



ANNUAL REPORT AND ACCOUNTS 2011 - 2012

**ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL
ANNUAL REPORT AND ACCOUNTS 2011-2012**

EPSRC

Pioneering research
and skills



Presented to Parliament pursuant
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Any enquiries regarding this publication should be sent to us at:

EPSRC
Polaris House
North Star Avenue
Swindon
SN2 1ET

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MANAGEMENT COMMENTARY

Key Achievements

This section highlights some of the key achievements during 2011/12.

DELIVERING IMPACT

One of EPSRC's strategic goals as a long-term investor in UK research and training is to increase and accelerate the impact from our investment in excellent research and maximise its potential for exploitation.

UK as a global graphene research hub

A key highlight has been the announcement that an additional £50 million will be spent to keep the UK at the forefront of research into 'wonder material' graphene. The investment will help establish the UK as a graphene research and technology 'hub', funded through EPSRC and the Technology Strategy Board (TSB), that will lead to the rapid commercialisation of graphene technologies in the UK. The four investment strands collectively valued at around £77 million, will build on the strong, and rapidly-expanding, UK research in this field and include a national institute of graphene research and commercialisation activities, support for research equipment, for graphene engineering research and for an innovation centre to focus on the market development and exploitation of emerging graphene technologies.

EPSRC is 'Partner of Choice'

EPSRC received a Partner of Choice award from the world's largest consumer products company, Procter and Gamble, at an awards ceremony in Cincinnati. This achievement was one of several references to EPSRC in a speech by Minister for Universities and Science David Willetts on the publication of the EPSRC Impact Report (along with those of the other Research Councils) on 4th January 2012. He commented: "These reports demonstrate that the UK is a world leader in science and research. From the development of groundbreaking new treatments to studies that shape public policy and improve lives, the significant economic and societal impact of the UK research base is extremely impressive."

Creating the 'Factory on a Machine'

A new Centre for Innovative Manufacturing in Advanced Metrology was officially opened at the University of Huddersfield in October 2011 by Business Secretary Dr Vince Cable. The centre will focus on research leading to the creation of a 'factory on a machine'. The EPSRC Centre will be a driver of growth both locally and nationally. It will bring together our leading researchers and best businesses, leading to improvements in manufacturing processes and ensuring British industry stays ahead of the game in precision technology.

Gel Excels

EPSRC-sponsored University of Leeds scientists have invented a polymer gel that can be used to manufacture cheaper lithium batteries without compromising performance. The gel replaces the hazardous liquid electrolyte currently found in most lithium batteries, which are used in a wide range of portable consumer electronics such as laptops. The development could lead to smaller, cheaper and safer gadgets. The technology has been licensed to US company, Polystor Energy Corporation, which plans to commercialise cells for portable consumer electronics. The research was funded by EPSRC and Yorkshire Concept.

SHAPING CAPABILITY

EPSRC supports excellence across its portfolio: analysis undertaken recently by EPSRC demonstrated that, collectively in the research areas that fall primarily within our remit, the UK's citation impact has overtaken the USA and is second in the world to Germany. To maintain the UK's global research standing in light of increasing international competition, and with limited funding available, EPSRC is focusing its investments on excellent research in areas that are of long-term strategic importance to the UK. In July 2011, EPSRC released a map of its full research portfolio alongside further information on how it will implement the Shaping Capability strand of its delivery plan and the first tranche of action categories. Working with our major stakeholders and with the support of our Strategic Advisory Teams and agreement of Council, decisions on the relative funding trajectory for our research areas were published by the end of March 2012.

Shaping capability is not about predicting where new research discoveries will come from but about investing in a balanced portfolio which enables ground-breaking transformative research to be fully encouraged and supported. Examples of the excellent research which we are funding are provided below.

Growing Computers

Synthetic Biology researchers, funded by EPSRC, have successfully demonstrated that they can build some of the basic components for digital devices out of bacteria and DNA, which could pave the way for a new generation of biological computing devices. The researchers, from Imperial College London, have demonstrated that they can build logic gates, which are used for processing information in devices such as computers and microprocessors, out of harmless gut bacteria and DNA. Their work was announced through a paper published in Nature Communications and later covered by the Financial Times Magazine. Radio 4's programme 'Click On' featured an interview with members of the team.

