5,256	5,360
Preserved Pensions	1,568	1,674
Total	<u>6,824</u>	<u>7,034</u>
Grand total	<u>30,211</u>	<u>29,680</u>
	2012-13	2011-12
	No	No
Members in Service at 1 April	7,822	8,321
Adjustment resulting from changes notified in current year	139	(18)
Adjusted figure for 1 April	7,961	8,303
New members in year	863	393
Leavers and retirements in year	(844)	(874)
Members in Service at 31 March	<u>7,980</u>	<u>7,822</u>
	31 March 2013	31 March 2012
	No	No
Classic Scheme	3,002	3,256
Classic Plus Scheme	265	287
Premium Scheme	2,005	2,183
Nuvos Scheme	2,708	2,096
Members in Service at 31 March	<u>7,980</u>	<u>7,822</u>
Holders of Partnership Pension Accounts	120	119

Guaranteed Minimum Pension (GMP) Data

38 During 2008-09 the Scheme was made aware of a problem with the late notification of Guaranteed Minimum Pension (GMP) data. JSS has worked with HM Revenue and Customs (HMRC) and completed a full review. It identified 585 cases where the notification of member Guaranteed Minimum Pensions (GMP) had not been received which, in turn resulted in a total value of overpayments, which are deemed to be irrecoverable, of £1,011,000. This issue is also highlighted in the Accounting Officer's Governance Statement (page 14).

Enquiries

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

Managers, Advisers and Employers

Accounting Officer:

Professor Douglas Kell
Polaris House, North Star Avenue, Swindon, SN2 1UY

Manager:

Ian Maxwell, Head of JSS
Polaris House, North Star Avenue, Swindon, SN2 1UY

Actuary:

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

Bankers:

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

Auditors:

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

Employers:

AHRC – Robin Smith
BBSRC – Janet Juillerat
ESRC – Norma Thorpe
EPSRC – Peter Ethelson
NERC – Steve Allsop
STFC – Jerry Snewin
Polaris House, North Star Avenue, Swindon, SN2 1UY

UK Shared Business Services Ltd –Jacek Markiewicz
Technology Strategy Board – Ann Shaw
North Star House, North Star Avenue, Swindon, SN2 1FA

Diamond Light Source Ltd – Deepak Kalia
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 Douglas Kell
Chief Executive and Accounting Officer of BBSRC

9 October 2013

Actuarial Statement for the Research Councils' Pension Schemes for accounts for the year ended 31 March 2012

Statement by the actuary

Introduction

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 2012-13 Resource Accounts of the Research Councils' Pension Schemes ('the scheme', or 'RCPS').

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).

The statement is based on an assessment of the liabilities as at 31 March 2013, using membership data as at 31 March 2012.

Membership data

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

Table A – Active members

	Number	Open Scheme Total pensionable pay* (£000 pa)
Males	4,731	179,364
Females	3,193	94,784
Total	<u>7,924</u>	<u>274,148</u>

* 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

	Number	Open Scheme Total deferred pension* (£000 pa)	Number	Closed Schemes Total deferred pension* (£000 pa)
Males	4,067	17,992	861	1,434
Females	3,981	11,425	837	1,290
Total	<u>8,048</u>	<u>29,417</u>	<u>1,698</u>	<u>2,724</u>

* pension amounts as at the assessment date; 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	3,832	54,437	2,536	22,609
Females	2,286	11,575	1,578	4,983
Spouses and dependants	696	3,464	1,181	4,958
Total	<u>6,814</u>	<u>69,476</u>	<u>5,295</u>	<u>32,550</u>

* pension amounts as at the assessment date; therefore not including pension increase due in April 2012

Methodology

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, and the principal assumptions applying to the 2012-13 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2013 was determined using the PUCM and the principal assumptions applying to the 2011-12 Resource Accounts.

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

The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2013, the assumed rate of return in excess of pension increases was decreased from 2.80 per cent a year to 2.35 per cent a year, and the assumed rate of return in excess of earnings was decreased from 0.60 per cent a year to 0.15 per cent a year. In addition, with effect from 31 March 2013, the assumed rate of future pension increases is 1.70 per cent a year and the assumed nominal rate of salary growth is 3.95 per cent a year (changed from 2.00 per cent and 4.25 per cent respectively as at 31 March 2012).

