United Kingdom Atomic Energy Authority Pension Schemes

Combined Annual Accounts 2016-17

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(For the year ended 31 March 2017)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

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Report of the Managers

Introduction

This Combined Account for the United Kingdom Atomic Energy Authority's (UKAEA) defined benefit Public Service Pensions Schemes (PSPS) for the year to 31 March 2017 covers the receipt of contributions from employers and employee, 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 UKAEA's Pension Schemes.

The business, its objectives and strategy

UKAEA Pension Schemes are statutory schemes as defined under Section 26(1) of the Finance Act 1970 and are registered schemes under the Finance Act 2004. There are no trustees.

The Schemes were contracted out under the Pension Schemes Act 1993 and subsequent legislation. Under the terms of the Pensions Act 2014, the Schemes ceased to be contracted out from 31 March 2016.

UKAEA's Public Service Pension Schemes comprise: the Combined Pension Scheme (CPS), the Principal Non-Industrial Superannuation Scheme (PNISS) and the Protected Persons Superannuation Scheme (PPSS) (the Schemes). They relate to the employees of UKAEA and, until 31 October 2009, UKAEA Ltd, Dounreay Site Restoration Limited (DSRL) and Research Sites Restoration Limited (RSRL). In addition, the Schemes relate to former employees of British Nuclear Fuels plc (BNFL), employees of the National Nuclear Laboratory Limited (NNL) and International Nuclear Services Limited (INSL), the Civil Nuclear Police Authority (CNPA) and the Health Protection Agency (HPA), which later became part of Public Health England (PHE) (in respect of members who prior to 1 April 2005 were employed by the National Radiological Protection Board), together with some employees of the Radiochemical Centre (later known as Amersham International), the Engineering and Physical Sciences Research Council (EPSRC), the Science and Technology Facilities Council (STFC), former employees of the Council for the Central Laboratory of the Research Councils (CCLRC), the Particle Physics and Astronomy Research Council (PPARC) and the Science and Engineering Research Council (SERC), the RCUK Shared Services Centre Limited and former UKAEA employees who transferred to the Ministry of Defence (Atomic Weapons Establishment).

The funding of payments from UKAEA's Pension Schemes is based on the published Parliamentary Supply Estimate and is supplied to the Department for Business, Energy and Industrial Strategy (BEIS) from the Consolidated Fund managed by HM Treasury. It should be noted that any contributions made to the Schemes are used to meet the payment of Schemes' benefits, but any surplus of such contributions over payments is surrendered to the Consolidated Fund. Similarly, any deficit is met by the Parliamentary Supply Estimate with payment from the Consolidated Fund.

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

Management of the Schemes, Managers, Advisers and Employers

The Schemes are managed by UKAEA. The administration of the Schemes is carried out by Aon under contract to UKAEA. The respective responsibilities of UKAEA and BEIS 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 UKAEA and amended from time to time as approved by the Secretary of State.

Managers

UK Atomic Energy Authority Responsible Officer	Catherine Pridham, UK Atomic Energy Authority, Culham Science Centre, Abingdon, Oxfordshire OX14 3DB
Schemes Administration Manager	Richard Stoneham, UK Atomic Energy Authority, Culham Science Centre, Abingdon, Oxfordshire OX14 3DB
Address for correspondence	Aon Hewitt, Brims House, Forss Business & Technology Park, By Thurso, Caithness KW14 7UZ

Advisers

Schemes Actuary	The Government Actuary's Department, Finlaison House, 15-17 Furnival Street, London EC4A 1AB
Principal Bankers	Royal Bank of Scotland plc, Olrig Street, Thurso, Caithness, KW14 7BL
Legal advisers	UK Atomic Energy Authority, Legal Branch, K2, Culham Science Centre, Abingdon, Oxfordshire OX14 3DB
Auditor	The Comptroller and Auditor General, National Audit Office, 157-197 Buckingham Palace Road, London, SW1W 9SP

Employers

The following employers participate in the Schemes:

- UK Atomic Energy Authority (UKAEA)
- National Nuclear Laboratory Limited (NNL)
- International Nuclear Services Limited (INSL)
- Civil Nuclear Police Authority (CNPA)
- Public Health England (PHE)
- Ministry of Defence (MoD)
- Engineering and Physical Science Research Council (EPSRC)
- Science and Technology Facilities Council (STFC)
- UK Shared Business Service (UK SBS)

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 the Central Laboratory of the Research Councils (CCLRC) was created out of EPSRC. On 1 April 2007 the Particle Physics and Astronomy Research Council (PPARC) and CCLRC merged to form the STFC with some employees joining the RCUK Shared Services Centre Limited in subsequent years which was renamed UK SBS in 2013. In these accounts, the acronym SERC is used to refer to the sub-scheme relating to the research councils.

The Civil Nuclear Police Authority was formed on 1 April 2005. Members of the Civil Nuclear Constabulary may continue in membership of the CPS in accordance with the terms 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. With effect from 1 April 2013, Public Health England

(PHE) subsumed the responsibilities of the Health Protection Agency. Members employed by PHE were no longer able to accrue benefits in UKAEA schemes from 1 October 2013.

Due to restructuring of the nuclear estate over recent years, BNFL no longer exists as an entity. Most of the BNFL estate has transferred out of the Schemes, with the exception of two areas which have become the NNL and INSL. In these accounts, these two companies are referred to as 'ex-BNFL'.

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. 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. Following the introduction of Superannuation Contributions Adjusted for Past Experience (SCAPE) on 1 April 2006, the participating employers pay contributions based on the expected cost of the members' benefits as they accrue. These contributions are set by the Schemes' Actuary at each regular valuation of the Schemes, based on the expected demographic and financial experience of the Schemes at the time of the valuation.

On the basis of the recommendations made by the Government Actuary Department (GAD), and having regard to whether each employer's participation in the Pension Schemes is open or closed to new members, the following employer contribution rates are applicable in respect of active membership from 1 April 2007:

UKAEA	16.2%
Civil Nuclear Police Authority	16.2%
Ex BNFL	15.0%
SERC	15.8%
Ministry of Defence	14.8%

During the year, the Scheme Actuary completed a revised valuation of the scheme as at 31 March 2012. New contribution rates will be applicable from 1st April 2017 onwards:

UKAEA	19.5%
Civil Nuclear Police Authority	19.3%
Ex BNFL	18.9%
SERC	15.8%
Ministry of Defence	15.8%

Contributions

All contributions have been collected in accordance with the Pension Schemes' Rules.