Atomic knots may mean stronger materials

A new generation of lighter, stronger plastics could be produced using an intricate chemical process devised by scientists at the University of Edinburgh. Funded by a grant from EPSRC, researchers have been working at the nanoscale - 80,000 times smaller than a hair's breadth - to weave threads of atoms into complex knots which they say could give materials "exceptional versatility". Their research was reported in November 2011 in Nature Chemistry journal and featured widely in the UK media including BBC online.

New material offers stem cell breakthrough

Scientists at the Universities of Glasgow and Southampton have uncovered a new method for culturing adult stem cells which could lead to the creation of revolutionary stem cell therapies for conditions such as arthritis, Alzheimer's disease and Parkinson's disease. The research, funded by EPSRC, the Biotechnology and Biological Sciences Research Council (BBSRC) and the University of Glasgow, shows how a new nanoscale plastic can cheaply and easily solve a problem which has previously made the expansion of stem cells for therapeutic purposes impossible. The new nanopatterned surface, developed and fabricated at the University of Glasgow, is designed to offer a method of stem cell expansion which is much easier to manufacture and use than anything currently available.

DEVELOPING LEADERS

EPSRC is working closely with the research community to ensure that we have visionary thinkers and inspirational leaders to enable the UK research base to respond to future challenges and opportunities as they arise.

Dream Fellow looks to the Future

EPSRC Dream Fellow Steven Bishop, based at UCL, featured on the Naked Scientists podcast on Sunday 11 December 2011. Stephen's work with the FuturICT project is looking into the role that the analysis of data, collected through a wide range of sources, can play in developing a "Living Earth Platform": a simulation, visualisation and participation platform to support decision-making of policy-makers, business people and citizens. Through advanced computing and data mining, FuturICT hopes to discover the hidden patterns and rules that underpin our society, helping to predict and understand world events such as changes in the global economy.

York team wins prestigious Times Higher Education award

An EPSRC-sponsored team of computer scientists at the University of York has won Outstanding Engineering Research Team of the Year in the prestigious Times Higher Education Awards 2011. The Advanced Computer Architectures (ACA) group's work is based on ideas of how the brain works. The team has successfully developed a breakthrough technology – AURA – which mimics the brain's ability to make sense of massive amounts of data. In addition to working with Rolls-Royce on aero engines, the York team have shared its expertise with the Department for Transport, which is using AURA to improve management of the road system. Professor Austin says: "We have benefitted from a consistent and talented team over the last 10 years, supported through Engineering and Physical Sciences Research Council (EPSRC) and Technology Strategy Board (TSB) grants". The team has received over 20 grants from EPSRC over the last 10 years, including significant support through the e-Science programme.

EPSRC announces successful Fellowships awards

Forty-three outstanding UK researchers have been awarded fellowships totalling £36M to help develop their potential as the next generation of world-leading scientists and engineers.

The fellowships, announced in December 2011, are a direct investment in Britain's most talented individuals to help them develop ground breaking ideas across a range of fields. The fellowships are designed to help develop future leaders with the STEM (Science, Technology, Engineering and Mathematics) skills necessary for the UK to compete on a global stage, generating the knowledge, new ideas and technologies essential to support business, government, and national priorities.

FINANCIAL AND OTHER INFORMATION

The Engineering and Physical Sciences Research Council (EPSRC) is an executive Non-Departmental Public Body and was established by Royal Charter in December 1993. The Charter was subsequently amended in 1994 in the light of the science White Paper *Realising our Potential*.

EPSRC is funded primarily through grant-in-aid from the Department for Business, Innovation and Skills (BIS). Income is also received from other Research Councils, Government Departments and other bodies.

The Accounts have been prepared in accordance with the Government's Financial Reporting Manual (FREM) for 2011/12 and the Accounts Direction issued by the Secretary of State.

Principal Objectives

Our mission is:

- to promote and support high quality basic, strategic and applied research and related post-graduate training in engineering and the physical sciences;
- to advance knowledge and technology and provide trained scientists and engineers to meet the needs of users and beneficiaries (including the chemical, communications, construction, electrical, electronic engineering, information technology, pharmaceutical, process and other industries), thereby contributing to the economic competitiveness of the United Kingdom and the quality of life of its citizens; and
- to provide advice, disseminate knowledge, promote public understanding, encourage public engagement and communicate research outcomes in the fields of engineering and the physical sciences.