Table D – Principal financial assumptions

Assumption	31 March 2013	31 March 2012
Rate of return (discount rate)	4.10%	4.85%
Rate of return in excess of:		
Earnings increases	0.15%	0.60%
Pension increases (CPI)	2.35%	2.80%
Expected return on assets:	n/a	n/a

The pension increase assumption as at 31 March 2013 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

The mortality assumptions have been set by the Management Board based on the results of the analysis of scheme experience to 31 March 2010 for the Resource Accounts and updated for the most recently available population projections.

The other demographic assumptions adopted for the assessment of the liabilities as at 31 March 2013 are broadly those adopted for the 2006 funding valuation of the RCPS.

The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with the mortality rates applicable for two years of age older than members actual age for female members not in ill-health. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. Heavier baseline mortality assumptions are adopted for members in ill-health.

The reforms to the PCSPS due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 will also apply to the RCPS and may affect the behaviour of members, e.g. members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding the potential impact of these changes on member behaviour the Management Board has decided to make no allowance for them for the purposes of the 2012-13 Resource Accounts.

The contribution rate used to determine the accruing cost in 2012-13 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2011-12 Resource Accounts.

Liabilities

Table E summarises the assessed value as at 31 March 2013 of benefits accrued under the scheme prior to 31 March 2013 based on the data, methodology and assumptions described in paragraphs 4 to 14. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ million

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	3,539	3,195	3,031	3,498	2,648
Surplus/(Deficit)	(3,539)	(3,195)	(3,031)	(3,498)	(2,648)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Note that this table includes a correction increasing the 31 March 2012 liability by £7 million compared to the figure quoted in the 2011-12 Resource Accounts Report dated 13 June 2012. This reflects an updated understanding of the information supplied in respect of scheme pensions in payment for the 2011-12 resource accounts.

Pension cost

The cost of benefits accruing in the year ended 31 March 2013 (the Current Service Cost) is based on a standard contribution rate of 27.1 per cent. Members contributed between 1.5 per cent and 5.9 per cent 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 2011-12 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	1 April 2012 to 31 March 2013	1 April 2011 to 31 March 2012
Standard contribution rate	27.1%	26.5%
Members' estimated average contribution rate	4.2%	2.6%
Employers' estimated share of standard contribution rate	22.9%	23.9%

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 per cent, 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 2.8 per cent pa for the 2012-13 Current Service compared with 3.5 per cent a year for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3 per cent 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 accruals within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

The estimated pensionable payroll for the financial year 2012-13 was £266 million (derived from the total Employer contributions of £69,242,000 provided within the cashflow data and the actual Employer contribution rate of 26.0 per cent). Based on this information, the accruing cost of pensions in 2012-13 (at 27.1 per cent of pay) is assessed to be £72 million (including employee normal contributions). There is no past service cost and so this is the total pension cost for 2012-13.

Sandra Bell
Government Actuary's Department

19 June 2013

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 the 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 scheme at the year end and of the net income or expenditure and cashflows for the year ended 31 March 2013. 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

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 duties assigned to me and disclosed in *'Managing Public Money'*. As the Accounting Officer for BBSRC and RCPS I ensure that all decisions made are legal and comply with the Corporate Governance Framework and the relevant aspects of the Corporate Governance Code.

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), formerly called the UK Shared Services Centre (SSC), for the provision of administration systems and this statement also explains the oversight and assurance process and results for the services supplied.

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 provides an overview of the Schemes' performance during the year and how successfully it has coped with the challenge it faces.

Governance framework

In my role as Accounting Officer, 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 2012-13 (www.bbsrc.ac.uk/annualreport) and on the BBSRC website (www.bbsrc.ac.uk).

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 on-going process designed to identify and prioritise the risks to the achievement of BBSRC and RCPS policies, aims and objectives, to evaluate the likelihood of those risks being realised and realising their impact only then, and to manage them efficiently, effectively and economically. By extension, this process will include the principal risks that may apply to the Research Councils' Pension Schemes.

The system of internal control has been in place in the Research Councils' Pension Schemes for the year ended 31 March 2013 and up to the date of approval of the annual accounts, and accords with HM Treasury guidance.