Future plans

During the year UKAEA and its advisors met with BEIS, HM Treasury, Cabinet Office and other scheme employers to discuss the future plans for UKAEA Schemes and the transfer to a career average scheme at a date to be agreed. These changes are required following the publication of the Public Service Pension Act 2013. UKAEA received approval from HM Treasury for members affected by the provisions of the Act to join the Civil Service and Others Pension Scheme (alpha) with effect from 1 April 2017 and preparations were made for this transfer. In March 2017 the Chief Secretary to the Treasury took the view, in light of an ongoing employment tribunal, that government should delay any impending transfer of staff to the main public service pension schemes that include Transitional Protection provisions, as was proposed in the UKAEA schemes. UKAEA has therefore paused the transfer to alpha, and awaits further information from HM Treasury. The changes will not affect pensioners or deferred members.

Membership Statistics

Contributing Members	**UKAEA[1]**	**CNPA**	**EX BNFL**	**PHE**	**MOD**	**SERC**	**Total**
At 1 April 2016	**677**	**1,559**	**889**	**-**	**3**	**22**	**3,150**
Sub Fund Adjustment	-1	1	-	-	-	-	**-**
New Entrants	74	183	81	-	-	2	**340**
Retirements	-15	-29	-16	-	-1	-5	**-66**
Deaths	-2	-2	-	-	-	-	**-4**
Leavers	-27	-137	-39	-	-	-	**-203**
At 31 March 2017	**706**	**1575**	**915**	**-**	**2**	**19**	**3,217**

Deferred Pensioners	**UKAEA**	**CNPA**	**EX BNFL**	**PHE**	**MOD**	**SERC**	**Total**
At 1 April 2016	**3,455**	**250**	**5,939**	**259**	**18**	**26**	**9,947**
Sub Fund Adjustment	2	-2	3	-1	-	-	**2**
New	44	60	96	-	-	-	**200**
Retirements	-201	-9	-280	-10	-5	-7	**-512**
Deaths	-1	-	-18	-	-	-	**-19**
Leavers	-1	-9	-1	-	-	-	**-11**
At 31 March 2017	**3,298**	**290**	**5,739**	**248**	**13**	**19**	**9,607**

Active deferred [2]	**UKAEA**	**CNPA**	**EX BNFL**	**PHE**	**MOD**	**SERC**	**Total**
At 1 April 2016	**902**	**-**	**7,305**	**-**	**-**	**-**	**8,207**
Retirements	-38	-	-257	-	-	-	**-295**
Deaths	-1	-	-9	-	-	-	**-10**
Leavers	-25	-	-60	-	-	-	**-85**
At 31 March 2017	**838**	**-**	**6,979**	**-**	**-**	**-**	**7,817**

Pensioners	**UKAEA**	**CNPA**	**EX BNFL**	**PHE**	**MOD**	**SERC**	**Total**
At 1 April 2016	**6,561**	**229**	**8,230**	**217**	**683**	**578**	**16,498**
Sub Fund Adjustment	-3	1	-	-	-	-1	**-3**
New	254	38	553	10	6	12	**873**
Deaths	-317	-1	-259	-5	-45	-23	**-650**
At 31 March 2017	**6,495**	**267**	**8,524**	**222**	**644**	**566**	**16,718**

Dependants' Pensions	**UKAEA**	**CNPA**	**EX BNFL**	**PHE**	**MOD**	**SERC**	**Total**
At 1 April 2016	**2,553**	**14**	**2,361**	**37**	**540**	**181**	**5,686**
Sub Fund Adjustment	-	-	3	-	-1	-	**2**
New	159	2	161	2	22	9	**355**
Deaths	-214	-	-177	-2	-59	-10	**-462**
At 31 March 2017	**2,498**	**16**	**2,348**	**37**	**502**	**180**	**5,581**

[1] The Research Council members are included in the Authority figures as they are part of the Authority sub-fund.

[2] Active Deferred – The Nuclear Decommissioning Authority (NDA), established with effect from 1 April 2005, set up a new scheme, the Combined Nuclear Pension Plan (CNPP). The CNPP is the vehicle for pension provision for eligible members in the nuclear industry who were active members of the CPS. As eligibility for membership to the CPS ceased, individuals were invited to join the CNPP and had the opportunity to preserve their accrued benefits in the CPS and were not transferred to the CNPP. The preserved CPS benefits for these members are calculated using the same pensionable final earnings as applies to the calculation of the CNPP benefits, hence the “active deferred” category of members.

Schemes’ records

Records are maintained in separate parts for UKAEA (including CNPA and the Research Councils), Ex-BNFL (including INSL and NNL), PHE and MOD to enable the Schemes Actuary to advise on the contributions to be made by the participating employers to the Schemes.

Defined contribution arrangements

In addition to allowing members to pay additional contributions to purchase added years of service within the schemes, there exist facilities for additional contributions to 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 the Prudential Assurance Company Limited to whom contributions are paid.

The AVC scheme is open to members of the Public Service Pension 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 Pension Schemes. Contributions to this scheme are directly linked to shift pay earnings with the employers contributing a percentage of pensionable shift pay salary equal to the percentage payable by them to the CPS.

The transactions relating to the AVC scheme and the Plan are presented in Note 6 in these Accounts. The transactions are not reflected in the financial statements as separate accounts are prepared for these defined contribution arrangements.

Rule amendments

Rule amendments for the schemes were prepared in anticipation of the closure of the scheme to new active membership in April 2017. However, these were not published due to the delay to this move as noted in the introduction. No other rule changes were made during the year.

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 1995. The increase for 2016-17 was 0% (2015-16: 1.2%).

Transfer values paid

Individual transfer values paid have been calculated using either “a cash equivalent method”, in accordance with the Pension Schemes Act 1995 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, group transfer values paid have been calculated with HM 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.

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 annual 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:

	2016-17	2015-16
	£000	£000
Amount due to/ (from) employers at 1 April	(164)	(296)
Adjustment to opening balance	81	-
Received from employers during year	13,403	13,472
Paid to members during year	(12,520)	(12,613)
Repaid to employers during year	(895)	(727)
Amount due (from)/ to employers at 31 March	**(95)**	**(164)**

Lump sum compensation payments and other benefit payments that are paid directly by participating employers to members retiring early are excluded from the above figures.

