NATURAL ENVIRONMENT RESEARCH COUNCIL

Natural Environment Research Council

Annual Report and Accounts 2012-2013

Natural Environment Research Council

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Some research reported here may not yet have been peer-reviewed or published. For a list of NERC Council members see page 40. For members of our other committees go to www.nerc.ac.uk.

The science of our

The Natural Environment Research Council (NERC) is the largest funder of environmental science in the UK. We invest public money in cutting-edge research, training and knowledge transfer in the environmental sciences. Our scientists study and monitor the whole planet, from pole to pole, and from the deep Earth and oceans to the edge of space. We address and respond to critical issues such as environmental hazards, resource security and environmental change. Through collaboration with other science disciplines, with UK business and with policy-makers, we make sure our knowledge and skills support sustainable economic growth and public wellbeing – reducing risks to health, infrastructure, supply chains and our changing environment.

NERC strategic goals

To deliver world-leading environmental research at the frontiers of knowledge:

- Enabling society to respond urgently to global climate change and the increasing pressures on natural resources.
- Contributing to UK leadership in predicting the regional and local impacts of environmental change over timescales from days to decades.
- Creating and supporting vibrant, integrated research communities.

With our researchers and stakeholders, we develop the priorities that provide a focus for the marine, polar, atmospheric, geological, terrestrial and freshwater science communities. This research is often multidisciplinary and in collaboration with national and international partners.

NERC runs a fleet of research ships and scientific aircraft. We have bases in some of the world's most hostile environments and we invest in satellite technology to monitor environmental change on a global scale.

NERC is committed to developing UK and international capability across the environmental sciences. We fund centres and universities to carry out research and to train and support a world-class community of environmental scientists.

changing world

NERC funds six major environmental research centres:

BAS – British Antarctic Survey

BGS – British Geological Survey

CEH – Centre for Ecology & Hydrology

NOC – National Oceanography Centre

NCAS – National Centre for Atmospheric Science

NCEO – National Centre for Earth Observation

Where their names appear in this report, they have been abbreviated.

British Antarctic Survey
NATURAL ENVIRONMENT RESEARCH COUNCIL

National Oceanography Centre
NATURAL ENVIRONMENT RESEARCH COUNCIL

British Geological Survey
NATURAL ENVIRONMENT RESEARCH COUNCIL

National Centre for Atmospheric Science
NATURAL ENVIRONMENT RESEARCH COUNCIL

Centre for Ecology & Hydrology
NATURAL ENVIRONMENT RESEARCH COUNCIL

National Centre for Earth Observation
NATURAL ENVIRONMENT RESEARCH COUNCIL

The year in review

This year NERC has been putting the core principles of its emerging new strategic direction into practice.

Central to this is our commitment to working in partnership – with other science disciplines, with businesses and NGOs across sectors, and with policy-makers – not just to deliver applicable and accessible research but also to inform the future direction of our science strategy.

Meanwhile we continue to look at our internal process and structures – our research centres, our central administration and our budget allocations – to make sure that as much of our resource as possible is directed to front-line science.

And through internal reorganisation and better dialogue with stakeholders, we are capturing and demonstrating the diverse impacts of our work, many realised in partnership with other funders and other nations.

A natural business partner

NERC has intensified its engagement with industry, policy-makers and third-sector organisations, targeting key sectors where we can make the greatest contribution to the government's strategy for economic growth. To do this as effectively as possible, we are working closely alongside our fellow research councils and other bodies such as the Technology Strategy Board.

As well as developing strategic partnerships with individual companies and organisations, we are developing multi-partner collaborations to drive innovation and knowledge transfer. We are working with organisations with a common interest in a particular sector, to identify the most pressing challenges in that area and support the science to meet them. One model for collaboration is the Business Club, which we are scoping in five priority areas of food security, risk, infrastructure, natural resources and big data. A club for sustainable agriculture has already been set up, with the Biotechnology and Biological Sciences Research Council, and is now targeting key challenges including water and nutrients.

NERC and its centres CEH and BGS are founder partners in the Environmental Science to Services Partnership which is now operational after a successful pilot phase. The partnership was created to more effectively translate the knowledge, expertise and data of the partners into products and services that meet

customers' specific needs, whether commercial tools or improved public services. A range of products and services is already being developed, the first of which will be launched later in the year.

Accessing resources for industry and society

The discovery of plate tectonics by environmental scientists in the 1950s was fundamental to the development of the fossil-fuel industry and post-war economic growth. Oil and gas still provide 70 per cent of the UK's energy mix and NERC continues to contribute to its safe and efficient extraction. The Ocean Margins LINK programme developed a new way of analysing field data, which triggered significant investment and employment in Scotland as well as spin-out company, Geospatial Research Ltd. BP used the research outputs to locate up to 36 new wells in the Clair Ridge Project, and to get approval for the £4.5bn development of the field – the largest hydrocarbon resource in the UK continental shelf.

Now NERC is helping the UK secure a sustainable energy supply and meet its low-carbon targets by reducing the risk of exploiting unconventional fuel sources and renewables. The UK Energy Research Centre this year gave evidence on the impacts of shale gas on energy markets while BGS has quantified shale gas reserves and given evidence on its safe extraction, enabling the government to plan the medium-term national energy balance. Our environmental monitoring work underpins the sustainability of new technologies like tidal turbines so they can be licensed and begin operation quickly. This means the green economy can grow, generating jobs and growth while contributing to the UK's carbon-reduction targets and energy security.

Impact on society

Much of the work we fund will have profound long-term implications for society. For example, many of our scientists are contributing to the forthcoming fifth report of the United Nations Intergovernmental Panel on Climate Change, expected to be published in 2013 and 2014. This will provide a new synthesis of the science of our changing environment that will improve the ability of governments and businesses to plan for and cope with the consequences of climate change.

At last year's Rio+20 summit, disaster risk reduction was identified as an area needing urgent attention. NERC research in forecasting and mitigating global geological hazards remains world-leading. The Increasing Resilience to Natural Hazards programme is providing £3m for volcanologists, social scientists and international development experts to work together to improve forecasting and mitigation of the threat from volcanic eruptions in Latin America and the Caribbean.

And, together with the Economic and Social Research Council, NERC is investing £4.6m on increasing resilience through multi-hazard

assessment of earthquake-prone and volcanic regions, an initiative that has strong international stakeholder engagement. Further work is also continuing to improve our understanding of the Eyjafjallajökull volcanic eruption, for new ash and gas forecasting models in development with the Met Office.

Closer to home, NERC scientists are producing knowledge which will help protect UK biodiversity from emerging threats through the Living With Environmental Change (LWEC) Tree Health Initiative, which will involve ecological modellers, plant pathologists and forest ecologists, as well as forestry professionals, the nursery trade and government. By combining expertise from across the research councils, the initiative will fight threats like ash dieback and sudden oak death, which could transform the UK countryside and cause huge damage to biodiversity.

The NERC-supported Valuing Nature Network helped set up the UK's first 'valuing nature' auction, which is already reducing pollution in Cornwall. South West Water invested £360,000 in the innovative pilot, in which farmers bid for funding for farm improvements to reduce the pollution running off their land and into the River Fowey. This is an excellent example of the widespread benefits of such collaborative arrangements. The company's investment is a fraction of the savings made on its own costs, the improvements that are financed directly benefit farmers, and the public gains a cleaner environment and potentially lower water bills too.

National capability

We continue to invest in the research infrastructure, training and organisational capabilities that will enable us to carry out cutting-edge environmental science for decades to come.

Scientists at NERC's NCEO led a pioneering study that produced the most accurate estimate ever of how much ice has been lost from Greenland and Antarctica since 1992, by combining data from ten satellites. The researchers demonstrated that melting ice caps have contributed just over a centimetre to global sea levels, amounting to a fifth of all sea-level rise over the 20-year study period. This is the first time data from so many satellites has been combined in this way and the results, estimated to be two to three times more accurate than previous calculations, end decades of uncertainty around ice loss from the poles.

In 2013, BAS's revolutionary new Halley VI base became fully operational

– the latest and most advanced in a long line of facilities on the Brunt Ice Shelf that has played a key role in vital polar discoveries since the 1950s. NERC's new oceanographic research ship, the RRS *Discovery*, will be formally launched later this year. Also in 2013, BGS opened its new National Geological Repository, containing the largest archive of geological information in the UK.

Earlier this year, Science Minister David Willetts announced £600m of new capital investment in eight emerging technologies that will propel the UK's future growth. NERC researchers will benefit in two of these areas. There will be £10m of new investment to strengthen the UK's already world-leading expertise in marine robotics, and another £13m in big data – developing the computational capability to process and use the enormous quantities of environmental data that are accumulating at an ever-increasing rate.

Discovery science

NERC is committed to discovery science, which often yields unexpected benefits far beyond the immediate questions it seeks to answer.

In February researchers from NOC found an extraordinary set of hydrothermal vents on the Caribbean seafloor – at almost five kilometres below the surface, the deepest ever discovered. This was not just a scientific breakthrough and a telling sign of the UK's expertise in deep-sea robotics, it also caught the public's imagination, receiving extensive coverage on BBC TV and across other media.

Another high-profile project, UK scientists' effort in late 2012 to drill into the subglacial Lake Ellsworth, was an ambitious initiative to sample an environment that has been cut off from the outside world under Antarctic ice for perhaps millions of years. Equipment failure unfortunately meant the project could not proceed as planned, but lessons will be learned and will inform future ambitious, large-scale research projects of this type.

NERC-supported scientists also contributed to research showing that a global temperature rise of just 1°C could increase the frequency of hurricanes on the magnitude of 2005's Katrina between two and seven-fold by the end of the century. This is among the clearest and most compelling evidence yet of climate change's dangerous implications for extreme weather events, and will help inform planning decisions aimed at mitigating these risks.

Meanwhile our scientists continue to improve and refine how that data is

applied. This year's Lloyd's Science of Risk Prize in the Natural Hazards category was awarded to Paul Bates, Director of the Cabot Institute and Professor of Hydrology at the University of Bristol. His new approach to high-resolution flood modelling is both faster and cheaper to run than those previously used by the insurance industry. Models based on Professor Bates's work are already being developed by specialist companies to enable the sector to estimate flood risk at the level of individual properties.

Investing in People and Skills

In today's knowledge-based society, economic success relies on the availability of a highly skilled workforce. In particular, the prosperity of the UK's environmental science sector depends on a healthy supply of people with the right skills to tackle the diverse and dynamic changes we face. This year we updated the *Most Wanted* report and skills review which identifies the transferable and specialist skills the UK needs for a strong, vibrant economy. The training and funding NERC provides helps make sure skills needs are met.

Previous NERC PhD students are now applying their knowledge and skills across disciplines to tackle key economic issues, as varied as consulting on safe nuclear-waste disposal, assessing natural hazard risk for reinsurance companies, and managing scarce water resources. Many now also work with universities to design and supervise PhDs that address real-life problems and skills needs.

Focus on efficiency

And we are fully aware of the need for efficiencies closer to home. We have achieved savings of more than more than £113m across the whole of RCUK in 2012-13 by implementing the recommendations of the Wakeham Review. We created a new directorate of Innovation and Communications to sharpen our focus on delivering and communicating the impact of our work. Work continues on harmonising our reporting and communication processes across our sister councils, for example with our adoption of the Research Outcomes System and harmonisation of the structures of our websites. This will enable the academic community to apply for funding and tell us about what they are doing with that funding, with as little time spent away from their research as possible.

Meanwhile the new Gateway to Research web platform will this year enable consistent public access – including for research-intensive businesses and policy-makers – to information about the outcomes of all publicly-funded science; one more important step towards maximising the impact of environmental science for society and the economy.

Duncan Wingham Chief Executive *26 June 2013*
Ed Wallis Chairman

Delivering the strategy

NERC regularly monitors, evaluates and reports on progress against delivery of our strategy, to inform our decision-making and to demonstrate that we are effectively and efficiently investing public funds to make economic, political and social contributions both in the UK and internationally.

Our planning and performance documents can be found at www.nerc.ac.uk/about/perform/documents.asp

Summary of progress against NERC's Delivery Plan and Scorecard

Our Delivery Plan for the period 2011-15 identifies five actions to deliver our strategy, plus a number of financial targets and priorities. At the end of 2012-13 financial year we have made good progress in delivery. There has been some minor deviation from these priorities, which relate to: a delay in the publication of our new strategy (to inform NERC's future direction); the decision not to fund two Knowledge Exchange (KE) programmes – in financial services, risk management and valuation; in resource management – to a delay in publishing the 'Most Wanted II – Postgraduate and Professional Skills Needs in the Environment Sector' report, due to the decision to concentrate on responsive training; and to slower than expected progress towards the 100 per cent Personal Deal target. However, all off-track objectives have mitigation plans in place to deliver desired outcomes. www.nerc.ac.uk/about/perform/documents.asp

Excellence of research outputs

Citation impact is a key measure of the excellence and health of the research base. Independent studies recently commissioned by BIS (www.bis.gov.uk/assets/biscore/science/docs/i/11-p123-international-comparative-performance-uk-research-base-2011.pdf) and NERC (www.nerc.ac.uk/about/perform/documents/citations-study-2012.pdf) demonstrate that NERC remains a world leader. For example:

- UK environmental science is cited more often than that of any other major research country (1.4 times the world average and rising) and delivers value for money, as many other leading countries invest a larger proportion of their GDP in research.
- NERC-funded research performs significantly more strongly, ie, 40 per cent better citations impact than UK Environmental Science as a whole.
- NERC's own research centres perform strongly, averaging around twice the world mean citation impact.
- NERC-funded scientists are often leaders and partners in international programmes. 53 per cent of NERC-funded scientific publications involve international collaborators.

Summary of evaluations and outputs

Evaluation in NERC is a retrospective assessment of performance, used to manage progress in delivering our strategy, inform decision-making and identify evidence of achievements. Six evaluations took place in 2012-13. Completed evaluations are available at: www.nerc.ac.uk/about/perform/evaluation.asp

NERC led a mid-term evaluation of the LWEC partnership on behalf of the LWEC partners. An independent Evaluation Panel, chaired by Sir Brian Bender, reviewed LWEC's progress to date and considered whether improvements were needed to ensure LWEC's strategic goal will be delivered and the partners' aspirations met. The report was published, together with the LWEC partners' response, in January 2013 and is available at: www.lwec.org.uk/news/2013/january/lwec-evaluation-highlights-successes

As part of our rolling programme of Board self-assessment, NERC's Council and Science and Innovation Strategy Board conducted self-assessment exercises to help ensure they continued to function effectively and meet their Terms of Reference.

External funding

Funding from outside NERC meets the costs of commissioned and co-funded research carried out by NERC's centres for government departments, other public bodies, industry, the European Commission, and international and overseas organisations. This is a significant funding stream for many of NERC's centres and an important means of transferring knowledge to users.

Staff

NERC embraces diversity and equality. We have introduced a wide range of measures to ensure individuals can contribute their skills, knowledge and experience to the organisation while maintaining a work/life balance.

We actively encourage parents to return to work by providing flexible working arrangements. We continue to monitor all recruitment exercises to ensure demographically fair representation, and all promotion rounds are scrutinised for fairness.

In addition we promote personal development, embracing initiatives such as sabbaticals, secondments, further education and a range of short courses. By investing in individuals, we continue to foster potential across the organisation and ensure that NERC has the necessary skills, knowledge and experience to meet future challenges

Information assurance and security

The government's Security Policy Framework requires departments to submit an annual report to Cabinet Office. NERC has put in place policies and procedures to minimise the risk of data loss, and reports annually on information security.

In 2012-13, NERC introduced revised information security related policies and procedures. Staff awareness of information security has been raised through the rollout of mandatory training and personal responsibility statements. Advanced attacker activity on the network was detected during the year. NERC is working with a company assured under the HMG Cyber Incident Response scheme to respond and put protective measures in place to reduce the risk of further attacks.

More information:
David Hyett, informationcompliance@nerc.ac.uk

Openness and transparency

NERC is subject to the Freedom of Information Act 2000 and also the Environmental Information Regulations 2004, which provide broadly similar access rights to the Act but relate specifically to information about the environment. We work with the other research councils to ensure a consistent approach to open-access legislation on key business activities.

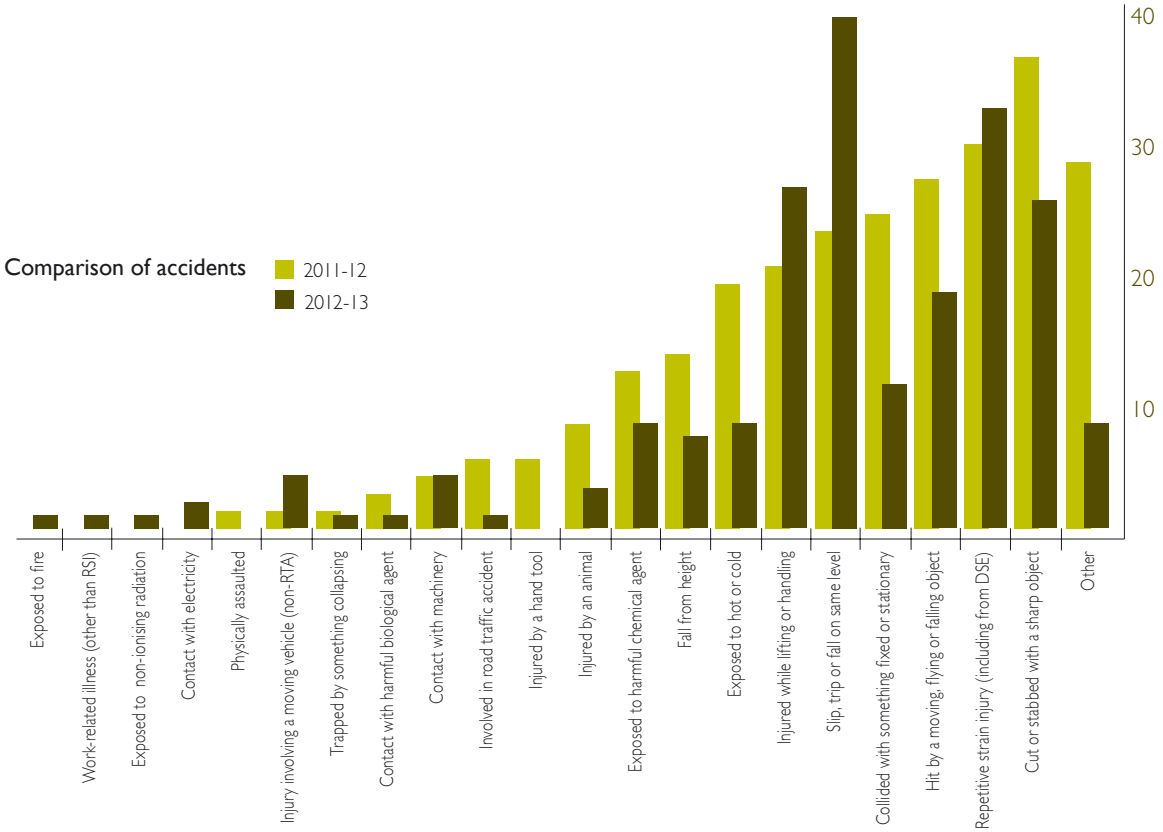
During 2012 we answered 54 requests for information specifically under the legislation, compared to 37 the previous year. The requests covered a wide range of subjects, from business policy to research outputs. We answered all requests, some of which were complex and wide ranging, within the statutory time limit or within an agreed extension.

Much of our information is readily available without a specific Freedom of Information Act request. For details see our publication scheme at foi.nerc.ac.uk.

More information:
David Hyett, informationcompliance@nerc.ac.uk

Categories of requests made under the Freedom of Information Act/Environmental Information Regulations in 2012

Research policy and operation	10
Contracts	2
Business policy and operations	25
Research outputs	13
Funding applications	2
Personal information	2



Health and safety

This report covers the financial year from 1 April 2012 to 31 March 2013. In this period there were three reportable events affecting NERC staff under the Reporting of Injuries, Disease and Dangerous Occurrences Regulations 1995 (RIDDOR), compared to six in 2011-12. The total number of injuries and work-related ill-health reported to staff within NERC and its associated research institutes following our safety management system was 201 compared to 195 the previous year.

Much NERC work is done outside the UK; there were no occurrences outside the UK that would have been reportable had they occurred in the UK. There were no occurrences on ships reportable to the Marine Accident Investigation Branch (MAIB) under maritime law. In the previous three years there has been an average of six such occurrences a year.

The total number of 201 work-related accidents and ill health cases reported across NERC in 2012-2013 was a marginal increase from the previous year's total of 195. This year's total includes 32 reported cases of work-related ill health, almost exclusively musculoskeletal conditions from repetitive work.

A breakdown of work-related injuries and ill health by type for the financial year 2012-13 is presented above together with figures from the previous financial year for comparison. In 2012-2013 the top type of work-related injury or ill health was slips, trips and falls on same level at 39. The second most common type was repetitive strain injury (RSI) at 31, a number which continues to rise and is a cause for concern although it may reflect changing patterns of work with more, or more intensive, Display Screen Equipment use. Manual handling is the third most common type of injury or ill health at 26. RSI conditions and manual handling may together be considered as ergonomically related conditions and comprise some 29 per cent of all our reported work-related injuries and ill health.

In 2012-2013 we reported 1.15 incidents or near misses per reported accident compared with 1.14 per reported accident the previous year. It is hoped that the introduction of an electronic recording system will lead to further improvements in this ratio by making reporting easier and quicker.

Grants, fellowships and studentships

We continue to monitor the success rates of grant and fellowship applications to ensure that we do not discriminate against any applicants. Trend data have shown that the proportion of women applying for research grants, and their subsequent success rate, remains relatively constant. However, the number of women in the system remains low.

Although there are yearly fluctuations, on average 50 per cent of studentships are awarded to females. The current PhD stock is 48 per cent female.

In recognition of NERC's own role in promoting and leading cultural change in relation to equalities and diversity, we will be reviewing the overall effectiveness of our approaches to funding.