Our Strategic Objectives are:

Delivering Impact

EPSRC funds long-term research which will have impacts over the next 10 to 50 years. Our primary criterion for funding research will be excellence, as it always has been. Working closely with our partners in universities we will make sure that this research is able to have the maximum impact for the health, prosperity and sustainability of the UK, as early as possible.

Shaping capability

EPSRC will play a more active role in shaping the research base to ensure it delivers high quality research for the UK, now and in the future. In doing so we will work closely with our partners in universities to understand where the strengths of the research base are, and where we have gaps.

Developing Leaders

We will commit greater support to people rather than projects, and make sure that researchers who are truly world-leading are properly supported.

Financial Review of the Year

Net Expenditure for the year reduced by £15.9m, from £832.1m to £816.2m. The reduction in spend is mainly seen in Research and Post Graduate training. This result is consistent with the reduction in allocation from BIS of £10m.

Other operating income fell by £6.5m with most of that attributable to a reduction from commercial sponsors.

Net assets reduced by £11.7m from -£25.0m to -£36.7m. This was as a result of:

- An increase in Property Plant and Equipment Assets of £7.4m which is entirely due to stage 3 of the HECToR supercomputer.
- A reduction in receivables, mainly accrued income of £50.3m arising from better inter Council settlement of debts.
- A reduction of £33.1m in payables again arising from better inter Council settlement of debts.

Government Funds at 31st March 2012 showed a deficit of £36.7m (2010/11 £25.0m). The net deficit reflects the timing difference between the recognition of the liability and the payment in future accounting periods.

Total Grant in aid drawn down was £804.0m (2010/11 £817m).

The prior year comparatives have been restated because of the financial effects of recognising co-funding as income and not financing as explained in Note 1.

Trends and factors affecting future performance

The principal factor affecting our ability to fund scientific research is the availability of funds provided as Grant in Aid from our sponsoring Department, BIS. As explained elsewhere we have already made substantial commitments to future years arising from the award of Research and Training grants. EPSRC's funding has to meet those costs as well as new grants. On 20 December 2010 David Willetts, Minister for Universities and Science, announced the EPSRC's financial allocations for 2011-12 through to 2014-15. The EPSRC considers that these allocations, while slightly reduced, will not materially affect the operations of the EPSRC.

Shared Services Centre

The Research Councils have created and co-own the RCUK Shared Services Centre (SSC Ltd) with an aim to reducing spending on administration and sharing transactional processes in Finance, HR and Grants whilst making expenditure savings through centralised procurement. These services are in a period of stabilisation as the Councils adapt to the new system and their joint management of the services they receive as clients. The period of stabilisation will conclude when final changes to the system have been completed and operational performance satisfies service level agreements and is expected to conclude by the end of 2012. It is anticipated that SSC Ltd will reduce its costs in future in line with the Councils' own reduction in administration budgets.

Payment Policy

EPSRC observes HM Treasury guidance and makes every effort to pay creditors within 5 days of receipt of invoice. Where this is not possible EPSRC observes the CBI Prompt Payers' Guide, and adheres to the principles of the Prompt Payers' Code, endeavouring to ensure compliance with the agreed terms of payment of creditors' invoices and pay them within 30 days of receipt of invoice. Invoices are processed on our behalf by RCUK Shared Services Centre Ltd and during 2011/12 58% of invoices were paid within 5 days (2010/11: 51%). During 2011/12 89% of invoices were paid within 30 days (2010/11: 81%). The aggregate amount owed to trade creditors as a proportion of invoiced expenditure in 2011/12 was 4.3%.

Details of the Prompt Payers' Guide can be found at [//payontime.co.uk](http://payontime.co.uk).

Holding of Public Sector Information

EPSRC have complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance, where they are appropriate. However, the information EPSRC holds is exempt from the requirements of "The Re-use of Public Sector Information Regulations 2005" as the regulations do not apply to Educational and Research establishments.

Personal Data

There have been no personal data related incidents in 2011/12. EPSRC will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Resource Audit Committee

The Resource Audit Committee (RAC) includes three members of Council together with other members from the commercial and academic communities. RAC meets three times a year to review corporate governance, risk management, internal and external audit matters, efficiency and the Council's Accounts.