Financial review

The pension cost for the year was £48 million (2015-16: £64 million) a decrease of £16 million. The overall pension expenditure for the year was £288 million (2015-16: £307 million) £19 million less than for the prior year. The value of benefits payable increased by £10 million in 2016-17 to £243 million, which was mainly due to the increase in commutations, and to changes in the profile of the pensioners. The number of pensioners, deferred pensioners, and dependents decreased during the year by 225 to 31,906 as at 31 March 2017.

The value of contributions receivable remained at £29 million (2015-16: £29 million). There was a small increase in the number of contributing members, from 3,150 at 31 March 2016 to 3,217 as at 31 March 2017. The value of transfers in to the Schemes decreased in 2016-17 by £3 million to £1 million. The value of transfers out of the Schemes decreased in 2016-17 to £0.2 million.

Overall, the net outgoings for the year were £258 million (2015-16: £262 million). On the Net Cash Requirement, outturn compared with the Estimate shows a £22 million saving. This is the result of the forecast including a conservative estimate of both the level of interest due on the liabilities of the scheme and lump sum expenditure. In addition, the accrual of new pension benefits and the estimated interest cost were lower than allowed for in the Estimate.

The overall Schemes' liability in 2016-17 was £8,287 million; increasing by £1,556 million from 2015-16. The main factor underlying the increase in the actuarial liability is the changes to the financial assumptions (which are largely prescribed by HM Treasury).

The financial statements and accompanying notes on pages 28 to 43 provide further details of the Schemes' income and expenditure.

Actuarial position, actuary's valuation and statement

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".

Employer contribution rates have been set based on actuarial valuation calculations using data as at 31 March 2012. However, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2016, such as would have been provided for a formal actuarial valuation and updating this to 31 March 2017 to reflect known changes. Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. In undertaking this valuation, the methodology prescribed in IAS19, relevant FReM interpretations and the discount rate prescribed by HM Treasury have also been used.

The Government Actuary's Department's report on the 2016-17 Accounts, based on the position as at 31 March 2017, confirmed that the Schemes' liabilities were £8,287 million discounted at a real rate of 0.24% under the Rules at the date of the valuation. The actuarial report is reproduced on pages 11-16.

Auditors

These Financial Statements have been audited by the Comptroller and Auditor General (C&AG) whose opinion is expressed on pages 26-27. The notional cost of the audit for 2016-17 is £35,750. The audit fee is classified as an administration cost (rather than programme) and is therefore borne on the BEIS Vote.

Disclosure of Audit Information

As far as I am aware, there is no relevant audit information of which the Schemes' auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Schemes' auditors are aware of that information.

I confirm that the Combined Annual Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the Combined Annual Accounts and the judgments required for determining that they are fair, balanced and understandable.

Alex Chisholm
Accounting Officer and Permanent Secretary

13 July 2017

Report of the Actuary

United Kingdom Atomic Energy Authority ("UKAEA")

- Combined Pension Scheme

- Principal Non-Industrial Superannuation Scheme

- Protected Persons Superannuation Scheme

Accounts for the year ended 31 March 2017

Introduction

I. This statement has been prepared by the Government Actuary's Department at the request of the United Kingdom Atomic Energy Authority ('the Authority' or 'UKAEA'). It summarises the pensions disclosures required for the 2016-17 Resource Accounts of the United Kingdom Atomic Energy Authority's pension schemes ('the Schemes').

II. The CPS and PNISS are final salary defined benefit schemes. The PPSS consists only of pensions in payment. Full details of the benefits payable can be found in the Schemes' Rules[1]. The Schemes are wholly unfunded. I am not aware of any informal practices operated within the Schemes which lead to a constructive obligation (under IAS19, constructive obligations should be included in the measurement of the actuarial liability).

III. The statement is based on an assessment of the liabilities as at 31 March 2016, with approximate updating to 31 March 2017 to reflect known changes.

Membership data

IV. Tables A to D summarise the principal membership data as at 31 March 2016 used to prepare this statement are due to follow.

Table A – Active members

	31 March 2016 membership data	2016-17 accounts
Number	Total salaries (pa) (£ million)*	Estimated salaries implied by receipts (£ million)
3,081	120.3	120.7

*FTE

[1] http://www.ukaeapensions.org.uk/files/downloads/download1069.pdf

Table B – Active deferred members

	31 March 2016 membership data
Number	**Total salaries (pa) (£ million)***
8,201	374.9

*FTE

Table C – Deferred members

31 March 2016 membership data	
Number	**Total deferred pension* (pa) (£ million)**
9,988	44.9

*Including pension increases up to and including the April 2016 award

Table D – Pensions in payment

31 March 2016 membership data	
Number	**Total pension* (pa) (£ million)**
22,122	208.1

*Including pension increases up to and including the April 2016 award

V. **Methodology**

VI. 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, and the principal financial assumptions applying to assessment of the liability as at 31 March 2017 for the 2016-17 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the assessment of the liability as at 31 March 2016 for the 2015-16 Resource Accounts.

VII. 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 any such cases that are not financed by employers as they fall due

Principal financial assumptions

The principal financial assumptions adopted to prepare this statement are shown in Table E.

Table E – Principal financial assumptions

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases	(1.70)%	(0.60)%
Expected return on assets:	n/a	n/a

* Short-term adjustments have been made to this assumption for the period to 2020

VIII. The pension increase assumption up to and including 31 March 2017 is based on the Consumer Price Index (CPI) measure of inflation.

Demographic assumptions

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

X. The mortality assumptions adopted to prepare this statement are detailed in the table below.

Table F – Post-retirement mortality assumptions

Normal health	
BNFL Males	98% of S2NMA mortality
Non-BNFL Males	91% of S2NMA mortality
Females	101% of S2NFA mortality
Current ill-health pensioners	
Males	100% of S2IMA mortality
Females	100% of S2IFA mortality
Future ill-health pensioners	
Males	100% of S2IMA mortality

Females	100% of S2IFA mortality
Partners	
Males	100% of S2NMA mortality
Females	104% of S2DFA mortality

XI. These assumptions are the same as those adopted for the 2015-16 Resource Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections.

XII. The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted to calculate the liability as at 31 March 2016 for the 2015-16 Resource Accounts.

Liabilities

XIII. Table G summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 5 to 12. The corresponding figures for the previous four year ends are also included in the table.