Responsive mode grant applications and success rates

	2011-12	2012-13
Number of applications	1,220	853
Number of awards	247	225
Total £k	49,308	61,634
% success rate	20.2	26.4

Success rates by gender

	Men	Women
Number of applications	1,076	246
Number of successful applications	344	70
% successful applicants	32	28

Success rates for fellowships by gender

	Men	Women
Number of applications	86	72
Number of successful applications	15	6
% successful applications	17	8

Staff, students and fellows

	2010-11	2011-12	2012-13
Directly employed staff	2,623	2,509	2,365
Staff in research organisations [1]	1,864	1,932	1,762
Fellows	88	98	96
PhD [2]	1,068	1,065	1,043

1. Headcount of all academic and research staff named on research grants that were active at the end of the financial year.
2. PhD data is based on number of students directly funded by NERC. These do not include studentships funded through cross-council programmes where another research council administers the award. PhD data have been recast following improvements to reporting systems, which now capture students funded through a wider variety of NERC schemes. The figures for 12-13 are lower than previous years as not all students have yet been entered onto the system.

Sustainability Report – 2012-13

Overview

NERC continues to promote a sustainability agenda throughout its scientific operations, completing its fifth consecutive year of reporting energy data. In doing so, it has gained the Carbon Trust Standard, and is well placed to comply with the requirements of the Carbon Reduction Commitment Energy Efficiency Scheme and HM Treasury's Public Sector Sustainability Reporting. NERC also considers biodiversity to be important and actively encourages its promotion throughout its estate in accordance with its own environmental policy.

Summary of activity

NERC has undertaken a variety of sustainability projects across its estate during the reporting period, including PV installations, roll out of LED lighting, control of air conditioning usage and improved recycling. NERC has also made excellent progress towards greening ICT. A range of server room improvements have been made across the Estate with BREEAM 'Excellent' achieved for the BGS Keyworth Server Room. Future plans will drive further energy efficiencies through improved housekeeping and further awareness campaigns.

NERC is committed to participating in the Carbon Reduction Commitment Energy Efficiency Scheme which began in 2010. Although NERC is committed to reducing its CRC emissions, early indications for 2012-13 show that NERC has not been as successful as the previous year. The data needs to be analysed to determine the reasons for this.

Governance

All NERC Research Centres have obtained ISO 14001 for Environmental Management and uses this system to record all sustainability data. The Carbon Reduction Commitment Energy Scheme audits the data provided to the Environment Agency and the Carbon Trust Standard audits the data provided every two years.

Greenhouse gas emissions		2011-12	2012-13
Non-financial indicators (1,000 tCO2e)	Total gross emissions	13.1	15.6
	Total net emissions (less green tariff)	10.8	12.7
	Gross emissions Scope 1 (direct) (fleet vehicles)		0.2
	Gross emissions Scope 2 & 3 (indirect) (utilities + all travel)		15.4
Related energy consumption (million kWh)	Electricity: non-renewable	18.4	18.1
	Electricity: renewable	0.1	0.1
	Gas	17.5	21.1
	Total Energy Consumption	**36.0**	**39.3**
Financial indicators (£m)	Expenditure on energy	2.1	2.2
	Expenditure on official business travel (UK only)	2.2	1.8

PERFORMANCE COMMENTARY (INCLUDING MEASURES)
Consumption of electricity has decreased slightly this year. Consumption of gas is considerably higher even allowing for the long, cold winter. The scale of the difference means that both the 2011-12 and 2012-13 data needs re-examination. Despite the apparent increase in gas consumption, the increase in expenditure on energy is minimal. The on-going target is to reduce the emissions from NERC operations which will be achieved by continual improvements in our reporting system and an investigation into those sites that appear to have a higher consumption. Significant savings have been made on official business travel within the UK.

CONTROLLABLE IMPACTS COMMENTARY
The main impacts from NERC in the UK result from the electricity, gas and other fuels that are used for the specialist estate and official business travel. NERC is continually working to reduce the direct impacts it has through energy efficiency strategies.

OVERVIEW OF INFLUENCED IMPACTS
NERC continues to promote a sustainability agenda throughout its scientific operations and is committed to reducing the overall carbon footprint.

Waste			2011-12	2012-13
Non-financial indicators (tonnes)	**Total waste**		**598**	**493**
	Hazardous waste	Total	0	1
	Non-hazardous waste	Landfill	298	138
		Reused/recycled	287	304
		Incinerated without energy recovery	6	51
Financial indicators (£k)	**Total disposal cost**		**62.7**	**67.3**
	Hazardous waste		0.7	2.7
	Non-hazardous waste	Landfill	25.2	23.0
		Reused/recycled	18.1	31.0
		Incinerated without energy recovery	3.3	6.6

PERFORMANCE COMMENTARY (INCLUDING MEASURES)
The data indicates that NERC has made a significant reduction in the amount of overall waste generated. NERC has also increased the amount of recycled waste. However, this has had an impact on cost.

CONTROLLABLE IMPACTS COMMENTARY
NERC continues to monitor this area both at site level and in terms of data reporting.

OVERVIEW OF INFLUENCED IMPACTS
NERC has a number of environmental initiatives in place and continually undertakes a variety of sustainability projects across the Estate.

Finite resource consumption			2011-12	2012-13
Non-financial indicators ('000m3)	Water consumption (non-office estate)	per FTE	16	18
		Supplied	39.0	45.8
	Total consumption		**39.0**	**45.8**
Financial indicators (£k)	Water supply costs (non-office estate)		103.0	123.0

PERFORMANCE COMMENTARY (INCLUDING MEASURES)
The figures indicate that water consumption has increased. The reasons for this are being investigated.

CONTROLLABLE IMPACTS COMMENTARY
As a consequence of the increased consumption, costs have increased in this category.

OVERVIEW OF INFLUENCED IMPACTS
NERC will continue to monitor consumption and costs and include water in its environmental initiatives for the coming year.

Royalties and licence income by research centres (£k)

	2010-11	2011-12	2012-13
British Antarctic Survey	5	5	88
British Geological Survey	1,941	1,722	1,776
Centre for Ecology & Hydrology	502	369	373
National Oceanography Centre	93	-	-
Swindon Office	-	16	10
Total	**2,541**	**2,112**	**2,247**

Trends in annual capital investment (£m)

	2010-11	2011-12	2012-13
Land, buildings and Antarctic stations [(i)]	14.7	13.5	-2.0
Plant and equipment [(i) & (ii)]	12.4	4.6	12.6
Transport equipment [(ii) & (iii)]	15.3	37.8	23.4
RCUK Shared Services Centre [(iv)]	1.3	-	-
Net Book Value of fixed assets disposed [(v)]	-15.2	-3.3	-9.8
Capital Grants [(vi)]	22.1	4.7	4.8
Total	**50.6**	**57.3**	**29.0**

Notes:
(i) In 2012-13 £2.1m of Land and Building Assets in the Course of Construction were capitalised as Plant and Equipment as this better reflected their useful life. As capitalisations are treated as negative additions this results in a negative overall investment figure.
(ii) Following migration to SSC, some Plant and Equipment assets were reclassified as Transport Equipment, the original investment in these assets has been left in Plant and Equipment.
(iii) 2012-13 figures include £21.6m for the RRS *Discovery* replacement vessel (2011-12 £36.7m).
(iv) 2010-11 figures include £11.1m for RCUK SSC Ltd shares purchased during the year (2008-09 £1.6m) less the £11.1m received from SSC for NERC's share of the SSC asset.
(v) From 2007-08 all disposals of fixed assets classified as capital, these figures have been restated to reflect BIS budgetary treatment.
(vi) 2010-11 figures include £2m paid to RCUK SSC Ltd on behalf of BIS.

Trends in research council income from the private sector (£m)

	2010-11	2011-12	2012-13
UK Private Sector	4.5	4.3	6.2
Overseas Private Sector	8.3	9.4	9.0
Total	**12.8**	**13.7**	**15.2**
Total at 2012-13 prices	13.5	14.1	15.2

Note: UK figures include Integrated Ocean Drilling Program income to BGS.

Value of earned income (contract research) by research centres (£k)

	2010-11	2011-12	2012-13
British Antartic Survey	2,465	2,793	2,641
British Geological Survey	16,651	14,748	15,326
Centre for Ecology & Hydrology	9,882	8,610	10,756
National Oceanography Centre	6,286	6,948	5,179
Swindon Office	13,331	11,963	14,297
Total	48,615	45,062	48,199

Figures do not include other funding received from BIS.

How we spent the science budget (£m)*

Research Programmes	
Aerosols & Clouds	1.073
Algal Bioenergy Network	0.045
Analytical Science & Technology PhD Studentships	0.185
Arctic Programme	3.907
BioDIVERSA	0.373
Biodiversity & Ecosystem Service Sustainability	2.302
Carbon Capture & Storage	0.506
Changing Water Cycle	2.748
Coastal Sediment Systems	0.808
Managing RP Investments	0.371
Earth System Modelling	0.060
Earth System Modelling Strategy Implementation	0.377
Ecology and Hydrology Funding Initiative	0.316
Ecosystem Services for Poverty Alleviation	0.957
Environment & Human Health	0.076
Environmental & Social Ecology of Human Infectious Diseases (ESEI)	0.596
Environmental Exposure & Health Initiative (EEHI)	0.789
Environmental Nanotechnology	0.680
Greenhouse Gas Emissions & Feedbacks	0.130
Human Modified Tropical Forests	0.001
Ice Sheet Stability	0.238
Increasing Resilience to Natural Hazards in Earthquake-prone & Volcanic Regions	0.354
Insect Pollinators Initiative	0.451
International Polar Year	0.048
Joint Weather & Climate Research Programme	0.333
Land Based Renewables	0.590
Long Term Co-evolution of Life & the Planet	1.218
Macronutrient Cycles	1.848
Marine Ecosystems	0.008
Marine Renewable Energy	1.159
Mathematics and Infomatics for 'omics	0.102
Mineral Resources	0.130
Networks of Sensors	1.553
Next Generation Unmanned Aerial Vehicles	0.772
Next Generation Weather & Climate Prediction	0.767
Ocean Acidification	3.811
Ocean Shelf-Edge Exchange	1.364
Minor Initiatives	0.695
Probability, Uncertainty & Risk in the Environment	0.616
Quantifying and Understanding the Earth System Programme	0.018
Quantifying Uncertainty in Predictions of Climate Change & Climate Impacts	0.382
Radioactivity & the Environment	0.031
RAPIDWATCH	1.833
Resource Recovery from Waste	0.009
Shelf Sea Biogeochemistry	-0.161
South Asian Monsoon	0.005
Storm Risk Mitigation through Improved Prediction & Impact Modelling	1.606
Strategic Ocean Funding Initiative	0.042
Sustainable Marine Bioresources	0.023
Taxonomy & Systematics	0.100
Technology Clusters	0.002
Technology Proof of Concept	0.256
Theme Leaders	1.323
UK Droughts	0.008
UK Energy Research Centre	0.264
UK Integrated Ocean Drilling Programme	0.039
UK Integrated Ocean Drilling Programme Phase II	1.195
Understanding & Predicting the Ocean Surface Boundary Layer	0.966
Urban Atmospheric Science	0.487
Valuation Biodiversity & Natural Resources	0.137
Virtual Observatory	0.167
Other Programmes	
Earth Observation Programmes	0.469
Living with Environmental Change	0.630
Knowledge Exchange	9.475
Research Centres	
Marine Biological Association	0.594
National Centre for Atmospheric Science	8.875
National Centre for Earth Observation	6.494
Plymouth Marine Laboratory	4.148
Scottish Association for Marine Science	2.022
Sea Mammal Research Unit	1.042
Sir Alister Hardy Foundation for Ocean Science	0.404
National Capability – Swindon Office	
Airborne Research & Survey Facility	1.088
Facility for Airborne Atmospheric Measurements	1.695
High Performance Computing	2.339
International Activities	1.945
IODP Subscription	3.602
Other National Capability Programmes	0.153
Services and Facilities	9.005
National Capability Capital	*0.015*
Responsive Mode Grants	
Antarctic Funding Initiative	2.100
Consortium Grants	9.885

Fellowships	8.343
New Investigator	1.123
Small Grants	2.235
Standard Grants	50.717
Responsive Mode Training	
Studentships	20.071
British Antarctic Survey	
National Capability	34.201
Knowledge Exchange	1.031
Research Programmes	2.675
Administration Costs	0.823
Halley 6	*0.651*
Core Capital	*3.293*
British Geological Survey	
National Capability	15.770
Knowledge Exchange	2.681
Research Programmes	1.428
Administration Costs	0.887
Core Capital	*0.829*
Centre for Ecology & Hydrology	
National Capability	13.364
Knowledge Exchange	0.687
Research Programmes	1.530
Administration Costs	0.985
Core Capital	*0.770*
CEH Transition and Integration	0.657
National Oceanography Centre	
National Capability	22.157
Knowledge Exchange	0.271
Research Programmes	2.327
Administration Costs	0.935
RRS Discovery Replacement Ship	*21.643*
Core Capital	*6.471*
Capital Income	*-0.208*
Other Infrastructure	
Corporate Activities (including Swindon Office)	5.166
Swindon Office Administration Costs	15.935
Shared Services Centre Costs	7.180
Corporate Administration Income	-4.214
Corporate Capital	*0.236*
Corporate Restructuring	7.845
Private Funding Initiative Scored Outside DEL	-1.535
Depreciation	28.672
Amortisation	0.059
Loss in joint venture	2.278
Impairment	5.059
Asset Disposals	*-9.776*
Total NERC expenditure	**382.321**
Comprises:	
Resource **	**358.397**
Capital	***23.924***

Capital Expenditure in italics

* This table shows how NERC has spent the BIS science allocation. All figures are net of other income received.

** Resource figure differs from the net expenditure for the year by -£0.834m, which is broken down as follows:

	£m
Other funding received from BIS (recorded as financing)	*0.120*
Capital Income	*-0.208*
AME change in provisions	*-1.046*
AME Impairment of IXO Investment	*0.300*
	-0.834

Grants awarded in 2012-13

	RESEARCH GRANTS							
	Responsive						Research Programmes	
	Small Grants		Standard Grants		Consortium Grants		Research Programmes	
	Number	Value £k	Number	Value £k	Number	Value £k	Number	Value £k
Aberystwyth University	2	138	2	367	1	200	1	189
Bangor University			1	375	1	182	3	1194
Birkbeck College							1	20
Bournemouth University								
British Trust for Ornithology							3	211
Brunel University			1	173				
Cardiff University			5	946			1	57
CEFAS							2	281
Cranfield University							3	1293
Durham University			7	2318	1	370	4	1131
Edinburgh Napier University								
Heriot-Watt University			1	158				
Imperial College London	1	70	6	1972			6	1366
Keele University							1	271
King's College London								
Lancaster University			2	680			8	2346
London School of Hygiene and Tropical Medicine								
Loughborough University			1	151			1	252
Manchester Metropolitan University	1	43						
Marine Biological Association	1	57	2	339				
Met Office							1	56
NERC British Antarctic Survey	2	133	11	4015	1	69	4	1745
NERC British Geological Survey	1	81	1	17	2	507	5	655
NERC Centre for Ecology & Hydrology			2	577	1	379	10	4981
National Museums of Scotland					1	313		
National Oceanography Centre	1	9	8	2400			6	1625
Newcastle University	2	130	6	1599			5	377
Northumbria University	1	58					1	33
Open University			3	1521			1	7
Overseas Development Institute							2	607
Plymouth Marine Laboratory			1	61	1	357	3	737
Queen Mary, University of London	1	52	2	620			3	1878
Queen's University of Belfast	2	69					1	264
RSPB							2	24
Rothamsted Research			2	106			1	240
Royal Holloway, Univ of London	1	12	2	296				
Royal Veterinary College			1	420				
SAHFOS			1	15				
SRUC							1	176
STFC - Laboratories							1	55
Scottish Association for Marine Science			2	602			2	493
Scottish Universities Env Research Centre								
Swansea University			2	525	1	41		

	RESEARCH FELLOWS				RESEARCH STUDENTSHIPS			
	Knowledge Exchange				Responsive		Research Programmes	
	Post-doc Fellow		Advanced Fellow		Doctoral Training Grants		Doctoral Training Grants	
	Number	Value £k	Number	Value £k	Number	Value £k	Number	Value £k
					1	144		
	1	299			1	287		
					1	72	1	69
							1	75
					1	144	1	71
1		17			1	72		
	1	236			1	359		
					1	72		
	1	281	1	518	1	709		
1		133			1	81		
					1	359	2	139
1		57						
					1	72		
	1	248			1	431		
					1	144		
					1	431		
1		17			1	431		
					1	287	2	170
	1	293			1	215		
1		2			1	144		
					1	79	2	160
					1	236		
2		212			1	215		
					1	72		
					1	144		

Grants awarded in 2012-13 cont.

	RESEARCH GRANTS							
	Responsive						Research Programmes	
	Small Grants		Standard Grants		Consortium Grants		Research Programmes	
	Number	Value £k	Number	Value £k	Number	Value £k	Number	Value £k
The Natural History Museum			2	294				
The University of Manchester	2	144	11	3928			4	878
University College London			6	2306			5	1257
University of Aberdeen			2	735			4	568
University of Bath							2	251
University of Birmingham	1	73	4	1198			3	104
University of Brighton								
University of Bristol			18	3481			5	2722
University of Cambridge			14	3685	1	835	5	1276
University of Dundee					1	397	1	228
University of East Anglia			8	2703	1	121	5	2054
University of Edinburgh	2	94	9	2379	1	272	5	2012
University of Essex			1	395			2	899
University of Exeter	1	80	7	2744			5	1888
University of Glasgow			1	413	2	798		
University of Gloucestershire	1	42						
University of Greenwich								
University of Hertfordshire								
University of Hull	1	65	2	246			2	188
University of Kent								
University of Leeds			14	3764			8	1418
University of Leicester	1	50	3	881	1	490	2	348
University of Liverpool	1	34	4	1368	1	334	3	392
University of Nottingham			4	810			1	51
University of Oxford	2	71	14	4836			6	1125
University of Plymouth	2	99	2	525			3	76
University of Portsmouth							1	393
University of Reading			10	2134			4	1029
University of Salford								
University of Sheffield	1	52	4	895	1	681	5	1536
University of Southampton	2	129	9	3163	1	254	10	1914
University of St Andrews	2	107	5	1953			2	635
University of Stirling	1	50			1	632	1	62
University of Strathclyde								
University of Surrey							1	255
University of Sussex	1	50	1	408			1	114
University of Ulster					1	34	1	232
University of Warwick	1	51	2	733				
University of York	1	78	6	982			6	1035
University of the Highlands and Islands								
Grand Total	**39**	**2119**	**235**	**67210**	**22**	**7267**	**186**	**47504**

	RESEARCH FELLOWS				RESEARCH STUDENTSHIPS			
	Knowledge Exchange				Responsive		Research Programmes	
			Post-doc Fellow		Advanced Fellow		Doctoral Training Grants		Doctoral Training Grants	
	Number	Value £k	Number	Value £k	Number	Value £k	Number	Value £k	Number	Value £k
	1	71					1	723		
					1	492	1	315	2	160
			1	247			1	431	1	84
							1	72		
							1	287	3	209
							1	72		
	2	32	3	800			1	1005	2	139
	2	540					1	646		
	1	14					1	646	2	148
	1	101	1	299			1	1005	1	68
	1	104					1	72		
	2	17	1	228			1	574	1	68
					1	533	1	215		
	1	19								
							1	72		
					1	596				
	1	16	1	232						
	3	297			1	586	2	1082	2	139
							1	287	1	73
							1	431		
							1	72		
			1	299			1	1082	1	87
							1	215		
							1	72		
	1	47					2	869		
							1	72		
	2	136					1	723	2	146
					1	430	1	503		
			1	342			1	287		
					1	274	1	144	1	68
									1	68
							1	72	1	72
							1	215		
							1	503	2	143
	1	15								
	26	**1846**	**14**	**3802**	**7**	**3429**	**55**	**17961**	**32**	**2354**

All entries and totals show the amounts awarded rounded to the nearest £k. However manual addition of individual column entries may result in rounding differences compared to the totals.