The risk and control framework

Overall responsibility for risk management 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's overall risk management policy and strategy is delegated to the BBSRC Director of Finance 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), previously known as the Research Councils' Internal Audit Service (RCIAS), reviews the key risks to the RCPS on an annual basis. A rolling five year audit plan is followed to allow for a comprehensive review of the Research Councils' Pension Schemes.

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 adopts HM Treasury best practice on corporate governance and risk management. Risk management and internal control are considered on a regular basis by BBSRC's Executive and Audit Board during the year. The BBSRC Audit Board also reviews the Accounts of the Research Councils' Pension Schemes

The activities of the Audit and Assurance Services Group (AASG) in respect of RCPS are reviewed by the 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.

The Council's role, in terms of risk management, is to oversee the work of the Audit Board through review of Audit Board minutes and key risks highlighted by the Audit Board Chair.

Risk Assessment

The RCPS Risk Management Framework identifies key risks and the possible threat/opportunity 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. If risks materialise, they are transferred to the Corporate Issues Register, which is managed alongside the Corporate Risk Register

The Corporate Risk Register is formally monitored at the RCPS Management Board which meets three or four times a year.

New Risk Management System

As part of the on-going process of improving and further embedding risk management within BBSRC and RCPS a New Risk Management System (NRMS) is being developed. The aim is to establish a robust platform to manage RCPS risks. This will be implemented during 2013-14.

Counter fraud

There were no instances of fraud identified within the RCPS during 2012-13. However, as noted below under the section on significant audit findings, in April 2013 UK SBS Ltd informed me that it had been the subject of a number of instances of attempted fraud, which had been identified and avoided and were now subject to an investigation.

UK SBS Ltd has provided me with assurance that it is dealing with the matter appropriately, with regards to both the fraud attempts and necessary improvements to control frameworks, and that it is not aware of any fraud or suspected fraud affecting RCPS.

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 2012-13 are free from material misstatement from fraud.

Significant audit findings

There were no significant findings relating to core and cross-council assurance work. The 16 assurances were 100 per cent substantial assurance.

Results from the SBS Shared Assurance showed a marked improvement with 86 per cent (12) of the processes examined in 2012-13 receiving substantial assurance, compared to 36 per cent (5) in 2011-12. There were some areas within the control and risk management framework where improvements were required. Specifically, there are five significant control weaknesses that remain open at year end. These five areas cover network security, master data maintenance and E2E process governance.

As noted in the section on Counter Fraud, in April 2013 UK SBS Ltd informed me that it had been the subject of a number of instances of attempted fraud which had been identified and avoided, and were now subject to an investigation. Follow up work by AASG in May 2013 concluded that the control framework for Master Data Maintenance had some identified risk exposures which were being addressed to reduce vulnerability.

Although the fraud attempts were detected before any financial loss, they did represent a failure of the controls framework operating within RCUK SSC Ltd (now UK SBS Ltd) due to specific weaknesses identified by the internal audit report into Master Data Maintenance delivered by AASG earlier in the year. In addition, these weaknesses had been identified by internal audit reports in earlier years and measures to address them had been recommended previously by AASG.

The weaknesses noted above were identified through the AASG work on the SBS end-to-end shared business processes where responsibility for addressing identified weaknesses is shared between the SBS and Research Councils. Over the coming year, BBSRC and RCPS, collectively with the other Research Councils and the SBS, will pursue resolution of these issues.

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.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance, risk management and system of internal control. My review is informed by the work of the internal auditors, and the executive managers within the Research Councils' Pension Schemes and the Research Councils 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. 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 review of the work of AASG, the risk management frameworks developed 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.

During 2012-13 and 2011-12 there were no personal data incidents.

During 2008-09 the Scheme was made aware of a problem with the late notification of Guaranteed Minimum Pension (GMP) data. The JSS has worked with HM Revenue and Customs (HMRC) to assess the number of cases and the value of any overpayments which are deemed to be irrecoverable. This work has now been completed and 585 individual cases were identified with a total value of overpayments of £1,011,000. These member pensions have now been corrected, with the revised values in pay from 1 April 2013.

As part of the external audit of the Research Councils' Pension Schemes accounts for 2010-11, issues were identified with membership contribution data which pointed towards weaknesses in the control framework. These issues were highlighted by the migration of the Research Councils' Pension Schemes to the RCUK Shared Services Centre, which took place during the 2010-11 year.