Table G – Statement of Financial Position

£ thousand

	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	8,287,118	6,730,907	6,811,141	6,174,600	5,766,300
Surplus/(Deficit)	(8,287,118)	(6,730,907)	(6,811,141)	(6,174,600)	(5,766,300)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

XIV. The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 39.5%. Members contributed between 8.2% and 10.7% of pensionable pay, depending on whether they are members of the CPS or PNISS. Table H 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 of 8.2%. The corresponding figures for 2015-16 are also included in the table.

Table H – Contribution rate

	Percentage of pensionable pay	
	2016-17	**2015-16**
Standard contribution rate	39.5%	41.6%
Members' estimated average contribution rate	8.2%	8.2%
Employers' estimated share of standard contribution rate	31.3%	33.4%

XV. For the avoidance of doubt, the actual rate of contributions payable by employers, differs for different employers and varied between 14.8% and 17.3% of pensionable pay in both 2015-16 and 2016-17. This is not the same as the employers' share of the standard contribution rate as above (31.3% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Resource Accounts is the discount rate. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

XVI. The pensionable payroll for the financial year 2016-17 was £120,742 thousand (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 39.5% of pay) is assessed to be £47,693 thousand.

XVII. There have been no past service costs in the year 2016-17.

XVIII. I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

Sensitivity analysis

XIX. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the most significant actuarial assumptions.

XX. The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

XXI. As a result of the scheme reform, there is significant uncertainty over when members are expected to retire. We have included an indication of the approximate effect (on the total past service liability) of all active members and active deferred members retiring one year later than assumed in the main liability calculations.

XXII. Table I shows the indicative effects on the total liability as at 31 March 2017 of changes to the financial assumptions and demographic assumptions as described above.

Table I: Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*:	+½% a year	-9.0%	- £745,806 thousand
(ii) (long-term) earnings increase*:	+½% a year	+2.0%	+ £165,735 thousand
(iii) pension increases*:	+½% a year	+8.0%	+ £662,939 thousand
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement*:		+3.0%	+ £248,602 thousand
(v) All active and active deferred members retire (on average) 1 year later*+ :		-0.5%	- £41,434 thousand

* Approximate effect rounded to the nearest ½%. Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

+If only actives are considered then the estimated effect is less than ¼%.

Michael Scanlon, Ian Sharpe

Government Actuary's Department

20 June 2017

Statement of Parliamentary Supply *(this section is subject to audit)*

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Pension Schemes' to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

Summary of Resource Outturn 2016-17

							2016-17	**2015-16**
							£000	**£000**
	Estimate Voted	**Estimate Non-Voted**	**Estimate Total**	**Outturn Voted**	**Outturn Non-Voted**	**Outturn Total**	**Voted outturn compared with Estimate: saving/ (excess)**	**Outturn Total**
Annually Managed Expenditure								
- Resource	275,765	-	275,765	257,509	-	257,509	18,256	262,115
Total Budget	**275,765**	**-**	**275,765**	**257,509**	**-**	**257,509**	**18,256**	**262,115**
Non-Budget								
Total	**275,765**	**-**	**275,765**	**257,509**	**-**	**257,509**	**18,256**	**262,115**

Net Cash Requirement 2016-17

				2016-17	**2015-16**
				£000	**£000**
	SoPS Note	**Estimate**	**Outturn**	**Outturn compared with Estimate: saving/ (excess)**	**Outturn**
Net cash requirement	SoPS2	**235,601**	**213,199**	**22,402**	**219,583**

(i) Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control.

(ii) All resources are classified as Annually Managed Expenditure (AME), they are all classified as Programme costs and there is no Administration Costs limit.

(iii) Explanations of variances between Estimate and Outturn are given in the Financial Review.

Notes to the Statement of Parliamentary Supply *(this section is subject to audit)*

SOPS1. Net outturn

	2016-2017										2015-16 Outturn
	Outturn							Estimate			
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net	Gross	Income	Net					
Annually Managed Expenditure											
Voted											
Pensions, transfer values, repayment of contributions	-	-	-	288,394	(30,885)	257,509	257,509	275,765	18,256		262,115
Total	**-**	**-**	**-**	**288,394**	**(30,885)**	**257,509**	**257,509**	**275,765**	**18,256**		**262,115**

All figures within the outturn section are taken directly from the Statement of Comprehensive Net Expenditure on page 28 of these accounts and therefore no separate reconciliation is required.

The Schemes do not have a Departmental Expenditure Limit (DEL), Capital, Non-voted Annually Managed Expenditure (AME) or an administration budget in the SoPS.

SOPS2. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)
		£000	£000	£000
Resource Outturn		275,765	257,509	18,256
Adjustments to remove non-cash items:	SoCNE	(308,152)	(288,394)	(19,758)
Adjustments to reflect movements in working balances:		22,000	(303)	22,303
Use of provision	10.4	245,988	244,387	1,601
Net cash requirement		**235,601**	**213,199**	**22,402**

Parliamentary Accountability Disclosures *(this section is subject to audit)*

Losses and special payments

There are no losses or special payments, individually or in aggregate in excess of £300,000 which would require separate disclosure during the year to 31 March 2017 (2015-16: nil), or that have been recognised since that date.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Business, Energy and Industrial Strategy (BEIS) to prepare for each financial year a statement of accounts for the United Kingdom Atomic Energy Authority Pension Schemes in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the financial year end), the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions and affairs of the United Kingdom Atomic Energy Authority Pension Schemes and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- Observe the Accounts Direction issued by HM Treasury 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.

HM Treasury has appointed the Permanent Secretary of BEIS as Accounting Officer for the United Kingdom Atomic Energy Authority 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 Schemes are set out in *Managing Public Money* published by HM Treasury.

Governance Statement for the United Kingdom Atomic Energy Authority Pension Schemes 2016-17

Scope of responsibility

As Accounting Officer for the United Kingdom Atomic Energy Authority ("UKAEA", "the Authority") Pension Schemes ("the Schemes") I have responsibility for maintaining a sound system of governance, risk management and internal control that supports the achievement of the Schemes' policies, aims, and objectives and for safeguarding the public funds and departmental assets for which, as the Accounting Officer and Permanent Secretary for Department for Business, Energy and Industrial Strategy ("the Department", "BEIS"), I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

From 14th July due to Machinery of Government (MOG) changes, the Department was led by both Permanent Secretaries of the Department for Business, Innovation and Skills (BIS) and the Department for Energy and Climate Change (DECC). The Permanent Secretary of BIS remained formally accountable for former BIS Accounting Officer responsibilities until the Permanent Secretary of BEIS was confirmed on 5 September 2016 and inherited responsibility relating to the UKAEA Pension Schemes.