Science budget expenditure in research organisations

Expenditure £k	Responsive Awards			Research Programme		Knowledge Exchange#	Research Programme Contracts	Total
	Fellowships	Grants	Students	Grants	Students			
Aberystwyth University		535	50	58		35		678
African Collaborative Centre for Earth Sciences				28				28
Bangladesh Uni of Engineering and Technology				244				244
Bangor University	224	1,143	258	634	15	60	8	2,342
BC3 Basque Centre for Climate Change				33				33
Biotechnology & Biological Sciences Research Council		1,655		170				1,825
Birkbeck College		172		2				174
Bolivian Natura Foundation				28				28
Bournemouth University		96	10			10		116
Brunel University		35	22			10		68
BTO Services Ltd (British Trust For Ornithology)				62				62
Cardiff University	81	1,087	173	666	42	115		2,163
CEFAS				171				171
City University		5						5
Conservation International Foundation				83				83
Consorcio para el Desarrollo Sostenible				3				3
Cranfield University			29	403		69		502
Daphne Jackson Trust							122	122
Defra							200	200
Diamond Light Source Ltd		8						8
East China Normal University				4				4
Economic & Social Research Council		423						423
Edge Hill University College		43						43
Edinburgh Napier University			5	17				22
Engineering & Physical Sciences Research		493		36			1,500	2,029
Glasgow Caledonian University			1					1
Heriot-Watt University		19		414				433
HR Wallingford Ltd				90				90
Imperial College London	667	1,244	820	5,045		324	145	8,245
Indian Institute of Technology Roorkee				45				45
Inst for European Environmental Policy				3				3
Institute of Development Studies				290				290
Int Food Policy Research Inst				30				30
International Center for Tropical Agriculture				189				189
International Livestock Research Institute				134				134
International Union for Conservation of Nature							30	30
Isaac Newton Institute for Mathematical Sciences							45	45
Keele University		130	20	47				197
King's College London		47	132	370		159		708
Kingston University		48						48
Lancaster University		450	286	684	59	99	48	1,626
Liverpool John Moores University			20					20
London School of Economics & Political Science				86				86
London School of Hygiene & Tropical Medicine		15		168		14		198
Loughborough University		323	13	267	24	19		647
Makerere University				31				31
Manchester Metropolitan University		4		35		2		41
Marine Biological Association		82		244			594	920
Medical Research Council							645	645
Met Office				2			952	954
National Museums of Scotland		56						56
Natural History Museum		702		45				746
North Wyke Research		67		304				371
Northumbria University		142		5				147
Overseas Development Institute				89				89
Oxford Brookes University			2					2
Plymouth Marine Laboratory		217	210	1,032			4,897	6,356
Queen Mary University of London	90	589	190	404		91		1,363
Queen's University Belfast	116	118		61				295
Royal Botanic Garden Edinburgh		118				85		204
Royal Botanic Gardens Kew		367						367
Royal Holloway, University of London	140	436	175	198		86		1,036
Royal Veterinary College	72	18						90
Royal Society For The Protection Of Birds				6				6
Scottish Association for Marine Science		605	112	891		115	2,291	4,013
Science & Technology Facilities Council		40				73	3,628	3,742

Expenditure £k	Responsive Awards			Research Programme		Knowledge Exchange#	Research Programme Contracts	Total
	Fellowships	Grants	Students	Grants	Students			
SEI Oxford Office Ltd				4				4
Sir Alister Hardy Foundation For Ocean Science		9		24		77	404	514
Scotland's Rural College				2				2
St George's University of London				165				165
Scottish Universities Environmental Research Centre			42				1,181	1,223
Scottish Universities Research and Reactor Centre							796	796
Swansea University	52	109	155	562				878
Technology Strategy Board							609	609
The Linnean Society							100	100
The Open University	260	283	195	119	21		11	889
The Royal Society							50	50
UK Astronomy Technology Centre				559				559
University College Dublin								0
University College London	249	2,375	575	1,179	4	94	369	4,845
University of Aberdeen	131	879	507	342	8	137		2,004
University of Abertay Dundee		4						4
University of Bath	42	257	64	152	20			536
University of Birmingham	112	782	337	1,088	14	151	358	2,843
University of Bradford		9						9
University of Brighton		106	10					117
University of Bristol	654	3,532	953	921	53	237	359	6,708
University of Cambridge	304	2,092	781	740	8	489	4	4,418
University of Cumbria				1	6			7
University of Dundee		43	20	192	19		407	681
University of Durham	205	1,667	353	223		66	233	2,747
University of East Anglia	359	2,040	884	950	26	244	273	4,775
University of Edinburgh	568	2,912	1,198	1,132		395	2,595	8,800
University of Essex		189	158	183		69	95	694
University of Exeter	238	2,996	378	1,471	5	210		5,298
University of Glasgow	138	592	233	200	25	140	25	1,352
University of Gloucestershire		42						42
University of Greenwich						19		19
University of Hertfordshire			31	207				238
University of Hull		360	36	80		19		494
University of Kent	38		26	2		46		112
University of Leeds	513	4,691	1,187	1,083		406	8,458	16,338
University of Leicester	82	775	207	239	181	74	326	1,884
University of Lincoln	48	46		42				136
University of Liverpool	301	2,286	523	216	19	82	568	3,995
University of Malawi				95				95
University of Manchester	384	2,669	859	1,174		126	69	5,282
University of Nairobi				26				26
University of Newcastle Upon Tyne	218	464	270	207		68	61	1,288
University of Northampton								0
University of Nottingham		359	86		6		129	580
University of Oxford	408	4,286	1,075	1,478	20	56	660	7,983
University of Plymouth		500	181	536	20	29		1,266
University of Portsmouth		190	10	59		19	35	313
University of Reading	372	922	1,014	2,671		239	5,972	11,189
University of Salford			9					9
University of Sheffield	394	1,718	667	654		143	496	4,072
University of Southampton	476	2,233	692	2,788	51		156	6,396
University of St Andrews	224	1,706	325	510	5	84	1,043	3,898
University of Stirling		275	109	41		81		507
University of Strathclyde	147	39	55	198		6		445
University of Surrey				38	9			47
University of Sussex		174	51	90		11		326
University of Ulster		326		37				363
University of Warwick	153	768	196	28		38	20	1,203
University of Westminster						12		12
University of York		746	358	610	39	54	404	2,212
Zoological Society of London		148	121	93				363
Total	**8,461**	**58,134**	**17,459**	**37,266**	**700**	**5,286**	**41,371**	**168,677**

– includes both Grant and Student awards

In addition to the table above, NERC Institutes have funded additional research awards and contracts totalling £1.983m.

All entries and totals show the amounts awarded rounded to the nearest £k. However manual addition of individual row and column entries may result in rounding differences compared to the totals.

Management commentary

Statutory basis of financial statements

NERC's statutory financial statements have been prepared using accruals accounting in accordance with the UK Government's Financial Reporting Manual (FReM) for 2012-13 and the accounts direction issued by the Secretary of State.

NERC successfully kept within agreed tolerances for the first two years of its four-year spending review settlement, and has an agreed financial plan to continue its existing operations until at least 2015. A triennial review is currently being undertaken for all Research Councils that will focus on continuing need, control and governance. The financial statements have been prepared on a going-concern basis.

NERC maintains a risk-management strategy that conforms to HM Treasury guidance. NERC's approach to risk is described comprehensively in the Accounting Officer's Governance Statement within the Annual Accounts and is supported by the positive and reasonable assurance provided by the Audit and Assurance Services Group.

Financial summary

NERC concludes the accounting period with a balanced financial position for both near cash and capital within 0.1% of budget; including non-cash this makes for an overall outturn variance of 1.45%. A comparison with the previous accounting period is shown in Table 1.

Reconciliation between NERC's outturn and its annual accounts for 2012-13 is shown in Table 2.

Statutory disclosures

In accordance with the Companies Act 2006, the following statutory disclosures are presented for the accounting period 2012-13:

Pensions

NERC's pension schemes are discussed in greater detail in Note 5d to the Annual Accounts.

Table 1. NERC outturn 2012-13 and 2011-12 comparison

NERC outturn	2012-13 £000	2011-12 £000
Science budget	376,001	417,168
Other BIS funding	120	47
Earned income	59,720	56,087
Total funding	435,841	473,302
Expenditure	442,161	468,071
(Deficit) / surplus	(6,320)	5,231
Variance (%)	-1.45%	1.11%

Significant interests

Potentially relevant significant interests of NERC's Council members where they are affiliated to other organisations are presented at Table 3 in the Remuneration Report to the main accounts. No issues regarding conflict with their managerial responsibilities have materialised. NERC's Council Secretariat manages a Register of Interests: www.nerc.ac.uk/about/work/boards/councils/interests.asp

Auditors

NERC's accounts are audited by the Comptroller and Auditor General who has been appointed under statute and is responsible to Parliament. The cost of the audit was £80,000. No remuneration was paid to the external auditors in respect of non-audit work in 2012-13. Internal audit was provided independently by the Audit and Assurance Services Group (AASG). AASG reports annually to the Audit and Risk Committee (ARAC). The cost of internal audits undertaken during 2012-13 was £147,901. No remuneration was paid to the internal auditors in respect

of non-audit work during 2012-13. The Accounting Officer has taken all reasonable steps to ensure that he is aware of any relevant audit information and to ensure that the Council's auditors are aware of that information. As far as the Accounting Officer is aware, there is no relevant audit information of which the Council's auditors are unaware.

Sickness absence

NERC's sickness absence rate was 2.3% (2011-12 2.8%), equivalent to 6.4 days per full-time employee (2011-12 7.01 days).

Public Sector Information

NERC has complied with the cost allocation and charging requirements set out in HM Treasury and Public Sector Information guidance, but is exempt from the requirements of The Re-use of Public Sector Information Regulations 2005.

Payment policy

NERC observes the Confederation of British Industry Code of Practice regarding prompt payment, and in accordance with the Government direction, is committed to paying its suppliers within five days of the receipt of a valid invoice or earlier if suppliers terms dictate. During 2012-13, 83 per cent of payments were made within five working days (69 per cent 2011-12) and 93 per cent within 30 days (94 per cent 2011-12). In accordance with the guidance of the Statutory Instrument 1997/571, creditor days for the period are 12 days (2011-12: 39 days).

Table 2. NERC Outturn and Annual Accounts Reconciliation 2012-13

	Resource £000	Capital £000	Total £000
Net expenditure [1]	357,563	-	357,563
AME change in provisions [2]	1,046	-	1,046
AME loss on investment [3]	(300)	-	(300)
Other BIS funding [4]	(120)	-	(120)
Capital grants	(4,797)	4,797	-
Capital [5]	-	33,908	33,908
Capital income	208	(208)	-
Net Profit on NBV and revaluation reserve disposals [6]	-	(9,776)	(9,776)
Outturn	353,600	28,721	382,321
Science budget	347,256	28,745	376,001
Reported surplus / (deficit) [7,8]	(6,344)	24	(6,320)

Notes:

1. Taken from the statement of net expenditure for the year ended 31 Mar 2013.
2. Provision, utilisation, movements, unwinding of discount and change in discount factor score as AME and are outside the scope of DEL; figures taken from note 8 Other operating costs (allowance for trade receivables) and note 14 Provisions.
3. Taken from note 9(c) Jointly controlled entities and unconsolidated investments.
4. Taken from note 3 Grant-in aid and other BIS Funding.
5. Taken from note 9(a) Property, plant and equipment, note 9(b) Assets Under the Course of Construction and note 10 Intangible Fixed Assets - Additions.
6. In accordance with Financial Reporting Manual.
7. Resource deficit of £6,344k comprises of £336k near-cash deficit and £6,008k non-cash deficit.
8. Capital surplus of £24k comprises £397k capital grants deficit and £421k direct capital surplus.

Developments during the year

Delivery Plan Action: Increase focus on strategic research

Research Programme highlights 2012-13

Research programmes provide strategically directed environmental research, training and related knowledge exchange, and encourage national and international collaboration. Research Programme highlights for 2012-13 include:

In collaboration with the Met Office and Environment Agency, NERC is investing £5.2m in a five-year research programme, Flooding from Intense Rainfall. The programme will improve forecasts of the length and intensity of rainfall from convective storms, and help us understand which areas are most vulnerable to the effects of intense rain. This will enhance flood-risk management through the development of both flood-risk estimation and real-time flood forecasts.
www.nerc.ac.uk/research/programmes/flooding/

The £5m Network of Sensors programme aims to develop new technological approaches to creating sensor networks and communication systems, some of which may be in remote or hostile environments. It involves over 30 partners including major public and private sector stakeholders. The annual technology showcase, held in February 2013, stimulated interest from new potential participants from the energy, transport and telecoms sectors and government agencies.
www.nerc.ac.uk/research/programmes/nos/

The ClearfLo (Clean Air For London) consortium, funded under the Urban Atmospheric Science programme, carried out two periods of intensive observation of air pollution in London in 2012: one in winter and one during the Olympics in late summer, taking advantage of the once-in-a-lifetime research opportunity offered by the changes to traffic flow during the Games. The project's long-term measurements continued into 2013; the result is a two-year dataset on meteorology, atmospheric chemistry and particulate pollution around London giving unprecedented insight into how human activities and weather affect the capital's air quality, with major implications for the health and wellbeing of its inhabitants.

RCUK programmes

To ensure the UK's science research base is well placed to address tomorrow's societal and economic challenges, it is vital that we work in partnership as part of RCUK, to foster cross-disciplinary research and nurture national capability. New approaches are needed to solve many of the big research challenges over the next 10-20 years. To achieve this, NERC either leads or has an interest in four cross-council research programmes: LWEC, Energy, Global Food Security and Global Uncertainties. All work in these areas is being done in partnership with other research councils and government bodies, with increasing input from the private sector.

New flood models based on the LWEC Storm Risk Mitigation programme are being taken up by the private sector and the Environment Agency, for a more detailed understanding of exactly where in urban areas river flooding will strike. This should help the Environment Agency target flood-defence spending and avoid more costs from flood damage. It will also help the insurance market cope better with flood risks and manage extreme events more effectively.

Cross-council programmes have made a considerable impact on policy over the past year. The Energy programme delivered an independent report to the Department of Energy and Climate Change on shale gas and fracking, which underwent public consultation in April 2012. The report includes recommendations for a system to monitor seismic events induced by fracking, to warn when fracking operations should be suspended and remedial action taken. It also concludes that seismic hazard should be assessed before proceeding with future shale gas operations elsewhere in the UK. The UK Government will introduce a package of support for UK shale gas to promote investment in the industry at an early stage of its development.

Innovations in soil science will grow the solutions to global food security. The Royal Society of Chemistry, the University of Sheffield, NERC and the Environmental Sustainability Knowledge Transfer Network (ESKTN) issued a joint report entitled *Securing Soils for Sustainable Agriculture – A science led strategy*. It highlights the fundamental need

for innovative research in soil science to tackle the growing threat of global food and fuel-crop shortages as the world's population continues to increase. In his speech on science at the Royal Society in November, Chancellor George Osborne highlighted agricultural research as one of eight areas in which he sees the UK as a world leader. Further information is available at: www.rsc.org/ScienceAndTechnology/Policy/Documents/SustainableSoils.asp

International

In the run-up to Rio+20, NERC and the São Paulo Research Foundation (FAPESP) announced a major investment to investigate how changes to tropical forests affect biodiversity, ecosystem services and the climate. A five-year research programme, Biodiversity and Ecosystem Processes in Human Modified Tropical Forests, will carry out studies in Sabah, Malaysia and Brazil to improve understanding and assess the potential of different policies and approaches to forest management to protect key ecosystem functions and biodiversity. The collaboration will also develop and test new technology for long-term observations of biogeochemical cycling that may be deployed as a legacy of the programme across a range of tropical environments.

As a partner in the Belmont Forum, NERC has invited proposals for major international research projects into coastal vulnerability and freshwater security. At least 10 consortia, involving partners from more than 11 countries, are expected to receive a share of a c€20m International Opportunities Fund, jointly funded by the Belmont Forum and members of the G8 Heads of Research Councils.

NERC and the Ministry of Earth Sciences of the Republic of India (MoES) have agreed a Memorandum of Understanding (MoU) between the UK and Indian environmental research communities. The MoU will encourage collaboration in areas such as meteorology, climate variability and change, oceanography, hydrology, natural hazards and biodiversity, and promote information sharing and identification of new opportunities for collaborative activities such as networking, exchange of scientific and technical capability, and co-funding new research through joint calls.

The CEH and the James Hutton Institute have agreed new collaborations with the Chinese Academy of Sciences' Research Centre for Eco-environmental Sciences (RCEES) and the China Agricultural University's Centre for Resources, Environment and Food Security (CREFS). These collaborations are designed to tackle some of the global challenges of food, water and energy security, and provide knowledge and understanding to support economic growth hand in hand with environmental protection.

NERC's new strategy

In 2013 NERC will publish its new corporate strategy. NERC has engaged with the research community and businesses to establish new strategic priorities and develop key messages. The new strategy will drive NERC research and training in discovery science and three key areas that pose particular challenges for society: access to natural resources, resilience to environmental hazards, and managing environmental change. The strategy will articulate more clearly how NERC will translate its science so UK businesses, government and other users of science can generate economic growth and provide other benefits to society.

Delivery Plan Action: Increase economic impact and societal benefit

Working with business

Environmental hazards

Businesses and government are taking a keen interest in the wide range of NERC research on natural hazards. NERC launched the research programme Probability, Uncertainty and Risk in the Environment (PURE) in November 2012,

which aims to transform the way that the risks and uncertainties of a range of natural hazards are dealt with. PURE brings together major insurance and reinsurance firms and infrastructure companies – including Willis, Arup and the world's largest reinsurer, AON Benfield – in two large consortia, led by the University of Bristol and University College London.

PURE will not only help the UK government to prepare for natural hazards and disaster situations, but will also help the insurance industries to meet the requirements and risk management standards of a new EU directive known as Solvency II.

Space

This year has also seen the establishment of the Satellite Applications Catapult, based in Harwell, Oxfordshire. NCEO has been directly involved in this development, working with companies including Astrium, Logica, Vega and the Technology Strategy Board and UK Space Agency, to make the UK the leading country for both Earth observation capability and downstream services. NCEO spends £6.49m per year on Earth observation and this new link with the Catapult will help ensure that research is fully exploited.

Sustainable agriculture

In sustainable agriculture, there is a significant opportunity for NERC and BBSRC science to address the challenges of sustainable food production in a changing environment. Marks & Spencer, Unilever and Heineken have all engaged directly with NERC by co-funding Knowledge Exchange fellows in order to understand the potential of environmental science to address their challenges and to build partnerships with the NERC-funded community.

Over the last year, we have worked closely with BBSRC to engage the business and academic community in scoping a multi-million pound innovation programme on sustainable agriculture. NERC spend on food security-related activities this year was just under £15m.

Marine renewable energy

By engaging with business and government in the offshore wind, wave and tidal energy sectors, NERC's Marine Renewable Energy Knowledge Exchange Programme (KEP) has identified a range of opportunities for NERC science to deliver significant benefits to the deployment and operation of devices in the marine environment. These include helping to streamline the process by which new projects gain planning consent, reducing environmental risks, and developing and adapting monitoring technologies and tools which reduce pre- and post-development costs and create new jobs. The programme has informed regulatory decisions, supported the development of X-band radar and other real-time monitoring devices. The programme has facilitated the development of novel research and projects in collaboration with businesses, NGOs, regulators and their advisors, to support the development of large-scale arrays of wind, wave and tidal energy in UK coastal waters. NERC invested £491k in the Marine Renewable Energy KEP this year, as well as funding eight business internships in the sector.

Water

To give businesses, government bodies and other potential users better access to relevant NERC research expertise, the Water Security Knowledge Exchange Programme launched the UK Water Research Directory, a comprehensive searchable listing that provides summaries of expertise and contact details of individuals active in water research (www.ukwaterresearch.net). A directory of water-related research facilities will be added to improve user-access to the wealth of equipment and facilities available within the UK research community. The programme has also brokered relationships between researchers and users, resulting in internships in water-related ecosystem services, development of sustainable drainage screening tools, and the reduction of water-use and contamination at airports.

Economic impacts, enabling growth

To provide stronger leadership and prominence for innovation and impact within NERC, we have recruited a Director of Innovation and Communications. Activities have been reorganised to achieve a better focus on delivering and demonstrating impact from NERC science.

The *NERC Impact Report 2012* was published in January 2013. It illustrates how NERC's world-leading science translates into knowledge, expertise and skills that stimulate economic growth and improve societal wellbeing. www.nerc.ac.uk/about/perform/documents/impactreport2012.pdf

Policy impacts

Government, both central and local, has a leading role in driving UK economic growth by making major infrastructure decisions. NERC has worked closely with a range of government bodies to provide evidence and solutions for the development and implementation of policy.

NERC-funded science has been a key part of the evidence base for the recent Defra White Paper 'Water for Life', and underpinned the analysis of climate change in the supporting papers prepared by the Environment Agency. Better prediction of water availability incorporating climate change impacts is of fundamental importance to water managers across the UK for supply management and efficient infrastructure. This plans to avoid potential additional costs estimated to be £94-437m annually by 2050 on water supply demand as well as £400-690m annually by 2080 through the degradation of the ecosystem services provided by the environment.

NERC research within the Living with Environmental Change strategic partnership has given the UK the world's first National Ecosystem Assessment (NEA) to value ecosystem services and natural capital. Supplementary guidance to HM Treasury's Green Book now recommends using the UK NEA ecosystem services framework when assessing environmental effects for cost-benefit analyses on major infrastructure investments.

In partnership with other Research Councils through the Rural Economy and Land Use (RELU) research programme, NERC has contributed to UK and EU policy discussions on the regulation of biopesticides. Scientists developed recommendations working alongside the Chemicals Regulation Directorate, as well as advising policy-makers, major UK supermarkets and companies developing biopesticides.

RELU researchers have also helped establish the best policies for sustainable catchment management for the water industry. It is estimated that a £10m investment in changing land management practices could potentially save the UK water industry £650m over 30 years in reduced purification costs.

The UK water market is estimated to be worth around £12-14bn per year. CEH is at the forefront of work to improve UK and European rivers and responsible for developing the RIVPACS (River Prediction and Classification System) software that provides a scientific classification system to measure whether a river has good ecological status. This not only protects rivers, but protects the use of rivers from irrational decisions based on the precautionary principle. CEH's pioneering work on water quality indicators has been influential on methods and techniques adopted by a range of countries, including Australia, Canada, USA and across Europe.

Meanwhile our research into natural hazards informed, among other policy documents, the Government Office for

Science's foresight report *Reducing Risks of Future Disasters: Priorities for decision-makers*.

The report sets out how the threat of future disasters resulting from natural hazards can be stabilised if decision-makers make better use of technological developments and existing risk assessment methods. This will save lives, livelihoods and resources in developing countries.

The publication also urges that disaster risk reduction is routinely built in to developments as diverse as urban infrastructure, ecosystem protection and mobile telephone regulation. These measures would help reduce the cost of disasters, which has outstripped the total international aid investment over the past 20 years and led to the loss of 1.3 million lives and $2 trillion of damage.

NERC's popular *Science into Policy* booklet has been revised. The publication is aimed at NERC-funded researchers, and advises on opportunities, routes and best practice for bringing their science to the attention of policy-makers and influencing policy. www.nerc.ac.uk/publications/corporate/documents/science-into-policy.pdf

Delivery Plan Action: Attract and retain top talent for the UK

Postgraduate training

NERC continues to implement its new strategic approach to supporting postgraduate training, developed as part of NERC's Training Allocation and Delivery Mechanisms Review. For example, a new c£100m NERC Doctoral Training Partnership (DTP) competition has been launched. The competition replaces the current algorithm approach, under which studentship allocations are simply scaled to NERC research funding, and will result in a smaller number of larger, longer-term training grants competitively awarded. www.nerc.ac.uk/funding/available/postgrad/documents/summary-training-review.pdf

Delivery Plan Action: Transform delivery of national capability

Integrating national capability

NERC has continued to integrate the national capability that underpins the whole environmental science research community. The aim is to make the best use of resources to improve capability and efficiency. Major progress has been made during 2012-13. In response to a review of NERC aircraft capability, implementation has started on merging the operation and management of the Airborne Research and Survey Facility with BAS's aircraft facilities. This will provide a global capability for airborne survey and research. Progress on changes to NERC Services and Facilities include integrated management of isotope geoscience analytical facilities and atmospheric radars.