As a result, a comprehensive review of all employees not paying pension scheme contributions was undertaken during 2011-12, with 44 cases being identified for further investigation. JSS worked with employers to resolve all of these instances on a case-by-case basis, and the impact on the 2010-11 accounts was a total value of outstanding pension contributions of £343,000 relating to 23 scheme members.

Improvements of the control framework were introduced in order to minimise the impact on the current and future financial years. However, following a review by the AASG a further 3 new cases were identified during the period June 2011 to March 2012. A full Root Cause Analysis has since been undertaken. The results were reported to the Research Councils' Pension Schemes Management Board and actions and remedies have been agreed. These were reviewed and tested by the AASG in 2012-13 and a Substantial Assurance resulted.

The JSS are working closely with the SBS specialist lead in revising processes to be fit for purpose for the Auto Enrolment legislation which will impact on the employers within the Research Councils' Pension Schemes on 1 July 2013. The process changes have been reflected in the current RCPS risk register and actions have been taken to put in place appropriate controls.

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 Douglas Kell
Chief Executive and Accounting Officer of BBSRC

9 October 2013

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 2013 under the Science and Technology Act 1965. These comprise the Combined Statement of Comprehensive Net Expenditure, the Combined Statement of Financial Position, the Combined Statement of Changes in Taxpayers Equity, the Combined Statement of 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 and 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 to identify material inconsistencies with the audited financial statements. 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 2013, 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 the 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.

Amyas C E Morse
Comptroller and Auditor General

14 October 2013

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

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Notes	2012-13 £000	2012-13 £000	Restated 2011-12 £000
Principal Arrangements – Research Councils' Pension Schemes				
Income				
Contributions receivable	3		83,999	81,733
Transfers in: individuals	4		1,926	1,411
Transfers in: bulk	4		–	3,054
Other pension income	7		(86)	35
			85,839	86,233
Expenditure				
Pension cost	5	72,000		74,000
Transfers out	6	2,260		4,659
Enhancements		5,000		5,000
Interest on scheme liabilities	10	154,000		169,000
Administration costs	9	1,160		845
			(234,420)	(253,504)
Net (Expenditure)/Income			(148,581)	(167,271)
Agency Arrangements				
Recoveries			2,834	2,531
Combined Net (Expenditure) for the year			(145,747)	(164,740)
Other Comprehensive Net Expenditure				
Recognised gains and losses for the year				
Actuarial (losses)/gains	15.15		(241,000)	28,000
Total Comprehensive Net (Expenditure)/Income for the year ended 31 March 2013			(386,747)	(136,740)

All activities are regarded as continuing.

The notes on pages 24 to 35 form an integral part of these accounts.

Combined Statement of Financial Position as at 31 March 2013

	Notes	31 March 2013 £000	Restated 31 March 2012 £000
Current assets			
Receivables	12	2,375	5,673
Cash and cash equivalents	13	6,476	8,879
Total current assets		8,851	14,552
Current liabilities			
Payables (amounts falling due within one year)	14	(5,317)	(5,427)
Net current assets, excluding pension liability		3,534	9,125
Pension liability	15	(3,540,551)	(3,196,395)
Net liabilities, including pension liabilities		(3,537,017)	(3,187,270)
Combined schemes – Total net liabilities		(3,537,017)	(3,187,270)
Taxpayers' equity			
General fund		(3,537,017)	(3,187,270)

Professor Doug Kell
Chief Executive BBSRC
Accounting Officer

9 October 2013

The notes on pages 24 to 35 form an integral part of these accounts.

Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	Notes	2012-13 £000	2012-13 £000	Restated 2011-12 £000
Balance at 1 April			(3,187,270)	(3,021,627)
Grant in Aid: drawn down	17	37,000		34,100
Interest payable to the BIS		—		(3)
Net Parliamentary funding			37,000	34,097
Combined net outgoings			(145,747)	(164,740)
Actuarial (losses)/Gains			(241,000)	(28,000)
Recalculation of closing provision			—	(7,000)
Balance at 31 March			<u>(3,537,017)</u>	<u>(3,187,270)</u>

The notes on pages 24 to 35 form an integral part of these accounts.