Strategic Advisory Network

The Strategic Advisory Network provides the EPSRC Executive with strategic advice to assist us to develop, implement and modify plans, and to make appropriate recommendations to our Council. The Network is a flexible resource, enabling the Executive to obtain the advice it needs in a timely manner, drawing on a range of perspectives from across our key stakeholder groups including academia, business, third sector and Government.

The Network was established in June 2011, replacing the previous advisory bodies of the Technical Opportunities Panel, User Panel and Societal Issues Panel

Financial Risk Management and Going Concern

Accounting policies in respect of financial risks and going concern are considered in notes 1b and 1q respectively.

Equality of Opportunity

The EPSRC has a policy of non-discrimination against people on the grounds of the protected characteristics as defined in the Equality Act 2010. This applies in recruitment, training, promotion and to all aspects of employment within EPSRC

Employee Engagement

Investors in People

EPSRC retains its Investors in People status. Our next review will be due in November 2012.

Sunday Times “Best Places to Work in The Public Sector”

For the third year, EPSRC entered the annual Sunday Times “Best Places to Work” employee engagement survey. 69.5% of employees undertook the survey, against a public sector average of 60% completion. The survey gauges the overall level of engagement in EPSRC against eight headings including My Manager, Fair Deal, and Personal Growth and Well Being.

This year EPSRC were entered in the Not for Profit Sector, in the Central Government/Civil Service category which surveyed approximately 191 organisations. This year EPSRC lost it's 'One to Watch Status' for Best Companies Accreditation, with a score of 548.7. Last year's score was 638.5 and the minimum score for this year for the 'One to Watch' status was 600.

The Making a Difference team

The Making a Difference Team (MaDT) continued as an autonomous, self directed team of employees which determines its own agenda based on input from colleagues. The team has direct access to the CEO. The team's purpose is “Giving everyone the opportunity to engage with and contribute to initiatives that change the organisation for the better”.

Among the activities of the Team this year was the introduction of Science and Sandwiches events which invites scientists into Polaris House to talk in an interactive, non-technical way about some of the exciting research developed with EPSRC support, for the benefit of EPSRC employees. The events are aimed to engage employees in sharing a common understanding of what EPSRC is trying to achieve, and how their individual objectives contribute. In particular, the events are aimed to give employees not in science-focused roles an increased understanding of the direct contribution of their work to UK engineering and physical sciences, and its impact on the economy and society.

Mindful Employer

EPSRC has continued to take part in the Mindful Employer initiative both attending seminars and networking with other organisations, indicating that we continue to be positive about mental health, and indicates EPSRC's commitment to improving the working lives of its employees.

Staff Sick Absences

During 2011/12 a total of 2,768 days were lost due to staff sickness absences, representing 4.5% of total full time equivalent working days. EPSRC's sick absence data is as follows:

| | |
|---|-------|
| Average number of staff during the year | 236 |
| Total days lost to sickness | 2,768 |
| Average working days lost | 11.7 |

Exclusion of long term absences i.e. absences greater than 60 days reduces the average working days lost to 5.4. During this period, there were 13 long-term absences, averaging 114 days. There has been an increase in the number of long term absences this year which has in turn pushed up the average working days lost. We will continue to monitor the reasons for absence in order to determine whether there is remedial action that we can take.

The average level of employee absence in the UK in 2011 was 7.1 days; 9.1 days in the public sector (Absence Management 2011, Annual survey report from the CIPD).

The most common causes of absence are shown below:

| Cause | Number of Days Lost |
|------------------------------|---------------------|
| Anxiety/Depression | 567 |
| Cold/Flu | 322 |
| Headache/Migraine/Concussion | 89 |
| Gastrointestinal | 84 |

Employee Involvement

Employee involvement in management and policy matters has continued through ongoing dialogue between management, staff and Trade Unions. The HR Business Partner group leads on these activities, and will continue to engage with all staff on an ongoing basis.

Pension Liabilities

As explained in Staff note 11 (d) to the Accounts, the RCPS is an unfunded multi-employer defined benefit State scheme which is funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions.