Large capital projects

Halley VI Research Station was officially opened in February 2013 and is the first fully relocatable research station in the world. It was commissioned in 2006 and its unique and innovative structure was the result of an international design competition in collaboration with the Royal Institute of British Architects (RIBA). The state-of-the-art research facility is segmented into eight modules, each sitting atop ski-fitted, hydraulic legs. These can be individually raised to overcome snow accumulation and each module towed independently to a new location. Halley's location is important for studying the Earth's magnetic field and upper atmosphere.

BGS has opened its new National Geological Repository facility, containing the UK's largest archive of geological information. The unique collection includes over 500 kilometres of cores, cuttings from more than 23,000 wells and boreholes, and more than three million specimens from the UK fossil record. The facility is open to academics and to users from industries such as oil and gas exploration, mineral extraction and civil engineering.

Delivery Plan Action: Shift resources into front-line science

NERC demand management

Since April 2012, grant proposals submitted to NERCs Responsive Mode have been monitored under our demand-management policy. Demand management has the potential to shift resources into front-line science by increasing the efficiency of the application and assessment process. The NERC demand-management system relies on working in partnership with research organisations, asking them to regulate their submissions and focus their effort on the proposals most likely to be competitive. Although other factors may also be involved, fewer proposals were submitted to NERC Responsive Mode this year and success rates for standard grant calls completed in 2012-13 rose to 27-29 per cent, compared to 16-23 per cent in 2011-12.

Planned changes to the Responsive Mode schemes on offer have been completed to streamline and focus the portfolio, consolidating the number of schemes from seven to four. The impact of the changes will be monitored for at least a year, and the application and assessment processes will continue to be adjusted as required.

Cross-council harmonisation activities

In January 2013 NERC adopted the Research Outcomes System (ROS) alongside ESRC, EPSRC, BBSRC and AHRC. Harmonising reporting systems across councils means universities can develop common standards to collect information once and share, making the whole process much more efficient. Information can now also be made public in a more accessible and consistent way through Gateway to Research, on behalf of all research councils. Gateway to Research will be fully functional by the end of 2013, following a positive appraisal of the trial system by Science Minister David Willetts. The new systems implement the Government's and RCUK's open-access policies.

NERC has introduced data-management plans for its grants to improve curation of datasets, which support open access to data and provide scientific assurance. NERC has led the research councils in an initiative, in collaboration with the British Library, to establish unique identifiers for datasets (see www.datacite.org) which means they can be cited in a similar way to publications. This creates a new way for UK science excellence to be acknowledged and measured, as well as a new criterion for career advancement, all of which helps maintain the long-term health of the UK research base.

Progress in implementing the Wakeham Review

As set out as part of the 2010 spending review settlement, the Research Councils have begun implementation of an efficiency programme to drive down the costs and overheads associated with research. The efficiency savings derived from this programme are being reinvested in research.

In the spring of 2011 RCUK published Efficiency 2011-15: Ensuring Excellence with Impact describing how the Research Councils would implement the recommendations in Sir William Wakeham's report Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institution. The efficiency savings are being applied to both research grants and fellowships awarded via competitive route to Research Organisations and also to Research Council institutes. The combined savings for 2012-13 were £113.7m, exceeding the planned target of £82.2m. RCUK is therefore on target to reach the planned savings of £428m over the four year Spending Review period.

Alongside these measures the Research Councils also introduced changes to the requests for equipment on grants, including asking applicants to demonstrate how the usage of the equipment will be maximised. RCUK is currently working with university partners to develop options to promote and assist equipment sharing, including exploring the issues around asset registers. There is good anecdotal evidence of significant progress by universities to promote sharing, and of very efficient usage of large pieces of experimental equipment.

Forward Look

Strategic funding models

NERC is reviewing its funding models for strategic science (currently 'Research Programme' and 'National Capability' budgets) to ensure that funding is demonstrably focused on delivering our strategic goals. Over the next year we will reform these to better support long-term science and to ensure that research programmes select the best ideas from across our community. It will also speed up the process from idea to grant, help researchers form external partnerships, leveraging NERC contributions with partnership funding.

Ownership and governance of NERC research centres

NERC is reviewing the relationship with its wholly-owned research centres to enable greater clarity of NERC's role and thereby make easier greater alignment with other Councils and the wider BIS family, and to improve the centres' roles as science delivery partners and provide an opportunity for them to develop outside of public sector constraints.

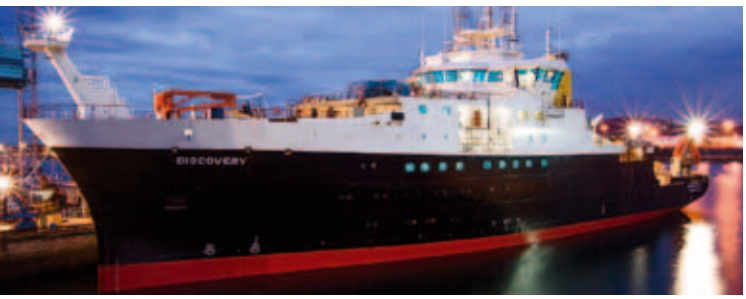
The review will be managed via an external gateway process and is expected to take 18-24 months to complete.

Evaluation of NERC research centres

An evaluation of five of NERC's research centres is under way, and reported to NERC Council in July 2013. The work will provide independent evidence of the research excellence and impact of the centres, using an evaluation process based on the Higher Education Funding Councils Research Excellence Framework methodology. The evaluation was conducted by two independent panels (dealing respectively with research excellence and impact).

RRS *Discovery*

A new NERC research ship serving UK marine science is nearing completion and will go into active service at the end of 2013. The vessel will replace the 50-year-old RRS *Discovery*, and will be operated by National Marine Facilities Sea Systems, based at NOC in Southampton. *Discovery* carries a crew of 24 and can accommodate 28 scientists and technicians.



The new vessel will play a key role in the scientific mission to understand the role of the oceans in the Earth system. The research it enables will deliver significant economic and societal benefits, particularly in areas such as climate change, mapping earthquakes and underwater landslides, and investigating little-understood features like hydrothermal vents.

Marine robotics

NERC, particularly through NOC, has long been a world leader in the use of autonomous technologies for ocean exploration. This area poses significant technical challenges but offers enormous scientific opportunity. Using a £10m investment from BIS over the next two years, we will engage with UK industry to develop this technology and reinforce UK expertise in marine robotics. The outcomes will potentially support the defence, space, oil and gas, environmental protection and emergency service sectors.

Big data

Environmental data are accumulating at ever-increasing rates and we need to make sure we have the right data analysis and management capabilities to make the most of it. NERC will use £13m capital investment from BIS to help develop the computational capability to run complex environmental models and capture real-time data from sensors embedded in the natural environment.

NERC is developing an Environmental Virtual Observatory which will use cloud technology to integrate environmental datasets. This will make it much easier for decision-makers to access and visualise NERC data and knowledge. For example, providing access to real-time modelling of national water stocks and demands for better management of water supplies and to help us increase our resilience to the effects of drought and infrastructure failures.

Professor Duncan Wingham
Chief Executive and Accounting Officer
26 June 2013

Accounts 2012-13

Remuneration report

Remuneration Policy

The Remuneration Committee is responsible for agreeing the pay and allowances of senior managers, i.e. directors (except for the Chief Executive, see below). The Committee members are listed below:-

Mr E Wallis, Chairman NERC
Prof P Curran, Council Member
Prof P Monks, Council Member
Professor D Wingham, Chief Executive
Mr J Bates, Director, People & Skills, who attends in an Advisory capacity.

The Remuneration Committee works in accordance with its policy on senior staff pay, which is designed to reward senior staff on the basis of individual skills, experience and performance set against the market median for their role. A market-related pay point is determined by survey evidence obtained from relevant comparator organisations in the public, higher education and voluntary sectors and is updated annually.

In accordance with NERC's appraisal system, performance is assessed against pre-set objectives for individual roles with input in the assessment process from individual reviewees, reviewers and the Chief Executive. In addition an assessment will be made of whether the performance and overall development in experience for the reporting year shows an increased and sustained exceptional contribution to NERC.

Performance will be rated according to whether certain characteristics have been exhibited; these include inter alia: achievements that have helped develop NERC's science/organisational impact, compliance with NERC Core Expectations, being integral to the delivery of NERC's mission, adding value to the organisation and adding distinction to NERC's science outputs. How well the individual exhibits these characteristics will determine the rating they receive.

These assessments will be used to determine both the pay increase and level of bonus that the member of senior staff will receive. In addition the survey evidence is factored into the pay increase assessment.

These arrangements were brought in to address the wide range of roles held by senior staff; to ensure that individual experience and performance were routinely included as factors in determining annual movement in base pay; and most critically to ensure a strong link between pay arrangements and the markets from which NERC recruits its senior staff. This was necessary as it had become apparent that the previous arrangements resulted in pay packages that fell short of the market and therefore inhibited NERC's ability to recruit and retain senior staff.

From 1 April 2006 all pay movement for senior employees is performance related. Prior to that date only the non-consolidated element of senior pay was performance related.

It should be noted that no senior managers are on a service contract. No awards have been made to senior staff this year.

More information about the remuneration committee can be found at the following website
www.nerc.ac.uk/about/work/boards/intro/#remuneration

Employment Contracts

NERC staff are not civil servants but the organisation makes its appointments in accordance with the broad principles set out in the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

All senior officers covered by this report, apart from the Chief Executive, hold appointments that are open-ended. All staff may retire after age 50 and draw their pensions on an actuarially reduced basis. Staff appointed before October 2006 may draw full pensions from age 60. Staff who leave during a formal redundancy exercise will be eligible for compensation terms, as defined under the rules of the Research Council's Superannuation Scheme. These payments are in line with those due under the Civil Service Compensation Scheme.

The notice period for all senior employees is three months.

Remuneration of the Chief Executive

Professor Wingham started his tenure on 1 January 2012. His initial contract is for a period of four years. Both the appointment terms and remuneration package are determined by the Department for Business, Innovation & Skills (BIS) with the Senior Review Oversight Committee (SORC) making a decision based on input from the Permanent Secretary and NERC Chair.

Professor Wingham's emoluments, including both taxable and non-taxable benefits, were £130,000 (2011-12: £32,500) entirely relating to his basic salary.

A charge of £33,800 (2011-12: £8,450) was also incurred in respect of employer's pension contributions. This was assessed as 26% of basic salary (2011-12: 26%). The Cash Equivalent Transfer Value for Professor Wingham at 31 March 2013 was £50,818. The real increase in the cash equivalent transfer value for the period was £32,067. Professor Wingham is an ordinary member of the Research Councils' Pension Scheme.

NERC Executive Board (NEB)

The NERC Executive Board (NEB) is responsible for:

- Overall corporate management
- Directing the development and implementation of Council's strategies, policies and decisions
- Effective financial management
- Developing and maintaining corporate information systems
- Ensuring that NERC is managed according to the required standards of accountability, regularity and propriety, achieving high standards of efficiency, effectiveness, economy and health and safety

NEB works with other research councils, and other bodies, on scientific, operational and administrative matters where there is benefit in doing so.

NEB members are appointed by the Chief Executive.

Table 1: Membership of NEB as at 31st March 2013

Name	Position	Notes
Professor Duncan Wingham	Chief Executive & Accounting Officer	Appointed effective 1st January 2012.
Professor Mark Bailey	Director, Centre for Ecology & Hydrology	Acting Director 1st March 2011 - 30th July 2012, permanent thereafter.
Mr Jonathan Bates	Director, People & Skills	Interim Director 1st November 2011 - 7th October 2012, permanent thereafter.
Mr Paul Fox	Director, Finance & Operations	
Professor Ed Hill	Director, National Oceanography Centre	Also Interim Director, British Antarctic Survey (BAS) 20th February - 26th November 2012.
Professor John Ludden	Director, British Geological Survey	
Mr Colin McKinnon	Director, Innovation & Communication	Appointed effective 7th January 2013, this role replaced the position of Director, Strategy & Partnerships.
Professor Stephen Mobbs	Director, National Centre for Atmospheric Science (NCAS)	Professor of Atmospheric Dynamics, University of Leeds
Dr Phil Newton	Director, Science	Stood down 30th May 2013, Dr Pamela Kempton will fill the role on an interim basis until Professor Iain Gillespie takes up the post 1st September 2013.
Professor Patricia Nuttall	Director, Special Projects	Stood down as Director, Centre for Ecology & Hydrology (CEH) to take up the post of Director, National Capability Intergration effective 1st March 2011, this was intended to be a 2 year posting, however her standing down became permanent effective 31st July 2012 when she became Director, Special Projects. This role ended 31st March 2013, after which she left NERC to take up the role of Professor of Arbovirology at the University of Oxford.
Professor Alan O'Neill	Director, National Centre for Earth Observation (NCEO)	Professor of Meteorology, University of Reading
Professor Alan Rodger	Interim Director, British Antarctic Survey	Appointment effective 27th November 2012, he will stand down 30th September 2013 at which point the new Director, Professor Jane Francis, will take up the post.

With the exception of the Directors of NCAS and NCEO, all members of NEB are NERC employees whose remuneration is discussed below. The Directors of NCAS and NCEO are not directly remunerated by NERC for their work on NEB, however their centres are funded by NERC.

Audited Information

Remuneration of senior employees

Members of the council's senior management team received emoluments during the year, including taxable benefits as below; these individuals are all ordinary members of the Research Councils' Pension Scheme.

Table 2: Remuneration of senior employees' (2012-13)

Name	Note Ref 1	Pay 2012 - 2013 £000	Bonus 2012 - 2013 £000	Total emoluments 2012 - 2013 £000	Pay 2011 - 2012 £000	Bonus 2011 - 2012 £000	Total emoluments 2011 - 2012 £000	Pension increase in real terms £000	Accrued pension at 31/03/13 £000	Lump sum at 31/03/13 £000	Lump sum increase in real terms £000	Cash equivalent transfer value as at 01/04/12 £000	Cash equivalent transfer value as at 31/03/13 £000	Cash equiv. transfer value increase in real terms £000
Professor D Wingham		125 - 130	0 - 5	130 - 135	30 - 35	0 - 5	30 - 35	2.5 - 5	0 - 5	-	-	10	51	32
Professor A Thorpe	2	-	-	-	40 - 45	20 - 25	45 - 50	-	-	-	-	-	-	-
Professor M Bailey		90 - 95	5 - 10	95 - 100	85 - 90	5 - 10	95 - 100	0 - 2.5	35 - 40	105 - 110	2.5 - 5	688	751	24
Professor A E Hill	3	105 - 110	5 - 10	115 - 120	95 - 100	5 - 10	105 - 110	0 - 2.5	40 - 45	120 - 125	2.5 - 5	719	784	23
Professor J Ludden		95 - 100	5 - 10	100 - 105	95 - 100	5 - 10	100 - 105	0 - 2.5	10 - 15	-	-	192	215	7
Professor P Nuttall		95 - 100	5 - 10	105 - 110	95 - 100	5 - 10	100 - 105	(5) - (2.5)	45 - 50	145 - 150	(12.5) - (10)	1,128	1,109	(83)
Professor N Owens	4	30 - 35	0 - 5	145 - 150	90 - 95	5 - 10	95 - 100	-	-	-	-	-	-	-
Professor A Rodger		30 - 35	0 - 5	30 - 35	-	-	-	12.5 - 15	40 - 45	130 - 135	40 - 42.5	684	990	299
Mr J Bates		75 - 80	0 - 5	75 - 80	25 - 30	0 - 5	30 - 35	2.5 - 5	35 - 40	105 - 110	12.5 - 15	665	802	99
Mr P Fox		95 - 100	5 - 10	100 - 105	95 - 100	0 - 5	95 - 100	2.5 - 5	5 - 10	-	-	66	102	15
Dr P Heads	5	50 -55	0 - 5	55 - 60	55 - 60	0 - 5	55 - 60	0 - 2.5	30 - 35	55 - 60	0 - 2.5	491	557	37
Mr C McKinnon		20 - 25	0 - 5	20 - 25	-	-	-	0 - 2.5	0 - 5	-	-	-	5	-
Dr P Newton		75 - 80	0 - 5	80 - 85	75 - 80	0 - 5	75 - 80	0 - 2.5	15 - 20	-	-	239	256	-
Mrs J Timberlake	6	-	-	-	40 - 45	0 - 5	40 - 45	-	-	-	-	-	-	-
Dr S Wilson	7	-	-	-	85 - 90	0 - 5	90 - 95	-	-	-	-	-	-	-
Band of Highest Paid Director's Total Remuneration	8			130 - 135			130 - 135							
Median Total Remuneration	9			31,155			31,979							
Median Total Remuneration Ratio				4.25			4.14							

Notes:

1 Pay figures includes salary, overtime, allowances and awards. All senior staff pay for the year is also their FTE salary with the exception of Professor Hill, Professor Rodger and Mr McKinnon, who all have FTE's salaries within the £95K - £100k range and Professor Owens whose pay was in the £90k - £95k range prior to his departure. Bonus figures shown are those paid out during each year. Compensation payments are all those made under an approved compensation scheme for early retirement or loss of office.

2 Professor Thorpe stood down as Chief Executive effective 30th June 2011. His total emoluments included an allowance of £20,300 (£5,075 pro rata) for taking the role of RCUK Executive Group Chair from 1 October 2009.

3 Remuneration includes an allowance for acting as Interim Director, BAS see table 1 for details.

4 Professor Owens temporarily stood down as Director, British Antarctic Survey (BAS) effective 6th February 2012 and finished as a NERC employee on 30th June 2012 . Full details of compensation payments are outlined below.

5 Dr Heads took up the post of Interim Director, Strategy and Partnerships from 1st July 2011 until 31st December 2012.

6 Mrs Timberlake stood down as Director, People & Skills effective 31st October 2011. She worked as a 0.8 full time equivalent from 1 April 2008.

7 Dr Wilson stood down as Director, Strategy and Partnership effective 30th June 2011 to take up the post of Interim Chief Executive from 1st July to 31st December 2011. Following his decision to leave NERC at the end of March 2012, he took up the post of Director, Advisor to the Chief Executive effective 9th January 2012.

8 This is the salary of Prof Wingham plus his estimated 2012-13 bonus as he is the highest remunerated Director in post as at the end of the reporting period.

9 Remuneration is the total remuneration per employee for 12-13 adjusted for FTE.

Senior Employees' Awards in Respect of Early Termination

During the year an award in respect of early termination was made to Professor Owens, formerly Director of the British Antarctic Survey. Professor Owens received £116,201, this included:

- Pay in Lieu of Notice of £22,984
- Non-Taxable Severance of £30,000
- Taxable Severance of £63,217

No other awards were made to senior employees during 2012-13.

Total Emoluments

Total emoluments include gross salaries and performance related bonuses. From 1 April 2004 basic pay rates for senior staff incorporate all existing allowances including supervisory and responsibility allowances and any contribution awards.

Pension benefits

All senior employees are ordinary members of the Research Councils' Pension Scheme (RCPS) which is a defined benefit scheme funded from annual Grant-in-aid on a pay-as-you-go basis.

Further details about the RCPS can be found in Note 5(d) of the Annual Accounts.

Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's or partner's pension payable from the scheme. A CETV is a payment made by a pension scheme when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme which the individual has transferred to the Research Councils' pension arrangement and for which the RCPS has received a transfer payment commensurate with the additional pension liabilities being taken on. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years and additional pension at their own cost.

Real increase in the value of the CETV

The real increase in the value of the CETV reflects the increase effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme) and uses common market valuation factors for the start and end of the period.

Remuneration of Council Members

Members of Council receive an Honorarium of £6,850 per annum to cover all work for the Council including membership of Council's Boards; Professor Curran receives an additional £2,260 for being Chair of the NERC Council Audit Committee. The Chairman of Council, Mr Wallis, receives a salary of £16,430 per annum. These rates are effective from 1 October 2009 and are formulated by the Department for Business, Innovation and Skills.

Council members are normally employed on fixed term contracts not exceeding 4 years.

Honoraria are not payable to members who are:

- Civil Servants
- Employees of NERC
- Full time employees of organisations whose funds are derived from Votes of Parliament (eg Government Departments, UK Atomic Energy Authority, British Broadcasting Corporation and other Research Councils)

Members of Council may not receive fees in addition to honoraria. University academic staff and retired Civil Servants are eligible to receive honoraria or fees.