The Chief Executive and Accounting Officer of UKAEA (a partner organisation of the Department) is responsible for the management and administration of the Schemes on my behalf under the terms of a Management Framework between UKAEA and the Department, and for the maintenance and operation of the Governance Framework in that body.

The administration of the schemes is carried out by Aon under contract to UKAEA. 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. The Department prepares this Resource Account which consolidates the financial information for the three separate Authority Schemes. Thus the Governance Framework over the schemes in operation in UKAEA and the Department is relevant to this Account.

The Governance Framework

UKAEA

The UKAEA Board and Audit Committee maintain oversight of the three UKAEA Schemes and provide me with assurance on the quality of the Accounts, governance, risk management and internal control arrangements as they affect the Schemes.

More details on UKAEA's governance framework can be found in UKAEA's Annual Report and Accounts.

The Department

The Departmental Board provides collective strategic leadership of the Department with responsibility for performance, risk and delivery including appropriate oversight of partner organisations, including UKAEA.

More details on the Department's governance framework can be found in the Department's Annual Report.

The Schemes

A Management Framework between the Department and UKAEA sets out the responsibilities that each have in respect of the funding, management and administration of the Schemes and incorporates a framework for the management of risks and maintaining a sound system of internal control. The Management Framework was reviewed during the course of 2016-17. It sets out Governance responsibilities.

In addition to the oversight function described above, UKAEA is responsible for managing and administering the Schemes properly and efficiently within the terms of the Schemes' Rules and relevant legislation, handling Schemes' finances with propriety, consistent with the requirements of Government Accounting, accounting to BEIS each month for the application of cash used and operating an effective system of internal controls and risk management in respect of these responsibilities. These include regular internal audit reviews.

In addition to the strategic responsibility described above, BEIS is responsible for reporting to Parliament on the resource and cash requirements for the Pension Schemes, preparing the annual Resource Account for the Schemes, and arranging for external audit of the Combined Resource Account, ensuring that the resource and cash requirement for each year is consistent with the relevant Estimate, operating an effective system of internal controls and risk management in respect of these responsibilities.

The Department / UKAEA Pension Schemes "Finance Meeting" meets on a quarterly basis. The objectives of these meetings are:

- To ensure that those representatives responsible for the management and reporting of financial data for UKAEA Pension Schemes have a good understanding of all the financial aspects of the Schemes;
- To ensure that future changes to the Pension Schemes are identified and the implications understood and communicated to each of the representative areas;
- To ensure that changes in personnel are managed in such a way that there is no loss of understanding and that there is continuity of financial management; and
- To manage the risks to the effective financial control of UKAEA Pension Schemes.

Participants at the "Finance Meeting" include representatives from the Department's Group Finance / Sponsor Team, Corporate Finance (Accounts Preparation and Advice Centre, Budgeting and Estimates team), Internal Audit, the Government Actuary Department (GAD) and UKAEA. The NAO attends as observers.

The Department / Authority Pension Schemes "Finance Meeting" met on the following dates: 22 June 2016, 28 September 2016, 7 December 2016 and 6 March 2017. During the year, the "Finance Meeting" considered the following issues:

- Valuation of the Scheme;
- Review of the process maps and responsibilities of the various parties to the schemes;
- Pension Scheme Reform arising from the Public Services Pensions Act 2013.

An Annual Report has been produced documenting the work of the "Finance Meeting" during 2016-17 and evaluating its performance over the course of the year. Members agreed with the report's conclusion that the "Finance Meeting" was working well in meeting its objectives and that significant progress has been made in improving understanding across all the parties involved.

Risk Management

The risk management process for the Schemes operates through the initial identification of risks against the Schemes' 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 named individuals who will report on progress in managing the risk when the risk register is reviewed. Assurance is obtained through regular management reviews and periodic Internal Audits of the Schemes. There were no significant lapses of data security during this financial year to report in this statement.

During the year the internal audit recommendations that were outstanding were closed satisfactorily as shown in the following table. There were no new recommendations during the year.

	Red	Amber	Green	Total
C/fwd. from previous years	4	2	1	7
2016/17 Recommendations				0
Completed on time	2	2	1	5
Competed late	2			2
Total outstanding @ 31/3/2017	**0**	**0**	**0**	**0**
Overdue			0	0

A risk register for the Schemes operated throughout the year and contains both the key strategic and operational risks. Each of the teams involved in operating the Schemes also maintain their own local risk register. Key strategic risks relate to:

- Engaging effectively with HM Treasury over the unique issues around the Schemes in helping to develop optimum arrangements for the future;
- Implementing appropriate governance arrangements for existing schemes that reflect best practice;
- Ensuring bulk transfers of members have sufficient funding provision, authorised through Parliamentary Estimates, before being finalised;
- The 2012 valuation of the Schemes and its potential impact on contribution rate for employers;
- Ensuring employers recognise their ownership of existing liabilities where no active members remain in their organisation; and
- Entry to the Civil Service and Others Pension Scheme (alpha) is delivered in accordance with Ministerial approval. There is uncertainty of the date of entry as the process has been paused under instruction from HM Treasury.

A number of mitigating actions have been put in place to manage the above risks and progress on these will be monitored during the course of 2017-18.

UKAEA and BEIS are holding discussions with HM Treasury regarding the legacy liabilities for the Schemes. This is a key issue regarding where and how potential deficits must be provided for by the appropriate employer or sponsor Department.

Reporting of Personal Data Related Incidents

UKAEA reported no incidents of the loss of any “Protected Personal Data” to the Information Commissioner’s Office in 2016-17 (or prior years). There were no “Other Protected Personal Data” incidents in 2016-17 (or prior years) such as the loss of inadequately protected or insecure disposal of electronic equipment, devices or paper documents from secured Government premises, or any other unauthorised disclosure.

UKAEA will continue to monitor and assess its information risks, in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of governance, risk management and internal control. My review of the effectiveness is informed by the work of the internal auditors and the executive managers within the Department and UKAEA who have responsibility for the development and maintenance of the risk management and internal control framework for the Schemes; 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 UKAEA Audit Committee and mechanisms are in place to ensure continuous improvement of the system is in place. The effectiveness of the governance frameworks in operation more generally in UKAEA and the Department are reflected in the respective Governance Statements of these organisations.