Environmental Policy

EPSRC is committed to following the Joint Research Council Environmental Policy Statement which calls for:

- compliance with all relevant legislation;
- minimise the adverse impacts of new buildings and refurbishments;
- make efficient use of natural resources;
- operate effective arrangements for waste disposal and recycling;
- promote effective environmental supply management;
- work with staff to promote more economic forms of transport;
- provide appropriate information and training to new staff.



EPSRC's offices are within Polaris House, a building that is shared with all the Research Councils. EPSRC attends the cross-Research Council Environmental Group which meets quarterly to discuss the environmental issues that affect Polaris House. Polaris House has ISO 14001 accreditation for the control of the impact to the environment of all the activities conducted on the Polaris House site. In order to satisfy and maintain the required standards a number of environmental targets and impacts have been agreed for review, assessment and improvement. These are:

- Waste Reduction;
- Landscaping Enhancement;
- Green Purchasing;
- Reduction of CO₂/energy emissions;
- Green Transport.

Environmental issues are communicated to all staff through the cross-Research Council Environmental Awareness newsletter.

Auditors

The Accounts of the EPSRC are audited by the Comptroller and Auditor General under the terms of Paragraph 3(3) of Schedule 1 of the Science and Technology Act 1965. The cost of the statutory audit in 2011/12 was estimated to be £75k (2010/11 £80k), all of which related to the audit of the 2011/12 accounts.

Internal Audit Services were provided by the Research Councils Internal Audit Service (RCIAS) in 2011/12 and details of their audits and findings are set out in the Governance Statement. In April 2012 RCIAS merged with RCUK Assurance to create a single audit and assurance body called Audit and Assurance Services Group. (AASG)

So far as the Accounting Officer is aware, there is no relevant audit information of which EPSRC's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that EPSRC's auditors are aware of that information.

MEMBERSHIP LISTS

COUNCIL MEMBERSHIP

The following were members of EPSRC Council in 2011/12

Chairperson

Mr J Armitt, CBE, FREng Olympic Delivery Authority

Chief Executive

Professor D Delpy, FREng, FRS Engineering and Physical Sciences Research Council

Members

| | |
|--------------------------------------|---|
| Professor A Anderson, OBE | University of Glasgow |
| Mr J Boyer | Ilica Plc |
| Professor B Collins, FREng | Department for Transport/Department for Business, Innovation and Skills |
| Professor J Fisher, CBE | University of Leeds |
| Professor L Gladden, CBE, FRS, FREng | University of Cambridge |
| Professor A Hamilton | University of Oxford |
| Professor T Pedley, FRS | University of Cambridge |
| Professor J Perkins, CBE, FREng | Department for Business, Innovation and Skills |
| Dr M Roberts | Guidance Ltd |
| Professor J R Sambles, FRS | University of Exeter |
| Professor C M Snowden, FRS, FREng | University of Surrey |
| Professor P-L Violette | EDF |
| Professor J Watson, FREng | Arup |
| Dr D Watson | IBM UK Ltd |
| Professor M Welland, FRS, FREng | Ministry of Defence |
| Professor Lord R Winston | Imperial College London |
| Dr A Wood | Pfizer |

In attendance:

Representative from Knowledge and Innovation Group, Department for Business, Innovation and Skills: Mr J Clayton.

From April 1st 2012, Dr P Golby, CBE, FREng has been appointed Chair of EPSRC in succession to Mr J Armitt.

Members of Council who came to the end of their term in March 2012 were:

Professor B Collins
Professor L Gladden
Dr M Roberts
Professor C M Snowden
Professor M Welland

New members appointed to Council in April 2012 were:

| Name | Organisation |
|------------------------|-------------------------|
| Professor A Blake | Microsoft Research |
| Professor Sir R Friend | University of Cambridge |
| Professor J King, CBE | Aston University |

EPSRC RESOURCE AUDIT COMMITTEE (RAC) MEMBERSHIP 2011-12

| Name | Organisation |
|----------------------------------|----------------------------|
| Professor J R Sambles, FRS | University of Exeter |
| Ms Rosie Drinkwater, FCA | University of Warwick |
| Mrs Caroline Walker, FCCA, CIPFA | University of Loughborough |
| Professor Jeremy Watson, FEng | Arup |