Table 3: Membership of the NERC Council (2012-13)[2]

Name	Affiliation	Period of Appointment	Total Emoluments £'000 2012-13	2011-12	Notes
Mr E Wallis	Chairman	01 Jan 2007 - 01 Jan 2014	15 - 20	15 - 20	
Professor D Wingham	Chief Executive and Deputy Chairman	01 Jan 2012 - 31 Dec 2015	0	0	1
Professor P Curran	Vice Chancellor and Professor of Physical Geography, City University London and Chair of NERC Council Audit Committee	08 Aug 2006 - 31 July 2014	5 - 10	5 - 10	
Professor I Boyd	Chief Scientific Advisor to DEFRA	01 Feb 2013 - 31 Jan 2017	0	0	1
Mr R Douglas	Managing Director, Willis analytics for Willis Re	01 Aug 2008 - 31 July 2015	5 - 10	5 - 10	
Professor C Godfray	Professor of Zoology, University of Oxford	01 Aug 2008 - 31 July 2015	5 - 10	5 - 10	
Professor L Heathwaite	Professor of Land & Water Science and Co-Director of the Centre for Sustainable Water Management in the Lancaster Environment Centre, Lancaster University. Part-time Chief Scientific Advisor for Rural & Environment for the Scottish Government.	17 Dec 2012 - 16 Dec 2016	0	0	1
Professor M Lockwood	Professor of Space Environment Physics in the Department of Meteorology, University of Reading.	01 Mar 2007 - 31 July 2013	5 - 10	5 - 10	
Professor G Mace	Professor of Biodiversity & Ecosystems at University College London	01 Aug 2011 - 31 July 2015	5 - 10	0 - 5	
Professor T Meagher	Professor and Chair of Plant Biology at the University of St Andrews	01 Aug 2007 - 31 Dec 2013	5 - 10	5 - 10	
Professor P Monks	Professor of Atmospheric Chemistry, University of Leicester	01 Aug 2011 - 31 July 2015	5 - 10	0 - 5	
Professor J Slingo	Chief Scientist, Met Office	01 May 2009 - 30 April 2017	0	0	1
Professor A Watson	Professor at the School of Environmental Sciences, University of East Anglia	01 Aug 2008 - 31 July 2015	5 - 10	5 - 10	
Professor R Watson	Chief Scientific Advisor to DEFRA	01 Dec 2007 - 31 July 2012	0	0	1
Lord Willis of Knaresborough	Member of the House of Lords Science & Technology Committee	01 Aug 2011 - 31 July 2015	5 - 10	0 - 5	
Ms R Willis	Independent consultant in environmental policy and practice	01 Aug 2011 - 31 July 2015	5 - 10	0 - 5	
Professor M Wilson	Professor at the Institute of Geophysics, School of Earth and Environment, Pro-Dean for Research in the Faculty of Environment, University of Leeds	01 Mar 2007 - 31 July 2013	5 - 10	5 - 10	

Notes

1 Honoraria are not payable to members who are civil servants, employees of NERC or full time employees of organisations whose funds are derived from Votes of Parliament.

2 Graeme Reid attends Council as a BIS observer and is not remunerated for his services.

Professor Duncan Wingham
Chief Executive and Accounting Officer
26 June 2013

Statement of Account for the Financial Year 2012-13

STATEMENT OF CHIEF EXECUTIVE'S RESPONSIBILITIES WITH RESPECT TO THE FINANCIAL STATEMENTS

Under Paragraph 3 of Schedule 1 to the Science and Technology Act 1965, the Secretary of State for the Department for Business, Innovation and Skills has directed the Council to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Natural Environment Research Council and of its comprehensive net expenditure and cash flows for the financial year.

In preparing the accounts the Chief Executive as 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 Department 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 (www.hm-treasury.gov.uk/frem_index.htm) have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis.

The Department for Business, Innovation and Skills has appointed the Chief Executive as Accounting Officer of the Natural Environment Research Council. 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 of proper records and for safeguarding the Natural Environment Research Council's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury and published in 'Managing Public Money' (The Stationery Office).

GOVERNANCE STATEMENT

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NERC's policies, aims and objectives, as approved by Council, whilst safeguarding the public funds and NERC assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in 'Managing Public Money'.

The purpose of the Governance Statement

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

Governance Structure

The NERC Council is the senior decision making body and includes members from NERC's academic and user communities. Membership is reviewed annually, appointments are advertised nationally and members are ultimately appointed by the Secretary of State for Business Innovation and Skills. Details of Council membership can be found at: www.nerc.ac.uk/about/work/boards/council/members.asp

The role of NERC Council is to decide on all issues of major importance, principally issues of corporate strategy, key strategic objectives and targets, major decisions involving the use of resources and personnel issues, including key appointments. Responsibility for carrying out key strategy and responsibilities associated with the day to day management of NERC is delegated to the Chief Executive.

The powers, roles, responsibilities and membership of Council are defined in its Royal Charter. The nature of its relationship with its sponsor department, the Department for Business Innovation and Skills (BIS), is defined in the Management Statement and Financial Memorandum agreed with DIUS (a predecessor department of BIS) in 2005. These documents are available on the NERC website at: www.nerc.ac.uk/about/work/boards/intro/

Council has established three bodies to support it in discharging its responsibilities:

i. the Audit & Risk Assurance Committee (ARAC);
ii. the Science & Innovation Strategy Board (SISB); and
iii. the NERC Investment Committee (NIC).

The responsibilities of the Chief Executive, who is also the Accounting Officer of the Council, are also set out in the Management Statement and Financial Memorandum. I may delegate the administration of these responsibilities to Council's employees but may not assign any of the responsibilities absolutely to any other person. I have established the NERC Executive Board (NEB) to support me in discharging these responsibilities.

Council & audit & risk assurance committee: attendance & highlights report for 2012-13

Council met five times during 2012-13. The membership/attendance record is as follows:
Council membership and attendance* record:

Name	Position held	Appointment from/to	Attendance record
Mr Ed Wallis	Chairman	01.01.07 – 01.01.14	5/5
Prof Duncan Wingham	CE NERC	01.01.12 – 31.12.15	5/5
Prof Paul Curran	Member	01.08.06 – 31.07.14	4/5
Mr Rowan Douglas	Member	01.08.08 – 31.07.15	2/4
Prof Charles Godfray	Member	01.08.08 – 31.07.15	5/5
Prof Mike Lockwood	Member	01.03.07 - 31.07.13	4/5
Prof Georgina Mace	Member	01.08.11 – 31.07.15	5/5
Prof Thomas Meagher	Member	01.08.07 – 31.07.13	5/5
Prof Paul Monks	Member	01.08.11 – 31.07.15	4/5
Prof Julia Slingo	Member	01.05.09 – 30.04.17	5/5
Prof Andrew Watson	Member	01.08.08 – 31.07.15	5/5
Prof Robert Watson	Member	01.12.07 – 31.07.12	2/2
Prof Marjorie Wilson	Member	01.03.07 – 31.07.13	3/5
Lord Willis of Knaresborough	Member	01.08.11 – 31.07.15	3/5
Ms Rebecca Willis	Member	01.08.11 – 31.07.15	5/5
Prof Louise Heathwaite	Member	17.12.12 – 16.12.16	1/2
Prof Ian Boyd	Member	01.02.13 – 31.01.17	0/1

*The quorum of Council is six members (as stated in the NERC Royal Charter)

The main topics of discussion during 2012, in addition to the standing items, were as follows:

- *The new NERC Strategy*
  The current NERC strategy Next generation science for planet Earth was developed during 2005 and 2007. Some of the political, economic, social, environmental and science drivers have evolved significantly since 2005-07, so work has begun on the development of a new NERC strategy.
- *Demonstrating the impact of NERC science*
  Developing and implementing plans to strengthen NERC's approach to innovation and impact. NERC strengths in contributing to investment decisions (e.g. when to replace the Thames barrier), policy development (e.g. DEFRA national ecosystem assessment and environment white paper) and cost avoidance (e.g. human and economic costs of flooding) are recognised. Nevertheless, Council resolved that NERC must act urgently to address a relative weakness in business impact.
- *Living With Environmental Change (LWEC) Programme*
  Council discussed the findings of the mid-term evaluation of the Living With Environmental Change (LWEC) programme and agreed a programme of reforms as a result of this review.
- *Evaluation of NERC Research Centres*
  Council discussed and agreed a programme of evaluation of the science excellence and impact of NERC Research Centres via a process of expert review.
- *British Antarctic Survey/National Oceanography Centre Merger*
  In June 2012 NERC carried out a public consultation on a potential merger of BAS and NOC, creating a new Centre encompassing polar and marine science. Council considered the responses to this public consultation as well as feedback from Parliament, Government, the polar affairs community, scientists, and NERC staff and agreed that it would not proceed with the proposal of merger. Additionally, the Minister of State for Universities and Science, David Willetts, announced that looking to the future, without pre-empting the timing and size of the next spending review settlement, he considered that NERC should have discrete funding line for Antarctic infrastructure and logistics from within the ring-fenced science budget to ensure a visible UK commitment to maintaining Antarctic science and presence.

ARAC is a sub-Committee of Council and reports throughout the year on its activity to Council through access to its minutes and orally by the Chairman of ARAC who is a member of Council. The Committee met five times during the course of 2012 with full meetings in April, June and October 2012 and February 2013 and at its annual members' meeting in December 2012. The membership/attendance record is as follows:

Audit and Risk Assurance Committee membership and attendance record:

Name	Position held	Appointment from/to	Attendance record
Prof Paul Curran	Chairman	01.08.11 – 31.07.14	5/5
Mr Rowan Douglas	Member	01.08.11 – 30.04.12	1/1
Mr David Hyde	Member	01.06.05 – 31.08.13	5/5
Prof Paul Monks	Member	01.10.12 – 31.12.15	2/2
Mr Bryan Thompson	Member	01.09.09 – 31.08.14	5/5

As part of its normal business, ARAC considered and commented on the AASG audit plan for the year, received copies of AASG reports, was provided with status updates on audit recommendations and reviewed aspects of NERC's internal control systems in line with its terms of reference.

The key items of discussion this year have been:

- *Change of Audit Committee name, role and terms of reference.*
  ARAC changed its name from the Audit Committee to the Audit and Risk Assurance Committee as of 21st February 2013 (Council approved this change). The driver for this change was to ensure that the emphasis given by ARAC to risk issues through engagement with risk owners was reflected both within the Committee's title and within revised terms of reference. The changes took account of the HM Treasury and The Cabinet Office Corporate Governance in Central Government Departments: Code of Good Practice which requires the Research Councils to ensure that their corporate governance protocols mirror the Code wherever practicable.

Associated with this change, revised Terms of reference were approved by Council on 21st February 2013.

- *The NERC Annual Report and Statutory Accounts 2012-13*
  ARAC carried out a full review of the NERC financial statements to ensure they reflected best practice and was informed in this task by the National Audit Office reporting on its audit and matters arising. ARAC sought and obtained assurance about the revised audit timetable in order to ensure that the accounts were presented before Parliament in good time.

- *The NERC Risk Register*
  ARAC agreed that additional time would be allowed in future agendas for the Chief Executive to discuss with ARAC current NERC risks and that ARAC would offer advice and opinion on those risks. ARAC also agreed that members of the NERC executive would be invited to future ARAC meetings to discuss risks within their particular area of responsibility. Professor Ed Hill, who was the Executive Director NOC and Interim Director BAS, attended the October 2012 meeting to discuss risks related to capital reduction, the loss of major platforms and the consultation on the proposed BAS/NOC merger.

- *UKSBS Ltd (formerly RCUK SSC Ltd) Stabilisation Programme*
  ARAC discussed RCUK shared assurance and its potential to impact on NERC assurance. ARAC Chair and the Chair of SSC Audit Committee exchanged correspondence about these concerns and ARAC sought assurance that when the Stabilisation Board had reached its conclusions, NERC would be provided with the plan to manage any outstanding issues. ARAC received this assurance and was able to monitor the implementation of the AASG recommendations for stabilisation.

ARAC is an advisory body with no executive powers. However, it is authorised by Council to investigate any activity within its terms of reference, which include the review of NERC's internal and external financial statements/reports and to review NERC's internal control systems in matters such as risk, health & safety and security.

Remuneration Committee

Under the remit of Council's Remuneration Committee, the Senior Staff Salaries Review Committee (SSSRC) determines base pay movement and annual performance bonuses for NERC's staff at Band 1 and 2 levels. This category of staff includes all Directors and NEB level appointments.

The Committee is chaired by Chairman of Council and includes two Council members and the Chief Executive with the Director of People and Skills as an adviser. It met once during 2012-13 in the margins of the December Council meeting. The membership/attendance record is as follows:

Name	Position held	Appointment from/to	Attendance record
Mr Ed Wallis	Chairman	01.01.07 – 01.01.14	1/1
Prof Duncan Wingham	CE NERC	01.01.12 – 31.12.15	1/1
Prof Paul Curran	Member	01.01.12 – 31.07.14	1/1
Prof Paul Monks	Member	01.01.12 – 31.08.15	1/1
Mr Jonathan Bates	Director, People & Skills	N/A	1/1

Corporate Governance Code

The structure and operations of Council and ARAC were benchmarked against the Corporate Governance Code during 2012-13. It can therefore be confirmed that they comply with its requirements.

Risk and Internal Control Framework

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NERC for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Overall responsibility for risk management in NERC lies with the Chief Executive, who as the NERC Accounting Officer signs this annual Governance Statement as part of the audited Annual Accounts. Currently I delegate the task of implementing and maintaining the risk management policy and strategy to the Director Finance and Operations, who fulfils the role of Director Responsible for Risk. The Director Responsible for Risk's responsibilities include overseeing the activities of the Risk Management Network and reporting on risk management to NEB. NERC Directors have a responsibility to ensure the effective application of NERC's risk management strategy and policy. These arrangements ensure risk management is an integral part of NERC's management style and is tied to core activities reflected in the NERC Strategic Management Tool and BIS scorecard.

NEB is the owner of the NERC Risk Management Strategy and is responsible for reporting issues relating to risks and their management to Council, and for receiving assurance from NERC staff that risks are managed appropriately and passing this assurance to Council.

In executing these responsibilities the role of NEB can be characterised as follows:

- Monitor:
  - i) overseeing the process
  - ii) noting business critical risks
  - iii) noting mitigation strategies
  - iv) reviewing audit output
  - v) annual review of risk and the risk management systems in place;
- Decide:
  - i) setting and communicating the NERC level risk appetite
- Direct:
  - i) setting delegated authority levels
  - ii) solving risk management dilemmas (when asked to do so)

As a minimum, the top risks' listing is reviewed quarterly. NEB will review specific, high risk, matters at each meeting together with issues relating to any risks that are referred upwards by Research Centre Directors and others via the agreed escalation procedures.

NEB encourages sound properly managed risk taking and recognises that effective risk management, rather than risk avoidance, is an essential ingredient for successful business operations.

NEB Directors appoint 'owners' for all risk threats as they emerge. These risk owners are most likely to be middle / senior managers within NERC Swindon Office and the Research Centres. Risk owners have responsibility for the practical day to day management of risks and are responsible for ensuring that appropriate management plans are prepared and that risk response actions are carried out effectively. Responsibility for managing key business risks is retained at a senior level.

Risks are managed by trained and experienced people. All staff in NERC participate in an annual appraisal, where individual training needs and personal development requirements are identified and assessed. The Risk Management Network, supported by the Risk and Assurance Manager, will be responsible for identifying specific risk management training needs and making proposals to management at appropriate levels about how such training should be provided. The Network will periodically review the delivery and take-up of such training and include a commentary in the annual report to NEB.

The NERC Risk Management Network, which currently meets at least once each year, helps promote best practice in risk management across NERC by sharing lessons learnt and monitoring compliance with (and continued relevance of) the NERC Risk Management Strategy and Policy (which are available to all staff via the NERC extranet).

The risk and control framework

The purpose of the NERC Risk Management Strategy is to describe at a high level how NERC will implement its Risk Management Policy, setting out the necessary organisation, roles and responsibilities, along with the framework and underlying principles of the control system.

NERC Directors have a responsibility to ensure the effective application of NERC's risk management strategy and policy. Directors must satisfy themselves that the following issues have been adequately addressed within their areas of responsibility:

- the requirements of corporate governance – these include developing more focused and open ways of managing risk and ensuring that all NEB decisions on managing risk are implemented.
- the need to identify appropriate 'risk owners' at a sufficiently senior level for all identified risks.

- the adequacy of reporting arrangements that ensure the timely escalation of major risk issues internally within their area of responsibility; and, where appropriate externally to NEB. And that these arrangements are in line with delegated authority levels and the provisions of Research Centre Management Statements (where these apply).
- the need to ensure a shared understanding of risk management principles, thereby ensuring a consistent approach to the treatment of risks at all levels.
- deciding the overall risk tolerance level, or 'risk appetite' for areas that they have a responsibility for (mindful of the NERC level risk appetite determined by NEB).

NERC has a web-based database to host the NERC risk register. The system is known as STAR (System for Targets and Risks). STAR is the cornerstone of NERC risk management and provides a single system for recording Business Risks, Business Critical Projects and activities reflected in the NERC Strategic Management Tool and BIS scorecard. In addition to attaching scores to risks and identifying mitigation tactics, STAR also records information concerning quarterly progress against plan by way of a 'traffic light system'. Reports from STAR are considered by Council (NERC Top Risks), NEB (NERC Top Risks /NERC Strategic Management Tool and BIS scorecard activities progress report) and the NERC Audit Committee (NERC Top Risks / Business Critical Projects status report). STAR also provides the quarterly report to BIS that details progress towards completing activities that feature in the BIS scorecard.

Review of Effectiveness

As Accounting Officer, I have responsibility for conducting an annual review of the effectiveness of the system of the organisation's governance, risk management and internal control. This review is informed by the work of executive managers within the organisation who have responsibility for the development and maintenance of the governance structures and internal control framework; and comments made by internal/external auditors in their management letter and reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The system of internal control can provide only reasonable and not absolute assurance that NERC's internal control framework is operating as intended. My review of the effectiveness of the internal control framework is informed by this year's Director's Annual Statements on Internal Control (DASICs), the work of the Audit and Assurance Service Group (AASG), comments made by the National Audit Office (NAO) in their management letter and other reports, and the advice of the Director Responsible for Risk Management concerning the progress made on risk management and related matters.

DASIC Exercise (Directors' Stewardship Statements)

NERC Directors are required to provide a Directors Annual Statement on Internal Control, (DASIC) concerning the effectiveness of internal control within their area of responsibility. The 2012 DASIC exercise did not identify any significant internal control weaknesses.

In response to a request from the Department of Business Innovation and Skills, relevant Directors have confirmed via their DASIC stewardship statement that:

- Board members and senior officials with significant financial responsibility are on the organisation's payroll;
- assurances are sought regarding the tax and NICs obligations of any off-payroll staff;
- all staff are aware of the need to comply with austerity measures.

Advice from Audit and Assurance Service Group

In December 2011, the RCUK Efficiency and Reform Group approved a proposal to merge the separate business operations of Research Councils Internal Audit Service and RCUK Assurance into a single administrative business function. Following the implementation, a merged assurance group came into being on the 2nd April 2012, under the re-branded title of Audit and Assurance Services Group (AASG).

The Director of the Audit and Assurance Service Group (AASG), NERC's internal auditor, provides an annual internal audit opinion on the overall adequacy and effectiveness of NERC's framework of governance, risk management and control. This opinion is informed by the internal audit work undertaken during the year. The Director has provided NERC with an overall opinion of 'Substantial Assurance', reflecting a basically sound system of internal control, but where there are a few weaknesses that may put achievement of some system objectives at risk.

The work of the AASG provides assurance in three areas: NERC core activities; cross-Council activities which NERC is involved in; processes shared by NERC with the UK Shared Business Services (UKSBS Ltd);

i) NERC Core and Cross Council Activities - of the 15 assurances provided through the audit programme, 80% reflect substantial assurance, with improvement plans being put in place for:

- Training and Development to ensure that learning and development planning is embedded into strategic planning process through Centre Activity & Resource Plans;
- A clearer Goods Received Not Invoiced policy and process is promulgated and applied.

ii) NERC/UKSBS Ltd Shared Assurance – of the end-to-end processes audited, 86% (12) received Substantial Assurance in 2012-13 compared to 36% in 2011-12. However not all material improvements have been made to the system of internal control to ensure system objectives are achieved. Some 14% (2) of the E2E processes received Limited Assurance: GPC and IExpenses; and Order to Cash. Across the client base non-compliance with the iExpenses process is high (21% of claims processed contain policy violations) and there are quality shortfalls in the master data that supports the Order to Cash process. AASG identified 5 key issues where they believed NERC's exposure was potentially high. These were investigated by NERC and where necessary control measures were improved.

Within the Controls and Security Framework, 3 key areas continue to receive Limited Assurance: Network Security; Master Services Data and E2E process Governance. Improvements in these areas through delivery of action plans are relatively recent, outstanding or extend into 2013-14. There are 5 high priority issues that remain open and require improvement to the control and risk management framework:

- Documentation to support, review and update Oracle database security configurations is required
- Network maintenance and access controls need strengthening
- The control framework for the creation and maintenance of master data needs strengthening
- The management assurance framework needs to be established and reliable
- An appropriate IT Governance and IT Security Strategy is required

In April 2013 UKSBS Ltd (formerly SSC) 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 concluded that the control framework for Master Data Maintenance had some identified risk exposures which were being addressed to reduce vulnerability. As such, the issues highlighted by these fraud attempts relate directly to the findings of recent internal audit reports on the controls and security framework operating within UKSBS Ltd which identified specific control weaknesses. 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. I consider the level of risk of financial loss to which the NERC has been exposed to be low. However, I am concerned that the limited assurance provided by internal audit work with regard to some elements of the controls and security framework within UKSBS Ltd represents an area of risk for the NERC which I am not able to directly manage.

UKSBS 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 UKSBS Ltd or NERC. In the coming year the ARAC will review the outcomes of internal audit work by the AASG to check that improved control frameworks have been implemented and assess the evidence that they are adequate and effective.

NAO Management letter

The management letter from NAO concerning the audit of the 2012-13 accounts has not raised any material issues that will have implications for internal control.

Activity of AASG's Assurance Unit

AASG is hosted by BBSRC and acts on behalf of all the Research Councils by reviewing the regularity of expenditure on Research Council grants at all eligible Research Organisations. The programme typically involves around 15-20 visits per annum to the research intensive organisations, supplemented by 15 desk based reviews for the less research intensive bodies. Assurance activities focus on the control environment and its effectiveness in ensuring compliance with the Research Councils' terms and conditions which accompany grant funding, with a further strand of work focusing on the scrutiny of the costing methodology used in research organisations, which for universities is the Transparent Approach to Costing (TRAC). The programme is an important element of the risk management framework for NERC with an annual report produced for me, as the Accounting Officer, which reports on activities undertaken in the year as well as proposed activities for the following year.

For 2012-13, seventeen visits were undertaken along with fifteen desk based reviews. Whenever specific issues are identified with universities, an action plan is agreed to ensure appropriate improvements are introduced. The work undertaken in 2012-13 and related findings provided me with a satisfactory level of assurance.

Client Assurance Service Group (CSG)

The RCUK Shared Services Centre (SSC now UKSBS Ltd) project ended on 31 March 2011. Since that date, the body responsible for co-ordinating the Councils' collective engagement with the SSC as clients has been the CSG. This role has been fulfilled alongside a range of assurance mechanisms established by BIS as part of the SSC stabilisation process and move toward on boarding new clients into the SSC. For example from January 2012, a joint SSC/CSG assurance reporting framework was established to report to the BIS Assurance Board, set up to monitor the stability for the services provided by the SSC.