My review has provided me with assurance that the system of governance risk management and internal control in operation for the Schemes has operated satisfactorily during 2016-17.

Alex Chisholm
Accounting Officer and Permanent Secretary

13 July 2017

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

I certify that I have audited the financial statements of the United Kingdome Atomic Energy Authority Pension Schemes Combined Annual Accounts for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those disclosures as having been audited.

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 Government Resources and Accounts Act 2000. 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 Schemes' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Managers, the Report of the Actuary and the Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded 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 Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded 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 the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Schemes' affairs as at 31 March 2017 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Report of the Managers 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 and the parts of the Parliamentary Accountability Disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with HM Treasury's guidance

Report

I have no observations to make on these financial statements.

Sir Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
17 July 2017

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	2016-17	2015-16
		£'000	**£'000**
Principal Arrangements - UKAEA Pension Schemes			
Income			
Contributions receivable	2	(29,405)	(29,193)
Transfers in		(1,480)	(4,121)
Gain on settlements or curtailments	3	-	(11,500)
		(30,885)	(44,814)
Expenditure			
Service Cost	4	47,693	63,873
Enhancements		384	375
Transfers in	5	1,480	4,121
Pension financing cost		238,837	238,560
		288,394	**306,929**
Net Expenditure		257,509	262,115
Other Comprehensive Net Expenditure			
Pension re-measurements:			
- Actuarial loss/(gain)	10.7	1,512,203	(123,351)
Total Comprehensive Net Expenditure for the year ended 31 March 2017		**1,769,712**	**138,764**

Notes 1 to 14 form part of these Accounts.

Combined Statement of Financial Position as at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
Principal Arrangements - UKAEA Pension Schemes			
Current assets			
Receivables	7	2,692	2,536
Cash and cash equivalents	8	8,580	8,079
Total current assets		**11,272**	**10,615**
Current liabilities			
Payables (within 12 months)	9	(12,968)	(12,008)
Total current liabilities		**(12,968)**	**(12,008)**
Net current assets/(liabilities), excluding pension liability		**(1,696)**	**(1,393)**
Pension liability	10.4	(8,287,116)	(6,730,906)
Net liabilities, including pension liabilities		**(8,288,812)**	**(6,732,299)**
Taxpayers' equity			
General fund		(8,288,812)	(6,732,299)
Total taxpayers' equity		**(8,288,812)**	**(6,732,299)**

Alex Chisholm
Accounting Officer and Permanent Secretary

13 July 2017

Notes 1 to 14 form part of these Accounts.

Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

		31 March 2017	31 March 2016
	Note	£'000	£'000
Balance at 1 April		(6,732,299)	(6,813,118)
Net Parliamentary Funding - drawn down		213,700	218,130
Net Parliamentary Funding - deemed		8,079	9,532
Supply (payable) adjustment - current year		(8,580)	(8,079)
Net Expenditure for the Year		(257,509)	(262,115)
Actuarial (loss)/gain	10.7	(1,512,203)	123,351
Balance at 31 March		**(8,288,812)**	**(6,732,299)**

Notes 1 to 14 form part of these Accounts.

Combined Statement of Cash Flows for the year ended 31 March 2017

	Note	2016-17 £'000	2015-16 £'000
Cash flows from operating activities			
Net expenditure for the year		(257,509)	(262,115)
Adjustments for non-cash transactions		-	-
(Increase)/Decrease in receivables		(156)	(282)
Increase/(Decrease) in payables: pensions		960	(1,755)
Short-term payables		-	-
less movements in payables relating to items not passing through the Combined Statement of Comprehensive Net Expenditure		(501)	1,453
Movement in pension liability - service and finance costs	10.4	286,530	302,433
Movement in pension liability - enhancements and transfers in	10.4	1,864	4,496
Movement in pension liability - loss/(gain) on settlement or curtailment	10.4	-	(11,500)
Movement in pension liability - benefits paid	10.5	(242,899)	(232,684)
Movement in pension liability - refunds and transfers	10.6	(753)	(19,015)
Movement in pension liability - death in service	10.5	(735)	(614)
Net cash flows from operating activities		**(213,199)**	**(219,583)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		213,700	218,130
Net Parliamentary financing		**213,700**	**218,130**
Adjustments for payments and receipts not related to Supply		-	-
Net Financing		**213,700**	**218,130**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		501	(1,453)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**501**	**(1,453)**
Cash and cash equivalents at the beginning of the period	**8**	8,079	9,532
Cash and cash equivalents at the end of the period	**8**	8,580	8,079

Notes 1 to 14 form part of these Accounts.

Note 1 Notes to the Schemes Statements

1. Statement of accounting policies

The accounting policies contained in the *Government Financial Reporting Manual (FReM)* issued by HM Treasury follow International Financial Reporting Standards (IFRS) to the extent that they are meaningful and appropriate in the public sector context.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Schemes for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Basis of preparation of the Schemes financial statements

The financial statements of the Combined Schemes have been prepared in accordance with the relevant provisions of the *FReM*. The accounting policies contained in the *FReM* apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans* are of particular relevance to these statements.

In addition to the primary statements prepared under International Financial Reporting Standards, the *FReM* also requires the Schemes to prepare an additional statement – *a Statement of Parliamentary Supply*. This statement, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Parliamentary Supply and its supporting notes are shown on pages 17-19.

1.2 UKAEA Pension Schemes

The UKAEA Pension Schemes are an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the United Kingdom Atomic Energy Authority Pension Schemes on behalf of the members that satisfy the membership criteria.

Contributions to the Schemes by employers and employees are set at rates determined by the Schemes' Actuary and approved by the governing body. The contributions partially fund payments made by the Schemes, the balance of funding being provided by Parliament through the annual Supply Estimates process.

The financial statements of the Schemes show the financial position of the UKAEA Pension Schemes at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Schemes; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Schemes' liability. Further information about the actuarial position of the Schemes is dealt with in the Report of the Actuary, and the Schemes' financial statements should be read in conjunction with that Report.

1.3 Pension contributions receivable

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

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

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

1.3.4 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). The transactions relating to the AVC scheme and the SPPP are not reflected in these Combined Accounts as separate accounts are prepared for these defined contribution arrangements.