Combined Statement of Cash Flows for the year ended 31 March 2013

	Notes	2012-13 £000	Restated 2011-12 £000
Cash flows from operating activities			
Combined net (expenditure)/income for the year		(145,747)	(164,740)
(Increase) in receivables – principal arrangements		3,298	(3,106)
(Decrease)/increase in payables		(110)	(4,715)
Decrease in provision for non cash transactions			
Current service cost	5	72,000	74,000
Interest cost	10	154,000	169,000
Transfers out			1,000
Enhancements		5,000	5,000
Increase in pension provision for use of pension liabilities			
Benefit payments	15.13	(127,159)	(118,656)
Payments to or on account of leavers	15.14	(685)	(688)
Net cash outflow from operating activities		<u>(39,403)</u>	<u>(42,905)</u>
Cash flows from financing activities			
Net Parliamentary financing	17	37,000	34,097
(Decrease)/increase in cash and cash equivalents		<u>(2,403)</u>	<u>(8,808)</u>
Cash and cash equivalents at the beginning of the period	13	8,879	17,687
Cash and cash equivalents at the end of the period	13	6,476	8,879
(Decrease)/increase in cash		<u>(2,403)</u>	<u>(8,808)</u>

The notes on pages 24 to 35 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 2012-13 Government International IFRS Financial Reporting Manual (FReM) www.financial-reporting.gov.uk/ 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 the RCPS for the purpose of giving a true and fair view have been selected. The particular policies adopted by the 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' statements summarises the transactions of the RCPS which acts as a principal. The statement of financial position shows the deficit on the Schemes; 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 Schemes' liability. The actuarial position of the Pension Schemes is dealt with in the Report of the Actuary, and the Schemes 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 16 of accounts).

c Adoption of new or amended standards effective in 2011-12

There have been no new revised standards and interpretation applied by the Schemes since 1 April 2012.

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 notified by the person transferring and by their old pension scheme.

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.

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 Arrangements) 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 the 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.

Interest received on the schemes' Lloyds bank accounts is included in Other Pension Income. The same amount is paid over to BIS at the end of March each year under the Consolidated Fund Extra Receipts (CFER) arrangements.

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 expenditure/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 2.2 per cent.

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 Schemes 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 Schemes 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 Schemes' 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.

Restatement of 2011-12 Accounts

The closing pension liability for 2011-12 has been restated by GAD from £3,189 million to £3,196 million. This is due to GAD removing a deduction previously applied in calculating the open scheme pensions in payment liability. This reflects an updated understanding of the cashflow information supplied for the 2011-12 resource accounts. In addition the 'Enhancements (added pensions)' item for 2011-12 has also been updated to £5 million from £2 million in last year's GAD report to reflect a revised understanding of cashflow information supplied for the 2011-12 resource accounts.

3 Contributions receivable

	2012-13	2011-12
	£000	£000
Employers' contributions	69,011	70,114
Employees' contributions: normal	13,365	9,880
Employees' contributions: purchase of added years and added pension	1,623	1,739
	<u>83,999</u>	<u>81,733</u>

£72 million employers' contributions, £16 million employees' contributions and £1.8 million added years contributions are expected in 2013-14. Employee contributions will be higher than 2012-13 due to the increase in employee contribution rates introduced on 1 April 2013.

4 Pension transfers in

	2012-13	2011-12
	£000	£000
Individual Transfers in	1,926	1,411
Bulk Transfers in	–	3,054
	<u>1,926</u>	<u>4,465</u>

5 Pension cost

	Notes	2012-13	2011-12
		£000	£000
Current service cost	15.11	<u>72,000</u>	<u>74,000</u>
		<u>72,000</u>	<u>74,000</u>

6 Transfers out

	2012-13	2011-12
	£000	£000
Individual transfers out to other schemes	2,260	4,659
	<u>2,260</u>	<u>4,659</u>

7 Other pension income

	2012-13	2011-12
	£000	£000
Amounts receivable in respect of:		
Other (outgoings)/income	(86)	32
Bank interest receivable	-	3
	<u>(86)</u>	<u>35</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 37 of the Annual Report.

9 Administration costs

	2012-13	2011-12
	£000	£000
Total running costs	745	472
Net running costs	745	472
Pensioner payroll agency fees	142	159
Auditors' remuneration	43	43
Actuarial charges	226	154
Bank Charges	4	17
	<u>1,160</u>	<u>845</u>

10 Interest on Scheme liabilities

	2012-13	2011-12
	£000	£000
Interest charge for the year	<u>154,000</u>	<u>169,000</u>

11 Compensation benefits payable

There is no liability to the schemes as all compensation payments are funded by the Councils.