The CSG has taken responsibility for, inter alia, the negotiation of annual service charges and development funding; the development of business improvement activities in each of the main functional areas covered by SSC service delivery; and oversight of an end to end audit assurance programme. Formal approval of funding is however made by the Efficiency and Reform Group, advised by CSG.

Overall Assurance

The current level of assurance is green/amber. During the year our emphasis has been placed on seeing SSC through to stabilisation. As part of this process BIS have taken an active role in establishing robust structures with cross Council representation to oversee progress and input from AASG. The purpose of this framework was to ensure that the control structures surrounding the end-to-end shared business processes are suitably designed and established (control design), and operating as intended (control effectiveness and fit for purpose).

During 2011-12 AASG carried out nineteen business process audits across all functional areas. During 2012-13 AASG revisited these audits and actively reviewed all outstanding 'High' priority recommendations seeking evidence of both implementation and effectiveness. All recommendations were signed off as completed and evidence provided however their effectiveness continues to be monitored as part of the on-going review process.

In addition a revised suite of performance indicators have been put in place (Critical Performance Indicators – CPIs). Latest analysis indicates that the overall direction of travel for each of the areas is positive.

Stabilisation was formally signed off with a few caveats, however issues remain around the Controls and Security Framework, highlighted by AASG. NERC will continue to monitor and stress the importance of making sure that UKSBS Ltd performance, not just maintains these standards, but continues to improve, particularly as new clients come on board.

Managing the Risk of Financial Loss

The Managing the Risk of Financial Loss (MRoFL) initiative was introduced by BIS/HMT during 2011-12 and applies to all transaction processing systems that result in payments or receipts. It represents an annual review of six core financial systems:

- Procurement
- Payroll
- Expenses
- Funding
- Grants
- Taxation receipts (relates to commercial income in the Research Councils context)

The first year's findings and recommendations were consolidated into a report that was sent to BIS in December 2011. The NERC Audit Committee subsequently monitored progress towards implementing the improvement actions contained therein. All the actions to address internal control weaknesses identified during the first year's work have now been completed. The cross Research Council Group that co-ordinated the first year's work has continued, and the second pass of this exercise is underway and will report later in 2013.

Austerity measures

All staff have recently been reminded of these requirements with the issue of a communication from the Director of Finance and Operations before Christmas. This also reminded staff that all expenditure was now published on an open website. Purchases over £5k are approved by line managers and budget holders and all purchases below 5k are subject to dipstick testing.

Fraud Investigations
There were a number of investigations into non-compliance during 2012. These investigations did not identify any systemic weaknesses, but have resulted in improvements to GPC cardholder awareness across the organisation concerning how GPC should be used. A number of overpayments related to misunderstanding/non-compliance have been recovered.

During April 2013 UKSBS 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. RCUK SSC 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 UKSBS Ltd or NERC.

Fraud hot-line/whistle blowing:
A concern raised by a member of staff was reported, fully investigated but found to have no substance.

Counter-fraud activity:
NERC counter-fraud systems continue to work efficiently and effectively. The Audit & Risk Assurance Committee are provided with updates at each meeting.

The Research Councils (via the RCUK Risk and Assurance Group) have made arrangements for the RCUK SSC to host a common counter-fraud awareness raising e-learning package in response to BIS/Cabinet Office initiatives. The package and intended approach has been approved by BIS.

Losses and write-offs
Significant losses for the year consisted of settlements and legal costs of three legal cases against NERC totalling £174k and the demolition costs of an unused building at Bidston of £177k. BIS approval has been sought and received for each of these significant losses. None of the losses appears to be related to an internal control weakness.

Project Management and Gateway Reviews
No Gateway Reviews were undertaken during 2012-13:

Information Assurance
During 2012-13, the NERC Information Assurance Group IAG) continued to formally meet and coordinate NERC Information and Technology risks. Revised information security related policies were signed off and introduced. Rollout of Personal Responsibility Statements for all staff has commenced. No incidents of personal data loss have occurred. There is an increased threat level to network security and this will be reviewed during the coming year. Advanced attacker activity on the network was detected during the year. NERC worked with a company assured under the HMG Cyber Incident Response scheme to respond and put protective measures in place to reduce the risk of further attacks.

Risk Management
It is my judgement that NERC fully satisfies the 'six elements of risk management that organisations must have in place' as set out in Annex 2 of DAO(GEN)09/03. I am satisfied with the performance of our risk management system (including the activity of the risk Management Network), and this view is supported by the 'substantial assurance' provided by AASG in their last audit of this system in 2010.

Disclosure of internal control problems
My review has identified the following internal control weaknesses affecting NERC that are discussed earlier and are summarised as follows:

The need to:
- improve embedding of learning and development planning into NERC's strategic planning process
- improve the Goods Received Not Invoiced process and policy
- improve consistent appliance of new GPC policy across all users and tighten control of usage through policy implementation
- improve adequacy of local Inventory Registers to ensure that low value but attractive items are properly recorded
- improve compliance with iExpenses policy and reduce the level of policy violations
- improve the quality of the master data that supports the Order to Cash process
- Improve the Controls and Security Framework in place with UKSBS Ltd that underpins the E2E process

Conclusion

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by NEB, the Audit Committee and the Director Responsible for Risk. Plans to address all weaknesses identified and measures to ensure continuous improvement of the system of internal control are in place.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that the Organisation's overall governance and internal control structures are satisfactory.

Professor Duncan Wingham
Chief Executive and Accounting Officer
26 June 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 Natural Environment Research Council for the year ended 31 March 2013 under the Science and Technology Act 1965. The financial statements comprise: the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Council, Accounting Officer and auditor

As explained more fully in the Statement of Chief Executive's Responsibilities With Respect To The Financial Statements, 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 Natural Environment Research Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Natural Environment Research Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Accounts 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 and report.

I am 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 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 financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Natural Environment Research Council's affairs as at 31 March 2013 and of its comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under by the Science and Technology Act 1965; and
- the information given in the Delivering the Strategy and Management Commentary sections for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on 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 part of the Remuneration Report to be audited 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
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Date: 1 July 2013

STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE PERIOD ENDED 31 MARCH 2013

	Notes	2013 £000	2012 £000
Expenditure			
Staff costs	5(b)	105,828	109,426
Staff early retirements	6	8,255	5,163
Grants and training	7	170,660	169,808
Other operating costs	8	92,773	99,181
Depreciation	9(a)	28,672	26,496
Amortisation	10	59	128
Losses and impairments of joint ventures and investments	9(c)	2,278	1,736
Impairment of property, plant and equipment	9(a),11	5,359	2,189
Total expenditure		413,884	414,127
Income	4	(59,720)	(56,087)
Net expenditure		354,164	358,040
Finance lease interest		799	922
Interest receivable		(12)	(6)
Net expenditure after interest		354,951	358,956
CEH restructuring	14	191	51
Unwinding of discount	14	355	250
Change in discount rate	14	552	9
Loss on disposal of fixed assets		1,514	25
Total net expenditure for the year		357,563	359,291
Other comprehensive expenditure			
Net gain on revaluation of property, plant and equipment		(1,580)	(20,705)
Net gain on revaluation of intangible assets		(4)	(132)
Net loss on revaluation of investment property		-	-
Net loss on revaluation of assets held for sale		-	-
TOTAL COMPREHENSIVE EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2013		**355,979**	338,454

All activities are continuing.

The notes on pages 56 to 80 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2013

	Notes	£000	31 March 2013 £000	£000	31 March 2012 Restated[(i)] £000	£000	31 March 2011 Restated[(i)] £000
Non-current assets							
Property, plant and equipment	9(a)(b)	401,183		401,613		355,433	
Intangible assets	10	117		172		174	
Non-current receivables	12(b)	90		122		167	
Jointly Controlled Entities and Unconsolidated Investments	9(c)	125		10,258		12,019	
Total non-current assets			401,515		412,165		367,793
Current assets							
Assets classified as held for sale	11	70		69		224	
Trade and other receivables	12(a)	24,608		24,088		39,570	
Cash and cash equivalents	15	21,962		14,372		12,361	
Total current assets			46,640		38,529		52,155
Total assets			448,155		450,694		419,948
Current liabilities							
Trade and other payables	13(a)	(68,346)		(66,028)		(77,969)	
Provisions	14	(3,609)		(4,805)		(2,924)	
Total current liabilities			(71,955)		(70,833)		(80,893)
Non-current assets plus current assets less current liabilities			376,200		379,861		339,055
Non-current liabilities							
Provisions	14	(6,487)		(6,418)		(7,490)	
Trade and other payables	13(b)	(7,097)		(8,764)		(10,299)	
Total non-current liabilities			(13,584)		(15,182)		(17,789)
Assets less liabilities			362,616		364,679		321,266
Taxpayers' Equity							
Revaluation reserve			94,445		100,746		86,863
Income and expenditure reserve			268,171		263,933		234,403
TOTAL GOVERNMENT FUNDS			362,616		364,679		321,266

Note: (i) Restated to exclude bank balances held on behalf of 3rd parties and the related liabilities.
The notes on pages 56 to 80 form part of these accounts.

Professor Duncan Wingham
Chief Executive and Accounting Officer
26 June 2013

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 MARCH 2013

	Notes	2013		2012 Restated[i]
		£000	£000	£000
Cash flows from operating activities				
Net expenditure after interest		**(354,951)**	(358,956)	
Depreciation charge	9(a)	**28,672**	26,496	
Amortisation charge	10	**59**	128	
Loss on joint venture	9(c)	**2,278**	1,736	
Impairment charged to net expenditure account	9(a)	**5,359**	2,189	
(Decrease) / increase in provisions	14	**(2,225)**	500	
(Increase) / decrease in trade and other receivables	12	**(488)**	15,528	
Increase / (decrease) in trade and other payables	13	**2,187**	(12,064)	
Net cash outflow from operating activities			**(319,109)**	(324,443)
Cash flows from investing activities				
Payments to acquire property, plant and equipment	9(a),(b)	**(33,908)**	(55,936)	
Payments to acquire intangible assets	10	**-**	(2)	
Receipts from disposal of property, plant and equipment, intangible assets and investments		**8,226**	1,938	
Net cash outflow from investing activities			**(25,682)**	(54,000)
Cash flows from financing activities				
Grant-in-aid and other BIS funding	3	**353,916**	381,866	
Capital element of finance lease payments	17	**(1,535)**	(1,412)	
Net cash inflow from financing activities			**352,381**	380,454
Net increase / (decrease) in cash and cash equivalents in the period			**7,590**	2,011
Cash and cash equivalents at the beginning of the period			**14,372**	12,361
Cash and cash equivalents at the end of the period			**21,962**	14,372

Note: (i) Restated to exclude bank balances held on behalf of 3rd parties and the related liabilities.
The notes on pages 56 to 80 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE PERIOD ENDED 31 MARCH 2013

	Notes	Accumulated income & expenditure reserve £000	Revaluation reserve £000	Total government funds £000
At 1 April 2012		234,403	86,863	321,266
Changes in taxpayers' equity for 2011-12				
Grant-in-aid and other BIS funding	3	381,866	-	381,866
Revaluation in year		-	20,838	20,838
Net expenditure for the year		(359,291)	-	(359,291)
Release to net expenditure		6,955	(6,955)	-
Balance at 31 March 2012		**263,933**	**100,746**	**364,679**
Changes in taxpayers' equity for 2012-13				
Grant-in-aid and other BIS funding	3	353,916	-	353,916
Revaluation in year		-	1,584	1,584
Net expenditure for the year		(357,563)	-	(357,563)
Release to net expenditure		7,885	(7,885)	-
Balance at 31 March 2013		**268,171**	**94,445**	**362,616**

NOTES TO THE ACCOUNTS

1. Statement of accounting policies

a. Basis of accounting

(i) The accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and inventories in accordance with the Government Financial Reporting Manual (FReM) for 2012-13. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The accounts, which give a true and fair view, have been prepared in accordance with The Science and Technology Act 1965 and with directions made by the Secretary of State. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Natural Environment Research Council for the purpose of giving a true and fair view has been selected.

(ii) The accounts meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board in as far as these requirements are appropriate in accordance with the FReM.

(iii) The accounts of all NERC owned research centres have been incorporated into these accounts.

(iv) These financial statements are presented in pounds sterling, NERC's functional currency, and all amounts have been rounded to the nearest thousand pound (£'000).

Adoption of standards and changes in policy

All International Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2013, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included in the FReM.

Effective for future financial years

The IASB and IFRIC issued certain standards and interpretations with an effective date after these financial statements. Where these changes are relevant to NERC's circumstances they are listed below and will be adopted at the effective date. They have not been adopted early and their adoption is not expected to have a material impact on NERC's reported income or net assets in the period of adoption.

IAS 19 Employee Benefits has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. The revised standard has been adopted by the EU and is effective for annual periods beginning on or after 1 January 2013. Under the current interpretation of IAS 19 in the FReM, the new changes in the amended standard are effectively already followed.

IAS 27 Separate Financial Statements requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost or in accordance with IFRS 9 Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. Adoption is still uncertain as the amendment has not been endorsed by the EU, but is expected to be effective for periods beginning on or after 1 January 2014.

IAS 28 Investments in Associates and Joint Ventures defines "significant influence" and provides guidance on how the equity method of accounting is to be applied, including exemptions from applying the equity method in some cases. It also prescribes how investments in associates and joint ventures should be tested for impairment. Adoption is still uncertain as the amendment is still subject to EU endorsement, but it is expected to be effective for periods beginning on or after 1 January 2014.

IFRS 7 Financial Instruments: Disclosures, has been amended with respect to netting arrangements and is due to come into effect in 2013-14. Detailed disclosures are required for financial assets transferred to another entity but not derecognised in their entirety and financial assets derecognised in their entirety but in which the reporting entity has an involvement. NERC does not expect there to be any transactions requiring disclosure but will assess further as appropriate for the 2013-14 financial statements.

IFRS 9 Financial instruments, will replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is expected to improve and simplify the reporting of financial instruments. The new standard will be effective for accounting periods beginning on or after 1 January 2013 subject to EU endorsement. Earlier application is permitted. The standard is part of a wider project to replace IAS 39 and it is not clear what the impact of the introduction of this standard will have on NERC. NERC will undertake an assessment of the impact of IFRS 9 once the full requirements are known.

IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements cover the definition of, and the accounting treatment required for, subsidiaries and jointly controlled operations. Both standards are currently subject to EU endorsement and are expected to be effective for periods beginning on or after 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities requires disclosure of arrangements where the reporting entity owns a majority of shares but does not consolidate and arrangements where the reporting entity owns more than 20% of shares but does not equity account, and vice versa. This standard should not give rise to any accounting changes, but will result in additional disclosure.

IFRS 13 Fair Value Measurement sets out an IFRS framework for measuring fair value and is effective for periods beginning on or after 1 January 2013. The standard will increase the disclosures required for non-financial items held at fair value, such as property, plant and equipment. NERC will undertake an assessment of the impact of the new IFRS 13 disclosures for the 2013-14 financial statements.

b. Going Concern

These accounts have been prepared on the basis of a Going Concern. Any deficit shown on the income and expenditure reserve will be extinguished over time, having regard to the resource and capital budgets to which NERC can be expected to have access.

In April 2011, Cabinet Office announced that all non-departmental public bodies (NDPB's) would have to undergo a substantive review at least once every three years. These Triennial Reviews have two purposes:

- To provide a robust challenge of the continuing need for individual NDPB's for both their function and form; and
- Where it is agreed that a particular body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance.

All Research Councils are being reviewed together over the period January to August 2013.

c. Assets

Property, plant and equipment

Expenditure on property, plant and equipment includes the purchase of land and buildings, construction and services projects, and equipment valued at £10,000 or above (2011-12: £10,000).

Property, plant and equipment are stated at the lower of depreciated historical cost or valuation. Costs of acquisition, comprising only those costs that are directly attributable to bringing the asset into working condition for its intended use, are capitalised. Land, buildings, ice stations in Antarctica, ships and aircraft are independently and professionally revalued every five years. These assets are subject to annual indexation when a full revaluation is not completed.

All UK land and buildings were valued in 2012-13 by Rafe Staples BSc (Hons), MRICS (member of The Royal Institution of Chartered Surveyors) acting as an external valuer on the basis of Existing Use Value in accordance with the RICS Valuation Professional Standards. These valuations excluded the scientific apparatus.

The British Antarctic Survey (BAS) Antarctic Research Stations were valued in 2011-12 via a desk-based valuation by Rafe Staples BSc (Hons), and Kirstie Wheeler BSc (Econ), MRICS acting as an external valuer, on the basis of Existing Use Value calculated by reference to Depreciated Replacement Costs. The Estimated Replacement Costs were calculated by BAS and adjusted by BAS and Powis Hughes in accordance with the RICS Valuation Standards.

The four research ships, RRS *Discovery*, RRS *James Clark Ross*, RRS *Ernest Shackleton* and RRS *James Cook*, were revalued in 2008-09 by E.A. Gibson Shipbrokers Ltd. All aircraft were also revalued in 2008-09 by the International Bureau of Aviation Group Limited.

All other plant & equipment and transport are revalued using relevant indices.

Any surplus or deficit on revaluation is taken to a revaluation reserve, except that any permanent diminution in value is charged to the statement of comprehensive net expenditure in the year in which it is recognised. Where subsequent evidence suggests a partial or complete reversal of the diminution in value, this is also reflected in the statement of comprehensive net expenditure in the year in which it is recognised as per IAS 36.

Increased depreciation charges arising from the revaluation are matched by annual transfers from the revaluation reserve to the income and expenditure reserve. On the disposal of a revalued asset, that element of the revaluation reserve

which becomes realised as a result is transferred directly to the income and expenditure reserve.

Freehold land is not depreciated. All other tangible fixed assets are depreciated in order to write off the value of the asset less its estimated residual value over their estimated useful economic lives using modified reducing balance depreciation methodology. These lie within the following ranges:

Leasehold land	-	over the terms of the lease
Freehold buildings	-	up to 50 years or valuer's estimates of economic life
Long leasehold buildings	-	up to 50 years (or the length of the lease if less)
Short leasehold buildings	-	over the length of the lease
Antarctic ice stations	-	up to 35 years or valuer's estimates of remaining useful life
Plant and machinery	-	10 to 15 years
Ships and aircraft	-	minimum of 20 years for ships, 15 years for aircraft
Scientific, office and major computing equipment	-	5 to 10 years
Motor vehicles	-	3 to 7 years
Assets under construction	-	not depreciated until brought into use

Property, plant and equipment are depreciated from date when they are available for use. The residual values of assets are reviewed on an annual basis.

Component accounting
Property, plant and equipment may have parts with different useful lives. In accordance with the provisions of IAS 16 each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

d. Investments
If material and with controlling interest, NERC would consolidate its investments into its financial statements in accordance with IAS 27 Consolidated and Separate Financial Statements. Where immaterial or without controlling interest, the investment will not be consolidated, but where possible its fair value will be reported in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Where an investment is classified as an interest in a jointly controlled entity, it has been accounted for using the equity method in accordance with IAS 31 Interests in Joint Ventures and is carried at cost less any provision for impairment. The profit or loss for the year is credited or charged to the statement of comprehensive net expenditure in the year that it arises.

e. Intangible assets
Intangible assets comprise purchased or developed computer software and websites and are stated at the lower of historical cost less accumulated amortisation or valuation. Intangibles are given definite useful lives and are amortised over a period not exceeding ten years on a straight line basis over the useful life of the asset from the date of use based on nil residual value.

f. Investment property
In accordance with IAS 40, any property (land or building) held by the Council mainly to earn rental income and/or for capital appreciation is recognised as an investment property in the statement of financial position. Investment properties are measured at fair values which reflect market conditions existing at the balance sheet date.

g. Impairment
The carrying amounts of the Council's property, plant and equipment, intangible assets and financial assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment: property, plant and equipment, intangible assets and financial assets are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the assets. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. To the extent the asset has not previously been revalued, impairment losses are recognised in the statement of comprehensive net expenditure.

h. Assets held for sale
Where a non-current asset, whose value will be recovered principally through sale rather than through continuing use, is available for its immediate sale in its present condition and its sale is highly probable, it is classified as 'held for sale' and presented separately on the face of the statement of financial position. A sale is highly probable where: there is evidence of management commitment; there is an active programme to locate a buyer and complete the plan; the asset is actively marketed for sale at a reasonable price; and the sale will normally be completed within 12 months from the date of classification.

Assets held for sale are stated at the lower of net book value (carrying amount) and fair value less costs to sell. These assets are not depreciated. Depreciation ceases at the date an item of property, plant and equipment is classified as an asset held for sale.

i. Employee benefits
Under IAS 19 'Employee Benefits' an entity is required to recognised short term employee benefits when an employee has rendered service in exchange for those benefits. Included in the financial statements is an accrual for the outstanding employee holiday entitlement at 31 March 2013 on an undiscounted basis.

j. Ownership of equipment purchased with NERC research grants
Equipment purchased by an Institution with research grant funds supplied by NERC, belong to the Institution and are not included in NERC's property, plant and equipment. Through the Conditions of Grant applied to funded Institutions, NERC reserves the right to determine the disposal of such equipment and how any disposal proceeds are to be utilised.

k. Government grants receivable and other income
Grant-in-aid for revenue and general capital purposes is credited to the income and expenditure reserve. Other operating income is shown net of trade discounts, value added tax and other taxes.

l. Research and development
As an organisation wholly engaged in research, NERC does not classify research and development expenditure separately in the accounts. It is reported under operating costs in the statement of comprehensive net expenditure.

Intellectual property rights arising from the Council's research and development have not been included in these accounts as their market value cannot be readily estimated. The anticipated annual income generated from such rights is not material in value and is credited to the statement of comprehensive net expenditure on receipt.

m. Research and training grants
The majority of research grants and fellowships are paid by the Council on an instalment basis in arrears in accordance with an agreed payment profile. The majority of studentship payments are paid on a quarterly instalment basis in advance directly to the research institute.