1.4 Transfers in and out

1.4.1 Transfers in are normally accounted for as income and expenditure (representing the associated increase in the Schemes' liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the Schemes have formally accepted or transferred a liability. Transfers out are normally accounted for as use of provision.

1.5 Income received in respect of enhancements

1.5.1 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 Schemes' liability) on a cash basis.

1.6 Gain or loss on settlements or curtailments

1.6.1 A gain or loss on settlement or curtailment is recognised when there has been a significant reduction in the number of Schemes' members or when there is an amendment to the terms of the Schemes so that a significant element of future service by members will no longer qualify for benefits or will only quality for reduced benefits. Gains or losses are recognised when they occur.

1.7 Other income

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

1.8 Current service cost

1.8.1 The current service cost is the increase in the present value of the Schemes' liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a discount rate at the start of the year of 1.37% real (i.e. 3.60% including CPI inflation).

1.9 Past service costs

1.9.1 Past service costs are increases in the present value of the Schemes' 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.

1.9.2 Past service costs are recognised in the Combined Statement of Comprehensive Net Expenditure on a straight line basis over the period in which increase in benefits vest.

1.10 Interest on Schemes' liabilities

1.10.1 The interest cost is the increase during the period in the present value of the Schemes' liabilities because the benefits are one period closer to settlement and is recognised in the Combined Statement of Comprehensive Net Expenditure. The interest cost is based on a discount rate (including inflation) at start of the year, i.e. 3.60%.

1.11 Other payments

1.11.1 Other payments are accounted for on an accruals basis.

1.12 Schemes' liability

1.12.1 Provision is made for liabilities to pay pensions and other benefits in the future. The Schemes' liability is measured on an actuarial basis using the projected unit method and is discounted at 0.24% (2015-16: 1.37%) real (i.e. 2.80% including inflation).

1.12.2 Full actuarial valuations by a professionally qualified actuary are usually obtained for accounting purposes at intervals not exceeding four years. The effective date of the full accounting calculation underlying these accounts is 31 March 2016. These calculations have been updated to 31 March 2017 to reflect known changes.

1.13 Pension benefits payable

1.13.1 Pension benefits payable are accounted for as a decrease in the Schemes' liability on an accruals basis.

1.14 Pension payments to those retiring at their normal retirement age

1.14.1 Where a retiring member of the Schemes 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 Schemes' liability on an accruals basis.

1.14.2 Where retiring members of the Schemes have 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 Schemes' liability on a cash basis.

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

1.15.1 Where members of the Schemes are entitled only to a refund of contributions, the transaction is accounted for as a decrease in the Schemes' liability on an accruals basis.

1.15.2 Where members of the Schemes have the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the Schemes' liability on a cash basis.

1.16 Lump sums payable on death in service

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

1.17 Actuarial gains / losses

1.17.1 Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Combined Statement of Other Comprehensive Net Expenditure.

1.18 Additional Voluntary Contributions

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

1.19 Significant estimates and judgements

1.19.1 The key estimates and judgements relate to the valuation of the pensions liability and these have been documented in full in the report of the Actuary and Note 10.

1.20 Administration costs

1.20.1 Administration costs are borne by the participating employers and BEIS and are accounted for in the financial statements of the relevant employer or BEIS respectively.

1.21 Accounting standards issued not yet adopted

1.21.1 There are no accounting standards issued not yet adopted that impact the Combined Accounts.

Note 2 Pension contributions receivable

	2016-17	2015-16
	£'000	**£'000**
Employers:		
Normal	(19,077)	(18,909)
Employees:		
Normal	(9,944)	(9,909)
Purchase of added years	(384)	(375)
	(29,405)	**(29,193)**

Note 3 Gain on settlements or curtailments

There are no gain on settlements or curtailments in 2016-17. During 2015-16, there was a bulk transfer of PHE membership and a redundancy program run by NNL, resulting in a gain on settlement of £11.5 million.

Note 4 Service Cost (see Note 10.4)

	2016-17	2015-16
	£'000	**£'000**
Current service cost	47,693	49,873
Past service cost - GMP indexation	-	14,000
	47,693	**63,873**

Note 5 Transfers in (See Note 10.4)

	2016-17	2015-16
	£'000	**£'000**
Group transfers in from other schemes	-	-
Individual transfers in from other schemes	1,480	4,121
	1,480	**4,121**

Amount receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movements in the provision during the year.

Note 6 Additional Voluntary Contributions

Note 6.1

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. 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 provider. These AVCs are not brought to account in this Combined Resource account. Members participating in this arrangement receive an annual statement from the approved provider confirming the amounts held on their account and the movements in the year. The transactions relating to the AVCs are presented below.

Note 6.2 The aggregate amounts of AVC investments are included as follows below:

	2016-17	2015-16
	£'000	**£'000**
Movements in the year		
Balance at 1 April	51,854	54,103
Adjustment to balances as at 1 April	1	(32)
New investments	214	358
Sales of investments to provide pension benefits	(7,225)	(4,763)
Changes in market value of investments	3,847	2,188
Balance at 31 March	**48,691**	**51,854**

In the unlikely event of a default by the approved AVC provider, BEIS has no liability to guarantee pension payments. Under the United Kingdom Atomic Energy Authority arrangement with Prudential Assurance

Company Ltd, the Schemes are classified as "insured" for the proposed of the Policyholders Protection Act 1975, which requires 90% of the value of the policy to be payable to the policy holders as determined by the Insurance Companies (Winding-Up) Rules 1985.

Note 7 Receivables - contributions due in respect of pensions

	2016-17	2015-16
	£'000	**£'000**
Amounts falling due within one year		
Pension contributions due from employers	1,604	1,520
Employees' normal contributions	857	837
Interest receivable	160	163
Other receivables	71	16
Balance at 31 March	**2,692**	**2,536**

Note 8 Cash and cash equivalents

	2016-17	2015-16
	£'000	**£'000**
Balance at 1 April	8,079	9,532
Net change in cash balances	501	(1,453)
Balance at 31 March	**8,580**	**8,079**
The balances at 31 March were held at:		
Government Banking Service (GBS)	5,714	6,810
Commercial banks and cash in hand	2,866	1,269
Balance at 31 March	**8,580**	**8,079**

Note 9 Payables - in respect of pensions

	2016-17	2015-16
	£'000	**£'000**
Amounts falling due within one year		
Pensions	(698)	(523)
Lump sums	(756)	(467)
Refund of contribution	(36)	(24)
Individual transfers out to other schemes	-	-
HMRC and voluntary contributions	(2,804)	(2,764)
Overpaid contributions: employers	(94)	(151)
Other payables	-	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	(8,580)	(8,079)
Balance at 31 March	**(12,968)**	**(12,008)**

Note 10 Provision for pension liabilities

Note 10.1 Provision for pension liability

The United Kingdom Atomic Energy Authority Pension Schemes are a combination of three unfunded defined benefit public service pension schemes. Employer contribution rates have been set from 1 April 2017 onwards based on actuarial valuation calculations using data as at 31 March 2012.The amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2016, such as would have been provided for a formal (funding) valuation and updating this to 31 March 2017 to reflect known changes. The Report of the Actuary on page 11-16 sets out the scope, methodology and results of the work the actuary has carried out.