12 Receivables – contributions due in respect of pensions

	2012-13	2011-12
	£000	£000
<i>12a Analysis by receipt type</i>		
Prepaid Lump Sums	1,301	1,557
Pension contributions due from employers	581	2,916
Other receivables	493	1,200
	<u>2,375</u>	<u>5,673</u>

12b Intra-Government Balances

	Amounts falling due within	
	one year	
	2012-13	2011-12
	£000	£000
Other central government bodies	473	3,409
Other organisations	1,902	2,264
	<u>2,375</u>	<u>5,673</u>

There are no Intra Government Balances falling due after more than one year for 2012-13 or 2011-12.

13 Cash and cash equivalents

	2012-13	2011-12
	£000	£000
Balance at 1 April	8,879	17,687
Net change in cash balances	(2,403)	(8,808)
Balance at 31 March	6,476	8,879
The following balances at 31 March were held at		
Government Banking Service	6,476	8,597
Commercial Bank	–	282
Balance at 31 March	<u>6,476</u>	<u>8,879</u>

14 Payables – in respect of pensions

	2012-13	2011-12
	£000	£000
<i>14a Analysis by expenditure type</i>		
Early Retirement Lump Sums recovered from employers	–	558
Payables to other Research Councils	2,833	2,833
Other payables (including administration expenses)	2,441	1,993
Audit fee payable	43	43
	<u>5,317</u>	<u>5,427</u>

The Payables to other Research Councils is monies due to BBSRC. In 2010-11 £7,833k was paid to the RCPS to cover the costs of pensions when the payroll moved to the new shared services system. In 2011-12, £5 million has been repaid against this balance. In 2012-13 there were no repayments made.

14b Intra-Government Balances

	Amounts falling due within one year	
	2012-13	2011-12
	£000	£000
Other central government bodies	3,628	3,524
Other organisations	1,689	1,903
Balance at 31 March	<u>5,317</u>	<u>5,427</u>

There are no Intra Government Balances falling due after more than one year for 2012-13 or 2011-12.

15 Provisions for pension liabilities

15.1 The Research Councils' Pension Schemes are unfunded defined benefit schemes. The Report of the Actuary on pages 9 to 12 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2013 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010
Inflation	1.70%	2%	2.65%	2.75%
Earnings increase	3.95%	4.25%	4.90%	4.29%
Notional discount rate used to discount the Schemes' liabilities	4.10%	4.85%	5.60%	4.60%
Discount rate net of inflation	2.35%	2.80%	2.80%	
Increase in pensions CPI	2.35%	2.80%	2.90%	
Increase for pensions in payment and deferred pensions in line with increases in Retail Price Index	N/A	N/A	N/A	2.75%

The life expectancy of normal health current pensioners at age 60 for men is 28.21 (2011-12: 28.1) and women is 28.8 (2011-12: 28.7). The life expectancy of normal health future pensioners at age 60 for men is 30.0 (2011 12: 29.9) and women is 30.5 (30.4).

The life expectancy of normal health current pensioners at age 65 for men is 23.4 (2011-12: 23.3) and women is 23.9 (2011-12: 23.7). The life expectancy of normal health future pensioners at age 65 for men is 25.6 (2011 12: 25.5) and women is 26.1 (2011-12: 26.0).

- 15.2 The Schemes' administrators are responsible for providing the Actuary with the information the Actuary needed 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 schemes;
 - Income and expenditure, including details of any bulk transfers into or out of the schemes; 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 schemes' 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 schemes in the light of current knowledge.
- 15.7 The value of the liability on the 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 and the increased member contributions being phased in from April 2012 may affect the behaviour of members and due to the uncertainty surrounding the impact of these changes no allowance has been made in these 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 schemes' 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 schemes 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 2013 to be approximately assessed based on the calculated IAS19 liability as at 31 March 2012.