Payments made in advance or in arrears are accounted for on an accruals basis in the financial statements. Future commitments at the balance sheet date are disclosed in Note 16 of the financial statements.

n. Insurance
In line with government policy, NERC carries its own risks in respect of employment of staff and assets, except where there exists a statutory requirement to insure or where commercial insurance represents better value for money.

o. Foreign currencies
Foreign currency balances representing cash or amounts to be received or paid in cash ('monetary items') are expressed in pound sterling at the rate(s) of exchange ruling at the statement of financial position date. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rate at the date the value is determined. Non-monetary items that are measured at historical cost are translated using the spot exchange rate at the time of the transaction. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the statement of comprehensive net expenditure.

p. Value Added Tax
As NERC is partially exempt for VAT purposes, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment. Where output tax is charged or input tax is recoverable the amounts are stated net of VAT. NERC has charitable status for VAT purposes.

q. Pension and early retirement costs
Payments are made to the Research Councils' Pension Scheme in respect of superannuation benefits for Council staff. In addition the council also paid contributions to a number of other multi-employer pensions schemes for specific groups of employees; these include inter alia the Merchant Navy Officers' and Ratings' Pensions Funds and Plans. The costs of early retirements are charged to NERC's accounts in the year in which the binding decision is taken to release staff and liabilities recognised.

Payments by the Council of early retirement lump sums are recoverable from the Research Councils' Pension Scheme when recipients achieve normal retirement age. Recoverable amounts are recognised as receivables in these accounts and offset against annual staff restructuring costs.

r. Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits which are repayable on demand.

s. Derivatives and other financial instruments
Due to the non-trading nature of its activities and the way in which NERC is financed, NERC is not exposed to the degree of financial risk faced by non-public sector entities. Moreover, financial instruments play a much more limited role in creating or changing risk that would be typical of the listed companies to which IAS 32, 39 and IFRS7 mainly apply. NERC has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing NERC in undertaking its activities.

Foreign currency risk
The Council's exposure to foreign currency risk is not currently significant.

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 Council 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 net expenditure.

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 NERC is established or when the corresponding assets or expenses are recognised.

t. Provisions
Provisions are recognised when it is probable that NERC will be required to settle a present obligation and a reliable estimate can be made of that obligation. The obligation is normally the amount that NERC would rationally pay to settle the obligation at the statement of financial position date or to transfer it to a third party at that time.

This may require estimating the future cash flows in current-year prices (i.e. at the price level prevailing in the year covered by the accounts) and, where the time value of money is material, discounting them at the standard public sector real rate set by HM Treasury, currently +2.35% for pension provisions and for all other provisions: short-term -1.80%, medium-term -1.00% and long-term 2.20%.

u. Decommissioning costs
Decommissioning costs are recognised as soon as the obligation exists. For Antarctic stations and other assets in the course of construction the percentage completion method will be used to determine the current obligation.
A specific provision is established to cover the current value of the expected future costs of decommissioning the asset.

v. Finance lease
NERC has the use of a ship for which substantially all risks and rewards of the asset are transferred to the Council. The asset is capitalised and is subject to the same revaluation policy as other property, plant and equipment and is depreciated over the shorter of its estimated useful economic life or the lease period, with the outstanding lease obligations (net of interest) shown in payables. Finance charges are charged to the statement of comprehensive net expenditure over the period of the agreement in accordance with the interest rate within the contract.

w. Operating leases
Operating lease rentals are charged to the statement of comprehensive net expenditure on a straight line basis over the period of the lease.

x. Key judgements and decisions

The preparation of Financial Statements requires management to make key judgements and estimates. These affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its judgements and estimates, including those relating to property, plant and equipment and provisions.

Management bases its judgements and estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions. Specific policies for judgemental areas such as decommissioning costs and provisions are shown above.

2. Analysis of net expenditure by business units for 2012-13

NERC's primary operating segments are business units which correspond with the way NERC is organised and managed.

NERC's assets and liabilities are shared across all business units, consequently it is not necessary to separately identify which segment they relate to to permit disclosure of this information.

	British Antarctic Survey £000	British Geological Survey £000	Centre for Ecology and Hydrology £000	National Oceanography Centre £000	Science and Innovation £000	Responsive Mode £000	Other £000	Total £000
Expenditure								
Staff costs	21,293	29,015	20,403	23,156	18	123	11,820	105,828
Staff early retirements	-	-	-	-	-	-	8,255	8,255
Grants and training	228	669	805	285	84,747	83,926	-	170,660
Other operating costs	26,714	12,963	11,887	19,821	9,990	12	11,386	92,773
Depreciation	-	-	-	-	-	-	28,672	28,672
Amortisation	-	-	-	-	-	-	59	59
Losses and impairments of joint ventures and investments	-	-	-	-	-	-	2,278	2,278
Internal transfers [(i)]	(4,241)	(3,040)	(4,897)	(9,413)	13,633	11,243	(3,285)	-
Impairment of property, plant and equipment	-	-	-	-	-	-	5,359	5,359
Total expenditure	**43,994**	**39,607**	**28,198**	**33,849**	**108,388**	**95,304**	**64,544**	**413,884**
Income [(ii)]	(5,264)	(18,841)	(11,631)	(8,367)	(13,319)	(830)	(1,468)	(59,720)
Net operating costs	**38,730**	**20,766**	**16,567**	**25,482**	**95,069**	**94,474**	**63,076**	**354,164**

Notes:
(i) Internal transfers result from sharing of resources, internal trading and internal awards between business units. The overall net impact on the organisation is zero.
(ii) Business units receive external funding for research from the UK public sector, European Commission and private sector. In addition they receive other operating income, such as software and data sales and royalties and license fees from intellectual property.

Analysis of net expenditure by business units for 2011-12

	British Antarctic Survey £000	British Geological Survey £000	Centre for Ecology and Hydrology £000	National Oceanography Centre £000	Science and Innovation £000	Responsive Mode £000	Other £000	Total £000
Expenditure								
Staff costs	21,995	30,041	20,428	24,906	4	313	11,739	109,426
Staff early retirements	-	-	-	-	-	-	5,163	5,163
Grants and training	271	265	475	78	81,002	87,163	554	169,808
Other operating costs	27,222	13,753	11,602	22,183	5,791	88	18,542	99,181
Depreciation	-		-	-	-	-	26,496	26,496
Amortisation	-	-	-	-	-	-	128	128
Loss in joint ventures	-	-	-	-	-	-	1,736	1,736
Internal transfers	(5,090)	(2,106)	(4,607)	(8,733)	13,496	13,489	(6,449)	-
Impairment of property, plant and equipment	-	-	-	-	-	-	2,189	2,189
Total expenditure	**44,398**	**41,953**	**27,898**	**38,434**	**100,293**	**101,053**	**60,098**	**414,127**
Income	(5,779)	(17,983)	(9,889)	(9,859)	(11,027)	(378)	(1,172)	(56,087)
Net operating costs	**38,619**	**23,970**	**18,009**	**28,575**	**89,266**	**100,675**	**58,926**	**358,040**

3. Grant-in-aid and other BIS funding

Under the FReM, NDPB's regard grants and grant-in-aid received as contributions from controlling parties giving rise to a financial interest in the body. As a result, grants and grant-in-aid received is credited to the income and expenditure reserve rather than being recognised as income in the statement of comprehensive net expenditure. The table below shows a summary of the grants and grant-in-aid, which have been transferred to the income and expenditure reserve during 2012-13.

	2013 £000	2012 £000
Grant-in-aid received	353,796	381,819
Other BIS Funding [(i)]	120	47
	353,916	381,866

Note:
(i) This relates to other non-GIA funding received from BIS for specific services e.g. the secondment of staff from NERC to BIS.

4.Income

		2013 £000	2012 £000
(a)	**Income from government departments**		
	Department for Environment Food and Rural Affairs	6,460	6,121
	Ministry of Defence	341	300
	Department for Energy and Climate Change	1,934	726
	Department for International Development	3,006	3,178
	Environment Agency	957	855
	Department of Enterprise, Trade and Investment Northern Ireland	1,267	1,307
	Foreign and Commonwealth Office	648	119
	Department for Communities and Local Government	119	179
	Total income from government departments	14,732	12,785
(b)	**Income from other bodies**		
	European Community [(i)]	4,869	7,920
	Other Research Councils	7,351	5,561
	Other Public Sector	5,559	5,128
	Private Sector	15,688	13,668
	Total income from other bodies	33,467	32,277
	Other operating income		
	Software and Data Sales	374	283
	Sale of Products & Publications	272	697
	Property and Equipment Rentals	1,761	1,835
	Lecture fees, seminars and training courses	54	23
	Royalties and licence fees	2,247	2,112
	Other Income [(ii)]	6,813	6,075
	Total other operating income	11,521	11,025
	Total income	59,720	56,087

Notes:
(i) Income from the European Community consists of cash receipts of £4,835,954 and accruals of £33,046.
(ii) This includes £370,000 (2011-12 £411,316) of income relating to the establishment of a Dutch Research Facility at Rothera, £255,074 (2011-12 £164,843) of non-grant related income from Research Council and Collaborative bodies and £2,926,532. (2011-12 £1,996,709) of monies from the University of Southampton paid to the National Oceanography Centre concerning their joint occupation of the Waterfront Campus.

5. Salaries and wages

(a) Staff numbers

The average number of FTE's (Full Time Equivalent) of staff employed during the year was:

	2013 No.	2012 No.
Permanent Staff	2,136	2,178
Temporary and Contract Staff	194	216
Staff on inward secondment/loan	2	2
Agency	20	11
	2,352	2,407

The total number of staff reported in the Annual Report is based on head count as at 31 March 2013, whereas the above figures are average FTE's for the year.

b) Staff costs

	2013 £000	2012 £000
Salaries and wages	80,047	83,579
Social Security Costs	6,783	7,014
Other pension costs (note 5d) (i)	18,998	18,833
	105,828	109,426

Note:
(i) 2011-12 Pension costs include a credit of £717,816 relating to the removal of the pension element from the brought forward Annual Leave Accrual, as these amounts are not pensionable.

Temporary staff costs total £336,056 (2011-12: £365,929) and are also included in the figures above.

Agency costs of £1,116,418 (2011-12: £762,531) have been included in operating costs.

The total amount capitalised for staff costs in 2012-13 is £677,009 (2011-12: £384,083). This relates to an estimated 15.9 full time equivalents for those staff employed by NERC that are adding value to assets such as those engaged in project managing or building of assets.

(c) Remuneration to Council and Committee Members/Peer Review College

The following are included in staff costs, note 5(b) and other operating costs, note 8.

	2013 £000	2012 £000
Council Members' fees	97	96
Committee Members/Peer Review	123	345
Other emoluments	40	44
	260	485

Committee members may receive £170 per day (2011-12: £170).

Committee Chairs may receive £230 per day (2011-12: £230).

The Chair of the Science & Innovation Strategy Board receives £9,110 per annum (2011-12: £9,110).

Non-Executive Directors receive £3,760 per annum (2011-12 £3,760).

All emoluments are non-pensionable.

Council Members are normally employed on fixed term contracts not exceeding 4 years.

Peer Review College Chairs receive honoraria of £1,000 per annum (2011-12: £1,000). Peer Review College members previously received honoraria of £500 per annum, however from July 2012, those who are eligible for payment (not already Government employed), and elect to be remunerated, are paid £200 per meeting.

Peer Review College Chair and Member appointments are open-ended but reviewed annually; the College year runs from 1 July to 30 June.

Number of Council, Committee and Board Members as at 31 March

	2013 No.	2012 Restated(i) No.
Council Members *	16	15
Committee Members ^	41	27
Peer Review College Members ~	672	450
	729	492

* Includes Chief Executive and Chairman

^ Members of Audit Committee, Science and Innovation Strategy Board, Training Advisory Group (formed May 2012) and Individual Merit Promotion Panel. Members of council or multiple committees are only counted once.

~ Not all members will attend meetings during the year, college expanded in July 2012.

(i) Members numbers restated to include non-remunerated members.

Council* / Committee and Peer Review College Members' emoluments fell into the following bands:

	2013 No.	2012 No.
£0 to £5,000	417	395
£5,001 to £10,000	12	12
£10,001 to £15,000	0	-
£15,001 to £20,000	1	1
	430	408

* Neither the Chief Executive nor the members of Council who are also Civil Servants receive any remuneration for their work on NERC Council and are therefore excluded from this table. The Chief Executive's emoluments are disclosed separately in the remuneration report.

(d) Superannuation

Pension scheme payments

	2013 £000	2012 £000
Payments in respect of the Research Councils' Pension Scheme (RCPS)	18,812	18,652
Payments to pension schemes other than the RCPS:		
Merchant Navy Officers' Pension Fund	31	32
Merchant Navy Officers' Pension Plan	-	-
Merchant Navy Ratings' Pension Fund	2	2
Merchant Navy Ratings' Pension Plan	2	3
Partnership Pensions	151	144
	18,998	18,833

Most employees of NERC are members of the Research Councils' Pension Scheme (RCPS) which is a defined benefit scheme funded from annual grant-in-aid on a pay-as-you-go basis. The RCPS is in all respects 'by-analogy' with the Principal Civil Service Pension Scheme, except that the employer's contribution is determined separately. The scheme provides retirement and related benefits based on final or average emoluments. Redundancy and injury benefits are administered and funded by the Council. The scheme is administered by the Research Councils' Joint Superannuation Service with the associated grant-in-aid managed by BBSRC.

Employees may be in one of four defined benefit scheme arrangements; either a 'final salary' scheme (classic, classic plus or premium); or a career average scheme (nuvos). Pensions payable are increased annually in line with changes in the Consumer Prices Index (CPI). The employer contribution rate is agreed by the RCPS Board of Management on the recommendation of the Government Actuary's Department (GAD) and is set at 26.0% of pensionable pay. Employee contribution rates vary between 1.5% and 5.9% depending on scheme and annual pensionable earnings (see table below). NERC paid costs in the year of £18,811,664.41 (2011-12: £18,652,187.37). As at 31st March 2013 there were 2,198 NERC members of these schemes.

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 was not expected to be completed at 31 March 2011.

Subsequently however, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

From 1 April 2013 employee contribution rates have been increased, the new rates are outlined below, along with those for the current year:

Annual pensionable earnings (full-time equivalent basis)	Classic Scheme contribution %		Classic Plus, Premium & NUVOS Scheme contribution %	
	1 April 2012	1 April 2013	1 April 2012	1 April 2013
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

As an alternative to the RCPS a Partnership Pension Account was made available to new recruits from 1 October 2002. It is 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 an age related contribution to the employee's private pension provider. As at 31st March 2013 there were 42 NERC members of these schemes.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pensionable age. Pensionable age is 60 for members of the classic, classic plus and premium scheme arrangements and 65 for members of Nuvos.

For further details about the Research Councils Pension Scheme pension arrangements can be found at the website http://jsspensions.nerc.ac.uk/.

The Council also paid contributions during the year to a number of other multi-employer pension schemes for specific groups of employees, as at 31st March 2013 there were 10 NERC members of these schemes; details of these schemes are shown on the next page:-

Scheme	Rate of contribution	Year of last variation
Merchant Navy Officers' Pension Fund^	11.9%	2009
Merchant Navy Officers' Pension Plan	5.1%	n/a
Merchant Navy Ratings' Pension Fund*	2.0%	2012
Merchant Navy Ratings' Pension Plan	5.1%	n/a

^ The Merchant Navy Officers' Pension Fund (New Section) was subject to an actuarial valuation as at 31 March 2009 and showed a deficit overall. In 2009-10 NERC made a one off payment of £2,817,513 in full settlement of our share of the deficit. The NERC element of the scheme is now fully funded and no liability in respect of the 31 March 2009 valuation is outstanding at 31 March 2013.

* The Merchant Navy Ratings' Pension Fund closed on 31 May 2001. On closure of the fund members transferred to the RCPS or the new Merchant Navy Ratings' Pension plan which is a money purchase scheme.

An actuarial valuation was undertaken on 31 March 2012; however the trustees do not intend to take immediate action on this report due to the on-going consultation process between the Trustee and the current employers concerning the details of the proposed Schedule of Contributions and Recovery Plan. The Trustee's current intention is to suspend collection of deficit contributions until the Court judgement on the proposed new deficit contribution regime is received in 2014. This decision is subject to the support of the Pensions Regulator.

NERC held a provision for our share of the deficit amounting to £2,449,582 in 2008-09 and made a one off payment in 2009-10 in full settlement of £2,724,138. At 31 March 2013 the NERC element of the scheme in respect of the 31 March 2008 valuation was fully funded and no current liabilities existed.

6. Staff restructuring / early retirements [(i)]

Resource costs packages agreed	2013 £000	2012 £000
Redundancy compensation payments	4,704	2,660
Early retirement lump sums	1,047	918
Resource costs packages agreed [(ii)]	5,751	3,578
Increase early retirement liability	2,504	1,585
Total costs	8,255	5,163

Exit package cost band	Band	Number of compulsory redundancies	Number of other departures	Total number of exit packages by cost band
<£10k	1	-	32	32
£10k-£25k	2	-	40	40
£25k-50k	3	-	51	51
£50k-£100k	4	-	41	41
£100k-£150k	5	-	16	16
£150k-£200k	6	-	-	-
>£200k	7	-	-	-
Total packages agreed		**-**	**180**	**180**
		£000	**£000**	**£000**
Total resource costs packages agreed [(iii)]		**-**	**7,214**	**7,214**

Notes:
(i) All payments were within contracted entitlement.
(ii) Resource costs packages agreed net of release of provisions as per Note 14.
(iii) Full costs of all exit packages agreed during the year, including those costs that are covered by the release of provisions as per Note 14. These costs will therefore differ from the totals shown in note (ii).

7. Grants and training

	£000	2013 £000	£000	2012 Restated[i] £000
Research grants		107,695		104,492
Research contracts		41,846		41,690
Post Graduate training awards				
Research students	21,086		22,180	
Research masters	33		1,446	
		21,119		23,626
Total grants and training awards		170,660		169,808

Note:
(i) The figures for Research Fellows have been included within Research Grants as this better describes their purpose, the 2011-12 figures have been restated to match this revised split.

Payments were made to various bodies within the public sector, public corporations, higher education institutions and other government agencies. A full list of all awards made during the year is available in the Annual Report section on pages 20-23. From October 2011 NERC discontinued funding for masters awards.

The above figures include Research Institute funded Grants & Training totalling £1.983m.

8. Other operating costs

	2013 £000	2012 £000
Rent and rates	1,070	851
Maintenance, cleaning, heating and lighting	7,664	9,309
Office supplies, printing and stationery	3,497	3,346
Laboratory supplies, computing and field equipment	18,673	17,973
Postage, telephone and other telecommunications	1,541	1,545
Hospitality [i]	454	413
Audit fees [ii]	80	96
Travel and subsistence	7,217	7,689
Ships and aircraft operations	20,413	22,329
External training	1,663	1,726
UKSBS (SSC) operating costs [iii]	7,180	7,806
Professional and research services by outside bodies [iv]	23,240	26,237
Increase/(decrease) in allowance for trade receivables	81	(139)
	92,773	99,181

Notes:
(i) Hospitality costs include room hire, accommodation and catering costs for meetings, workshops and conferences.
(ii) The costs for audit fees include external statutory audit fee of £80k (2011-12: £80k).
(iii) UKSBS (SSC) operating costs include the costs for services such as procurement, information technology, finance, payroll, grants and recruitment.
(iv) The cost for professional and research services by outside bodies includes Integrated Ocean Drilling Programme subscription costs, RCUK charges, Research Library Costs and Cross-Council Research Activities.

9(a). Property, plant and equipment

Cost or valuation	Land, buildings and Antarctic stations (i) & (v)	Plant and equipment (iv)	Transport (ii), (iii) & (v)	Total
	£000	£000	£000	£000
At 1 April 2012	284,259	63,826	238,807	586,892
Additions	46,352	17,185	2,536	66,073
Revaluation	(4,354)	5,316	1,372	2,334
Revaluation Adjustment (vi)	(1,250)	-	-	(1,250)
Disposals (vii), (viii) & (ix)	(90)	(13,459)	(52,438)	(65,987)
Impairment (x)	(11,025)	-	-	(11,025)
At 31 March 2013	313,892	72,868	190,277	577,037
Depreciation				
At 1 April 2012	105,817	32,891	153,167	291,875
Charge for the year	8,907	11,564	8,201	28,672
Revaluation	(977)	1,163	388	574
Revaluation Adjustment (vi)	(1,104)	-	-	(1,104)
Disposals (vii), (viii) & (ix)	(52)	(13,178)	(50,836)	(64,066)
Impairment (x)	(5,666)	-	-	(5,666)
At 31 March 2013	106,925	32,440	110,920	250,285
Net Book Value At 31 March 2013	**206,967**	**40,428**	**79,357**	**326,752**
At 1 April 2012	178,442	30,935	85,640	295,017

Notes:

(i) Cost / Valuation includes £19,197,265 in respect of Freehold Land which is not depreciated (2011-12: £18,631,548).

(ii) Including specialised Antarctic Vehicles.

(iii) The NBV of the leased ship is £16,393,899 (2011-12: £18,509,906). The annual depreciation charge on this asset held under the finance lease was £2,549,158 (2011-12: £2,447,926).

(iv) Includes assets previously offset by the donated and government grant assets reserves and which are now offset by the revaluation reserve (per IAS 20). There is no restriction on the use of these assets.

(v) There has been no effect on the depreciation charge as a result of the application of component depreciation (IAS 16). Assets have historically been split between land and buildings and sites; ships have also been accounted for based on the component accounting rules. It has been decided not to apply component depreciation for the aircraft based on the advice given by our professional valuers, IBA Group. Furthermore, Polaris House is solely occupied as a standard office building with no requirement for any part or element to be replaced at any set intervals or for any major regular inspections. There are therefore no component parts in Polaris House based on the principles of IAS 16. Day to day servicing is deemed repair and maintenance.