The Schemes' managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Schemes' managers should make available to the actuary in order to meet the expected requirements of the Schemes' auditor. This information includes, but is not limited to, details of:

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

The major assumptions used by the actuary were:

	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014	At 31 March 2013
	%	%	%	%	%
Rate of increase in salaries	4.6	4.2	4.2	4.5	4.0
Rate of increase in pensions in payment and deferred pensions	2.6	2.2	2.2	2.5	1.7
Rate of RPI inflation[1]	-	-	-	-	-
Rate of CPI inflation[1]	0.2	1.4	1.3	1.8	2.4
Discount rate	2.8	3.6	3.6	4.4	4.1

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.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the CPI used in HM Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 the Scheme Managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

1 Most pension benefits under the Schemes are increased in line with inflation. The Government continues to set pension increases based on the Consumer Price Index (CPI) measure of inflation. In accordance with the *Government Financial Reporting Manual,* the liability at 31 March 2017 has been discounted at a real rate of 2.2%. The assumption data in the table are disclosed for comparative purposes and are rounded to one decimal place.

10.2 Analysis of pension liability

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80%	3.60%
Rate of earnings increases*	4.55%	4.20%
Rate of future pension increases	2.55%	2.20%
Rate of return in excess of:		
Pension increases (CPI)	0.24%	1.37%
Earnings increases	(1.70)%	(0.60)%
Expected return on assets:	n/a	n/a

* Short-term adjustments have been made to this assumption for the period to 2020

The Pension Schemes' liabilities accrue over employee's 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 Schemes' 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.

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 managers of the Scheme 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 10.8. The note also discloses "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.

10.3 Sensitivity analysis

A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown in the Report of the Actuary on page 11-16.

The liability is very sensitive to the assumed discount rate but this is primarily because changing the discount rate in isolation also changes the rate net of pension increases and earnings. If pension increases and earnings assumption were increased at the same time, then the impact on the liability would be small.

Higher pension increases have a substantial effect because this has an impact on all categories of members.

Pensioner mortality is also significant: if longevity at retirement were assumed to be 1 year longer, then this would increase the total actuarial liability by about 3.0%.

Changing the assumed timing of retirement has different effects on members in different circumstances. Members retiring later will result in reduced costs to the scheme, whereas members retiring earlier may result in additional costs.

The sensitivities show the change in assumption in isolation. In practice such assumptions rarely change in isolation and given the interdependencies between the assumptions the impacts may offset to some extent.

Note 10.4 Analysis of movements in the Schemes' liability

	Note	2016-17	2015-16
		£'000	**£'000**
Schemes' liability at 1 April		(6,730,906)	(6,811,141)
Service cost	4	(47,693)	(63,873)
Pension financing cost		(238,837)	(238,560)
Enhancements		(384)	(375)
Pension transfers in	5	(1,480)	(4,121)
Net gain on settlement or curtailment	3	-	11,500
Benefits payable	10.5	243,634	233,298
Pension payments to and on account of leavers	10.6	753	19,015
Actuarial gain/(loss)	10.7	(1,512,203)	123,351
Schemes' liability at 31 March		**(8,287,116)**	**(6,730,906)**

Note 10.5 Analysis of benefits paid

	2016-17	2015-16
	£'000	**£'000**
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	203,220	202,131
Commutations and lump sum benefits on retirement	39,679	30,553
Death in service benefits	735	614
Per Statement of Cash Flows	**243,634**	**233,298**

Note 10.6 Analysis of payments to and on account of leavers

	2016-17	2015-16
	£'000	**£'000**
Refunds to members leaving service	534	742
Group transfers to other schemes	33	17,207
Individual transfers to other schemes	186	1,066
Per Statement of Cash Flows	**753**	**19,015**

Note 10.7 Analysis of actuarial gain/(loss)

	2016-17	2015-16
	£'000	£'000
Experience gains arising on the Schemes' liabilities	(23,579)	144,479
Changes in assumptions underlying the present value of Schemes' liabilities	(1,488,624)	(21,128)
Per Statement of Changes in Taxpayers Equity	**(1,512,203)**	**123,351**

Note 10.8 History of Experience gains/(losses)

	2016-17	2015-16	2013-14	2012-13	2011-12
Experience gains and losses on Schemes' liabilities:					
Amount (£000)	(23,579)	144,479	52,365	28,166	2,100
Percentage of the present value of the Schemes' liabilities	0.28%	2.10%	0.80%	0.50%	0%
Total amount recognised in statement of Changes in Taxpayers Equity:					
Amount (£000)	(1,512,203)	123,351	(557,226)	(360,139)	(433,687)
Percentage of the present value of the Schemes' liabilities	18.25%	1.80%	-8%	-6%	-8%

Note 11 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 Schemes' financial instruments relate to contracts for non-financial items in line with the expected purchase and usage requirements and the Schemes are therefore exposed to little credit, liquidity or market risk.

Note 12 Contingent liabilities disclosed under IAS 37

There were no contingent liabilities at 31 March 2017 (31 March 2016: nil).

Note 13 Related-party transactions

UKAEA Pension Schemes fall within the ambit of the BEIS, which is regarded as a related party with which UKAEA has had various material transactions during the year.

In addition, the Schemes had material transactions with other central government bodies whose employees are members of the Schemes.

None of the Managers of the Schemes, key managerial staff or other related parties have undertaken any material transactions with the Schemes during the year.

Note 14 Events after the reporting period

The Accounting Officer of the Department has authorised the Combined Account to be issued on the date that the Comptroller and Auditor General certified the Account.

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