15.10 Analysis of the provision for pension liability

	2012-13	Restated 2011-12	2010-11	2009-10
	£ million	£ million	£ million	£ million
RCPS				
Active members	1,232	1,094	1,100	1,359
Deferred members	604	540	506	607
Current pensioners	<u>1,252</u>	<u>1,135</u>	<u>999</u>	<u>1,043</u>
Total	<u>3,088</u>	<u>2,769</u>	<u>2,605</u>	<u>3,009</u>
	£ million	£ million	£ million	£ million
Closed schemes				
Deferred members	62	57	60	80
Current pensioners	<u>390</u>	<u>370</u>	<u>366</u>	<u>409</u>
Total	<u>452</u>	<u>427</u>	<u>426</u>	<u>489</u>
Total provision for pension	<u>3,540</u>	<u>3,196</u>	<u>3,031</u>	<u>3,498</u>

15.11 Analysis of movements in the scheme liability

	Notes	2012-13 £000	2012-13	Restated 2011-12 £000
Scheme liability at 1 April			3,196,395	3,031,739
Current service cost	5	72,000		74,000
Enhancements		5,000		5,000
Interest on scheme liabilities		154,000		169,000
Benefits payable	15.13	(127,159)		(118,656)
Payments to or on account of leavers	15.14	(685)		(688)
Analysis of actuarial losses/(gains) on the scheme liabilities	15.15	241,000		28,000
			344,156	156,656
			3,540,551	3,188,395
Recalculation of closing provision			-	7,000
Net bulk staff transfer in			-	1,000
Scheme liability at 31 March			3,540,551	3,196,395

15.12 During the year ended 31 March 2013, employers' and employees' contributions represented an average of 27.1 percent of pensionable salaries. The employers' pension rate for 2013-14 and future years until further notice will be 26.0 percent.

15.13 Analysis of benefits paid

	2012-13 £000	2011-12 £000
Pensions to retired employees and dependents (net of recoveries or overpayments)	(109,504)	(100,033)
Commutations and lump sum benefits on retirement or death	(17,655)	(18,623)
As per statement of cash flows	(127,159)	(118,656)

15.14 Analysis of payments to or on account of leavers

	2012-13 £000	2011-12 £000
Refunds to members leaving service	(685)	(688)
As per statement of cash flows	(685)	(688)

15.15 Analysis of actuarial gains/losses on the scheme liabilities

	2012-13 £000	Restated 2011-12 £'000
Experience gains arising on the scheme liabilities	(24,000)	(1,000)
Change in assumptions underlying the present value of scheme liabilities	265,000	29,000
Per statement of recognised gains and losses	241,000	28,000

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)	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
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 ACP's payable in the next 10 years as employees can leave employment at 55 instead of 65 for men and 60 for women.

	2012-13 £000	2011-12 £000
Balance at 1 April	8,825	9,792
Amount paid in year to pension scheme	(1,168)	(1,112)
Addition in year	–	145
Release in year	(99)	–
Balance at 31 March	7,558	<u>8,825</u>
To be used in the next 12 months	1,439	1,431
To be used after more than 12 months	6,119	7,394

17 Grant-in-aid

Grant-in-Aid is provided from the Department for Business, Innovation and Skills Request for Resources 2 to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the schemes' finances. The allocation for 2012-13 was £37,000,000 (2011-12 was £34,100,000) 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).

BIS is regarded as a related party. During the period 1 April 2012 to 31 March 2013 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 the Technology Strategy Board (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.

Related Party Transactions

	Pension Contributions		Receivables		Payables	
	2012-13 £000	2011-12 £000	2012-13 £000	2011-12 £000	2012-13 £000	2011-12 £000
Transactions with Research Councils						
BBSRC	2,358	2,193	79	331	3,628	3,484
EPSRC	1,735	1,959	-	-	-	-
ESRC	967	989	-	-	-	-
NERC	19,582	19,259	111	2,424	-	40
STFC	14,670	14,779	82	19	-	-
TSB	1,530	1,178	195	216	-	-
AHRC	565	553	1	-	-	-
Transactions with other employers						
SERAD	7,512	8,044	29	418	-	-
SSC	4,270	3,718	4	-	-	-
Other	15,822	17,442	-	-	-	-
Other related parties	-	-	1,874	2,265	1,689	1,903
Total	69,011	70,114	2,375	5,673	5,317	5,427

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 14 October 2013, 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 2013-14 in paragraphs 31 to 36 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 Scheme's expected purchase and usage requirements and the Schemes are therefore exposed to little credit, liquidity or market risk.

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