(vi) During the year a classification error was discovered whereby a land asset that had been mistaken recorded as leasehold was corrected to show as freehold. This has required the unwinding of depreciation to date along with the reversal of adjustments made to the revalued cost and accumulated depreciation in 2010-11. These adjustments to depreciating assets were part of the migration of NERC assets to the new Oracle system and must be reversed to ensure the asset cost is shown correctly in NERC's accounts.

(vii) During the year exercises to clear Zero Net book Value assets from the Fixed Asset Register resulted in the removal of 288 assets to inventory and 17 to scrap, which amounted for £10,831k of the disposals of both cost and depreciation. This included 283 assets under the plant & equipment category (£10,403k disposed) and 22 assets under the transport category (£428k disposed).

(viii) During the year an exercise to validate the existence and usage of assets with a remaining useful life of less than 1 year resulted in the scrapping of 9 assets within the plant & equipment category, which amounted for £131,073 of the disposals of cost and £117,891 of depreciation.

(ix) Disposals of Transport include £51,936,810 of cost and £50,365,217 of depreciation relating to the disposal of the old RRS *Discovery* research vessel.

(x) The net impairment costs of £5,359,491 as shown in the statement of comprehensive net expenditure consist of impairment costs of £6,824,703 less the reversal of previous impairment losses amounting to £1,465,212. These costs are included in the expenditure for the year in the statement of changes in taxpayer equity. The impairments relate to the revaluation of land and building properties to below their depreciated historic cost, the impairment reversals reflect the revaluation of land & building properties above their depreciated historic cost where those properties had been impaired as a result of previous revaluations. The net impairment costs are as follows:
- Complete reversal of 2009-10 impairment of Capel Dewi (-£26,245) & Eskdalemuir (-£198,501) properties to their professionally revalued amounts due to subsequent increased professional revaluation in 2012-13.
-Partial reversal of 2009-10 impairment of Wallingford (-£1,240,466) property to its professionally revalued amounts due to subsequent increased professional revaluation in 2012-13.
-Keyworth (£4,013,504), Bush (£343,658), Lancaster (£2,289,410) and Liverpool Kempston St (£178,131) properties being impaired to their professionally revalued amounts.

Cost or valuation	Land, buildings and Antarctic stations £000	Plant and equipment £000	Transport £000	Total £000
At 1 April 2011	255,061	85,088	236,490	576,639
Additions	10,888	4,940	1,050	16,878
Revaluation	25,853	4,190	3,390	33,433
Disposals	(5,315)	(30,392)	(2,123)	(37,830)
Impairment	(2,228)			(2,228)
At 31 March 2012	284,259	63,826	238,807	586,892
Depreciation				
At 1 April 2011	91,676	51,469	145,599	288,744
Charge for the year	8,043	9,920	8,533	26,496
Revaluation	8,537	1,709	1,093	11,339
Disposals	(2,439)	(30,207)	(2,058)	(34,704)
At 31 March 2012	105,817	32,891	153,167	291,875
Net Book Value At 31 March 2012	**178,442**	**30,935**	**85,640**	**295,017**
At 1 April 2011	163,385	33,619	90,891	287,895

9(b). Assets Under the Course of Construction

Cost or valuation	Land, buildings and Antarctic stations (i) & (iii) £000	Plant and equipment (iii) £000	Transport (ii) £000	Total £000
At 1 April 2012	50,070	6,837	49,689	106,596
Additions & Capitalisation	(48,377)	(4,603)	20,815	(32,165)
At 31 March 2013	1,693	2,234	70,504	74,431

Notes:
(i) Includes £41,142,590 capitalised relating to the Halley VI Antarctic Base.
(ii) Includes £70,369,621 for the Discovery Research Ship Replacement (2011-12 £48,727,095).
(iii) £2,107,130 of Land & Building Assets were capitalised as Plant & Equipment as this better reflects their useful life.

Cost or valuation	Land, buildings and Antarctic stations £000	Plant and equipment £000	Transport £000	Total £000
At 1 April 2011	47,423	7,156	12,959	67,538
Additions & Capitalisation	2,647	(319)	36,730	39,058
At 31 March 2012	50,070	6,837	49,689	106,596

9(c). Jointly Controlled Entities and Unconsolidated Investments

Cost or valuation	'NGD' share UKSBS Ltd (previously 'A' share RCUK SSC) £	'B' shares RCUK Shared Services Centre £	IXO Therapeutics Ltd Shares £	IGS Ltd Shares £	Total £
At 1 April 2011	1	11,568,763	300,000	150,000	12,018,764
Losses	-	(1,736,000)	-	-	(1,736,000)
Shares sold	-	-	-	(25,031)	(25,031)
At 31 March 2012	**1**	**9,832,763**	**300,000**	**124,969**	**10,257,733**
Impairment	-	-	(300,000)	-	(300,000)
Losses	-	(1,977,856)	-	-	(1,977,856)
Shares sold	-	(7,854,907)	-	-	(7,854,907)
At 31 March 2013	**1**	**-**	**-**	**124,969**	**124,970**

RCUK Shared Services Centre Investment

RCUK SSC UK Ltd was accounted for as a joint venture until the change in governance and ownership of the company on 6 March 2013. Under the new arrangement the company's name was changed to UK Shared Business Services Limited (UK SBS Ltd). BIS hold a Government Department ('GD') share carrying 51% of the votes, UK SBS Ltd holds 1 share carrying 5% of the votes, and all other stakeholders including NERC each own one Non-Government Department ('NGD') share, with the combined voting value of all the 'NGD' shares being 44%.

NERC have exchanged their 'A' share, which carried the voting rights, for a new 'NGD' share and have sold their 'B' shares, conveying ownership rights, to BIS at their value as at 6 March 2013 (£7,854,907). This value represents NERC's opening joint venture value (£9,832,763) less NERC's share of the company's losses and other impairments incurred during the year until 6 March 2013 (£1,977,856). The amount received from BIS is shown on the Statement of Cash Flows under investing activities. NERC's share of the company losses and other impairments has been charged to the Statement of Comprehensive Net Expenditure.

This leaves NERC with one 'NGD' share and means that NERC no longer have joint ownership of the company. Therefore the company has been reclassified as an unconsolidated investment with an initial cost of £1 being the nominal value of the 'NGD' share.

Other investments

NERC has shareholdings in two unlisted undertakings: IXO Therapeutics Ltd, in which NERC holds a controlling interest of 67.78% (2011-12: 67.78%), and IGS Ltd, in which NERC holds a non-controlling interest of 22.64% (2011-12: 49.99%). NERC has not consolidated the controlling investment in IXO Therapeutics Ltd as it is immaterial to NERC and holds the investment at fair value (currently nil) in accordance with IAS 39.

Unconsolidated Investments

NERC holds shares in the following unlisted ventures whose accounts, by virtue of NERC's non-controlling interest or the relative financial immateriality of these entities, are not consolidated into NERC's financial statements.

Venture	Market Sector	Equity	Remarks
UK Shared Business Services Limited (UKSBS Ltd)	Shared Services	4.89%	See above.
IXO Therapeutics Ltd	Biotechnology research to develop immunotherapeutics .	67.80%	NERC regards IXO Therapeutics as a subsidiary and exerts control over its operations. However, the operations are not sufficiently financially material for their accounts to be consolidated into NERC's. NERC's initial investment of £300,000 has now been fully impaired due to IXO being in the process of dissolution.
International Geosciences (IGS) Ltd	International geoscience and geothematic surveys.	22.64%	During 11-12, NERC disposed of 751 of its shares in IGS Ltd. NERC no longer regards IGS Ltd as a subsidiary and does not exert control over its operations. During 12-13 an additional 5,438 shares were issued. Its investment of £124,969 is recognised as fair value for this entity.
Wallingford Hydrosolutions Ltd	Consultancy and environmental software systems.	24.90%	
Microbial Solutions Ltd	Wastewater treatment technology.	29.08%	93,385 N shares were issued during 12-13, of which 40,000 were issued to NERC in exchange for NERC intellectual property and 33,135 in exchange for £331.35 in cash. This cash was paid to Microbial Solutions by other shareholders to whom NERC sold an equal number of their Ordinary shares.
Spectrum (General Partner) Ltd	Advisory board to Rainbow Seed Fund which provides early stage funding for commercialisation of technology and services.	18.75%	Dormant
Oxford Expression Technologies Ltd	Products and services to pharmaceutical and biotechnology industries.	13.50%	
Gordons 1 Ltd	Environmental analytical tools and services.	0.05%	

10. Intangible Fixed Assets

Cost or Valuation	Software Licenses £000	Website Costs £000	Total £000
At 1 April 2012	358	-	358
Additions	-	-	-
Revaluation	7	-	7
Disposals	(70)	-	(70)
At 31 March 2013	295	-	295
Amortisation			
At 1 April 2012	186	-	186
Amortisation for the year	59	-	59
Revaluation	3	-	3
Disposals	(70)	-	(70)
At 31 March 2013	178	-	178
Net Book Value At 31 March 2013	**117**	**-**	**117**
At 1 April 2012	172	-	172

The intangible assets were revalued on an annual basis using the HM Treasury GDP deflator figures.

Cost or Valuation	Software Licenses £000	Website Costs £000	Total £000
At 1 April 2011	7,571	211	7,782
Additions	2	-	2
Revaluation	357	-	357
Disposals	(7,572)	(211)	(7,783)
At 31 March 2012	358	-	358
Amortisation			
At 1 April 2011	7,397	211	7,608
Amortisation for the year	128	-	128
Revaluation	225	-	225
Disposals	(7,564)	(211)	(7,775)
At 31 March 2012	186	-	186
Net Book Value At 31 March 2012	**172**	**-**	**172**
At 1 April 2011	174	-	174

11. Assets held for sale

Net cost or valuation	£000
At 1 April 2012	69
Adjustment	1
Net Book Value at 31 March 2013	**70**
Net cost or valuation	
At 1 April 2011	224
Disposals	(155)
Net Book Value at 31 March 2012	**69**
Net Book Value at 1 April 2011	224

Note:

The assets held for sale comprise:
- Buildings and land owned at the Bidston site.

These assets were re-classified from the property, plant and equipment category to held for sale at 31 March 2008. During 2011-12 part of the site's Land & Buildings were sold; the remaining buildings have been razed and the site cleared. Management is committed to sale of the remainder of this property. The remaining site consists of 3 plots of land, which have been impaired down to their fair value: £25k for Brae Head Cottage plot and £45k for the Proudman plots. The fair value for the Proudman plots have been calculated as a reasonable proportion of the maximum value of the plots following a successful grant of a planning permission (estimated at 30% possibility resulting in plots becoming worth £150k).

12. Receivables

		2013		2012
	£000	£000	£000	£000
(a) **Current assets: trade and other receivables**				
Trade receivables		8,274		6,390
Intra Government				
Central Government bodies	2,632		5,407	
Local Authorities	87		42	
		2,719		5,449
Other receivables		1,439		625
Prepayments [(i)]		4,967		5,334
Accrued income		7,635		6,635
Provision for trade receivables		(426)		(345)
		24,608		24,088
(b) **Non-current receivables: trade and other receivables**				
Other receivables		90		122
Total receivables		24,698		24,210

Note:

(i) Prepayments are due to contracted obligations, such as: IST subscriptions, license & maintenance costs, research grants, international subscriptions and Integrated Ocean Drilling Programme subscription costs.

13. Payables

		2013		2012 Restated[i]		2011 Restated[i]
	£000	£000	£000	£000	£000	£000
(a)	**Current liabilities: trade and other payables**					
	Trade payables		2,932		10,679		12,664
	Intra Government						
	Central Government bodies	615		3,223		2,589	
			615		3,223		2,589
	Taxation & Social Security		2,149		10		2,287
	VAT payable		524		718		854
	Other payables		219		1,084		1,609
	Accruals & deferred income		60,240		48,779		56,554
	Obligation under finance leases		1,667		1,535		1,412
			68,346		66,028		77,969
(b)	**Non-current liabilities: trade and other payables**						
	Obligation under finance leases		7,097		8,764		10,299
	Total payables		75,443		74,792		88,268

Note: (i) Restated to exclude monies held on behalf of 3rd parties.

14. NERC Provisions for liabilities and charges [i]

	Antarctic Treaty costs [ii]	Early retirements	Other liabilities [iii]	CEH restructuring [iv]	Total
	£000	£000	£000	£000	£000
Provision at 31 March 2011	5,513	1,177	913	2,811	10,414
Changes in provisions for 2011-12:					
Change in discount rate	-	3	-	6	9
Write back of provisions not required	-	-	(52)	(16)	(68)
Amounts provided in year	368	1,585	-	67	2,020
Unwinding of discount	121	34	20	75	250
Provision utilised in year	-	(589)	(170)	(643)	(1,402)
Provision at 31 March 2012	**6,002**	**2,210**	**711**	**2,300**	**11,223**
Changes in provisions for 2012-13:					
Change in discount rate	443	17	8	84	552
Write back of provisions not required	(268)	-	(300)	(41)	(609)
Amounts provided in year	-	2,504	95	232	2,831
Unwinding of discount	218	62	16	59	355
Provision utilised in year	(1,573)	(1,750)	(279)	(654)	(4,256)
Provision at 31 March 2013	**4,822**	**3,043**	**251**	**1,980**	**10,096**

Notes:
(i) The discount rate used is 2.35% for pension provisions (2011-12: 2.8%). For all other provisions the discount rate is -1.8% for 0-5 years, -1% for 6-10 years and 2.2% for over 10 years (2011-12: all 2.2%).
(ii) Antarctic Treaty costs represent the Council's liability to remove any items from the Antarctic no longer used.
(iii) Other liabilities include claims made against NERC and commitments to onerous operating lease payments. These have been estimated on the likelihood of the leases being assigned during the remainder of their term.
(iv) CEH restructuring costs include NERC's liability for CEH staff restructuring and staff removal costs.

Analysis of expected timing of discounted cashflows

	Antarctic Treaty cost £000	Early retirements £000	Other liabilities £000	CEH restructuring £000	Total £000
Provision due within one year	-	2,742	251	616	3,609
Between one and five years	1,025	235	-	1,241	2,501
Between five and ten years	1,013	66	-	123	1,202
Thereafter	2,784	-	-	-	2,784
Provision at 31 March 2013	**4,822**	**3,043**	**251**	**1,980**	**10,096**
Provision due within one year	1,823	1,658	701	623	4,805
Between one and five years	871	428	10	1,532	2,841
Between five and ten years	588	124	-	118	830
Thereafter	2,720	-	-	27	2,747
Provision at 31 March 2012	**6,002**	**2,210**	**711**	**2,300**	**11,223**

15. Cash and cash equivalents

	2013 £000	2013 £000	2012 Restated[(i)] £000	2012 Restated[(i)] £000	2011 Restated[(i)] £000	2011 Restated[(i)] £000
The following balances were held at 31 March:						
Government Banking Service						
National Westminster clearing accounts	(2,279)		(2,215)		-	
Citibank	22,231		6,829		104	
		19,952		4,614		104
Commercial bank accounts						
Lloyds TSB	1,587		8,827		11,543	
National Bank of Abu Dhabi	328		494		598	
Other local commercial accounts	95		437		116	
		2,010		9,758		12,257
Balance at year end		21,962		14,372		12,361

Notes:
(i) Restated to exclude bank balances held on behalf of 3rd parties.
(ii) In addition to the above NERC holds the following monies on behalf of 3rd parties: £3,750,305 (2011-12: £5,169,375, 2010-11: £4,334,460) held on behalf of EU Programme Collaborators and £4,810,288 (2011-12: nil, 2010-11: nil) held on behalf of the Integrated Ocean Drilling Programme Collaborators.

16. Forward commitments on approved research grants, research contracts and studentships

	Research Grants £000	Postgraduate Training £000	Fellowships £000	Contracts £000	Total 2013 £000
2013-2014	123,970	15,373	8,554	30,022	177,919
2014-2015	75,551	11,610	4,669	6,376	98,206
2015-2016	41,566	5,851	2,179	3,844	53,440
2016-2017	9,582	231	976	2,983	13,772
2017-2018	1,164	-	464	-	1,628
2018-2019	167	-	30	-	197
	252,000	**33,065**	**16,872**	**43,225**	**345,162**

17. Amounts payable under finance lease obligations

	Payments £000	Interest £000	Net payments £000
As at 31 March 2013			
Within one year	2,334	667	1,667
Between one and five years	6,630	1,541	5,089
Thereafter	2,128	120	2,008
	11,092	**2,328**	**8,764**
As at 31 March 2012			
Within one year	2,334	799	1,535
Between one and five years	7,368	1,978	5,390
Thereafter	3,724	350	3,374
	13,426	**3,127**	**10,299**

18. Related party transactions

The Natural Environment Research Council (NERC) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Business, Innovation and Skills (BIS).

BIS is regarded as a related party. During the year, NERC has had various material transactions with BIS and with other entities for which BIS is regarded as the parent Department, viz: Engineering and Physical Sciences Research Council, Biotechnology and Biological Sciences Research Council, Science and Technology Facilities Council, Medical Research Council, Economic and Social Research Council, the Arts and Humanities Research Council, the Technology Strategy Board, the Higher Education Funding Council for England and the UK Space Agency.

NERC has had various material transactions with other Government departments and other central Government bodies. NERC has also entered into various material transactions with the UK Shared Business Services Ltd (formerly named the RCUK Shared Services Centre Ltd).

During the year, NERC entered into the following material transactions with Council members in respect of payments under awards or contracts funded by NERC.

Council Member	Number of Awards or Contracts	Amount £
Professor C Godfray	3	295,945
Professor J Slingo	2	41,297
Professor A Watson	5	430,467
Professor G Mace	1	16,285
Professor P Monks	5	173,977

None of the above mentioned related parties were involved in the approval of awards to the Institution where he/she is a senior member of the staff.

In addition, NERC made the following aggregated payments in respect of NERC funded awards or contracts to Institutions where Council members are also senior members of staff.

Related Party	Institution	Amount £000
Professor M Wilson	University of Leeds	16,338
Professor C Godfray	University of Oxford	7,983
Professor J Slingo Professor M Lockwood	University of Reading	11,189
Professor M Lockwood Professor Slingo	Meteorological Office	954
Professor T Meagher Professor I Boyd	University of St Andrews	3,898
Professor A Watson Professor R Watson	University of East Anglia	4,775
Professor L Heathwaite	Lancaster University	1,626
Professor G Mace	University College London	4,845
Professor P Monks	University of Leicester	1,884
Professor P Curran	City University London	5

19. Losses and special payments

During the year there were 35 losses totalling £442,286 as follows:

Type	Number	Amount £
Stores losses [i]	9	12,133
Fruitless Payments [ii]	1	22,913
Constructive losses [iii]	2	185,941
Claims abandoned [iv]	17	27,865
Gifts to Educational Establishments [v]	1	19,283
Other Ex-Gratia Payments [vi]	5	174,151
	35	**442,286**

Notes:
(i) Stores losses consist of 9 assets scrapped with NBV's totalling £12,133. A further 17 zero net book value assets were scrapped during the year resulting in no losses.
(ii) Fruitless payment was for work that was never delivered, the payment was made in 2007-08 and is considered unrecoverable.
(iii) Constructive losses are £176,701 for the demolition of the Proudman Building in Bidston and £9,240 for NERC's share of the loss incurred upon the surrender of the lease for the Henrietta Street property.
(iv) Claims abandoned are bad debts written off as unrecoverable.
(v) Donation of surplus Workboat to Scottish Association for Marine Sciences (SAMS) for use in NERC Facility for Scientific Diving (NFSD).
(vi) Ex gratia payments are 3 legal case settlements totalling £173,651 and 2 donations totalling £500 relating to the salvage of lost buoys.

During the 2011-12 financial year there were 30 losses totalling £35,281 as follows:

Type	Number	Amount £
Cash losses	4	449
Stores losses	24	29,290
Claims abandoned	2	5,542
	30	**35,281**

20. Capital and lease commitments

Lease commitments [i]

	2013			2012 Restated[i]		
	Buildings £000	Other £000	Total £000	Buildings £000	Other £000	Total £000
Within one year	230	85	315	470	20	490
Between one and five years	164	14	178	286	-	286
Between five and ten years	117	-	117	118	-	118
Over ten years	652	-	652	675	-	675
	1,163	**99**	**1,262**	**1,549**	**20**	**1,569**

Note:

(i) A more thorough and detailed analysis of these commitments has been made during 2012-13 than in previous years, accordingly the 2011-12 figures have been restated to better reflect the position at that time.

Capital commitments

As at the date of these accounts, NERC is committed to a sum of £6.30m in respect of capital contracts. This includes £4.25m for the building of the RRS Discovery replacement ship due to be completed in 2014-15 and £0.73m for the Seabed Rockdrill Winch due to be completed in 2013-14.

Bonds and guarantees

The Council has a number of bonds and guarantees that are lodged with Lloyds Bank and relate to overseas contracts, amounting to £823,950 at 31 March 2013 (2011-12: £872,006).

21. Contingent liabilities

The value of contingent liabilities at 31 March 2013 of legal claims made against NERC where based on legal advice sought it is not deemed probable that these will lead to future outflows of resources, is estimated at £12k (2011-12 £Nil).

22. Events after the reporting period

In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General. There are no post Statement of Financial Position events between the balance sheet date and this date.

23. Derivatives and other financial instruments

IFRS 7 Financial Instruments – Disclosures, IFRS 32 Financial Instruments – Presentation and IFRS 39 Financial Instruments – Recognition and Measurement require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way it is financed, the Council is not exposed to the degree of financial risk faced by non-public sector entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7, 32 and 39 mainly apply. The Council has limited powers to borrow or invest funds and except for the finance lease contract (details of which are given in notes 1(v), 9(a) and (17), financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Council in undertaking its activities.

Liquidity risk

The Council's net revenue resource requirements are financed by grant-in-aid from its sponsor department, the Department for Business, Innovation and Skills. The capital expenditure, with the exception of the ship financed under the finance lease referred to above, is also financed through grant-in-aid. The Council is therefore not exposed to significant liquidity risks.

Interest rate risk

The Council is not exposed to significant interest rate risk.

Foreign currency risk

The Council's exposure to foreign currency risk is not currently significant.

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