New members appointed to RAC in April 2012 were

| Name | Organisation |
|-----------------------|---------------------|
| Professor J King, CBE | Aston University |
| Dr M Roberts | Guidance Ltd |
| Dr D Watson | IBM UK Ltd |

EPSRC STRATEGIC ADVISORY NETWORK (SAN) MEMBERSHIP 2011-12

| | |
|------------------------------------|--|
| Ms Jane Bevis | British Retail Consortium |
| Professor Brian Collins, CB, FREng | University College London |
| Professor Rachel Cooper | Lancaster University |
| Professor Alicia El Haj | Keele University |
| Peter Ellingworth | Association of British Healthcare Industries |
| Professor Patrick Grant | University of Oxford |
| Professor David Hand | Imperial College London |
| Tom Hockaday | Isis Innovation |
| Professor Alan Hughes | University of Cambridge |
| Professor Neville Jackson | Ricardo plc |
| Professor Richard Jones | University of Sheffield |
| Professor Andrew Mackenzie | University of St Andrews |
| Professor Phil Macnaghten | Durham University |
| Professor Tom Melham | University of Oxford |
| Dr Kenny Mitchell | Black Rock Studio |
| Professor Philip Nelson | University of Southampton |
| Dr Rachel O'Reilly | University of Warwick |
| Professor Richard Owen | Exeter University |
| Professor John Pethica | Royal Society |
| Professor Judith Petts | University of Southampton |
| Tim Radford | Independent |
| Professor Paul Raithby | University of Bath |
| Ian Risk | EADS Innovation Works UK |
| Professor Tom Rodden | University of Nottingham |
| Martin Sadler | HP Systems Security |
| Dr Richard Seabrook | Wellcome Trust |
| Alison Starr | GE Aviation |
| Professor Ian White | University of Cambridge |
| Professor Rhodri Williams | Swansea University |
| Dr David York | Proctor and Gamble |
| Professor Paul Younger | University of Newcastle |

REGISTER OF INTEREST

EPSRC COUNCIL AND STRATEGIC ADVISORY NETWORK REGISTER OF INTERESTS 2011-12

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|---|---|------------------------------|---|------------------------|---|
| Professor Anne Anderson University of Glasgow | University of Glasgow EPSRC | None | None | None | None |
| Mr John Armitt Olympic Delivery Authority | Siemens UK Plc – Member of Advisory Board | None | None | None | Professor Judith Petts Dean Southampton University (Sister) Professor Geoff Petts Vice-Chancellor Westminster University (Brother-in-Law) |
| Ms Jane Bevis British Retail Consortium | British Retail Consortium. | None | Non-exec of On Pack Recycling Label Ltd (subsidiary of the BRC) (March 09). Non-exec of Skillsmart Retail (sector skills council) (Sept 09). | None | Institute of Directors Royal Society for the Encouragement of Arts, Manufacturers and Commerce Business Advisory Panels of both DEFRA and the Home Office Sounding Panel, UK Climate Impacts Programme |
| Mr Jack Boyer Ilika Plc | Ilika Plc iQur Ltd | Ilika Plc iQur Ltd | Southampton Asset Management Ltd, Chair. REF (HEFCE), Panel B Member. Forum for the Future, Trustee. Godolphin & Latymer School, Trustee. INSEAD, Council member. University of Southampton, Council Member. | None | None |
| Professor Brian Collins UCL EPSRC Council until May 2011 | UCL Her Majesty's Treasury | Aviva Europium Consulting | British Computer Society (trustee). Institute for Sustainable Development (trustee). | None | None |
| Professor Rachel Cooper Lancaster University | Protocol Lab | None | RADMA Trust - Trustee. Manchester High School For Girls - Governor. | EPSRC Bowland Trust | Husband – Prof Cary Cooper Chair of the Academy of Social Sciences Prof at Lancaster University Management School Director, Robertson Cooper Ltd |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|---|--|--|---|--|---|
| Professor David Delpy EPSRC | None | None | RAEng Council Member. ETI Board Member. Royal Society Panel Member for Fellows (SC4). Journal of Biomedical Optics – Editorial Board Member. | None | None |
| Mr Peter Ellingworth Association of British Healthcare Industries | Surecalm Healthcare – non Exec Director | None | Match Steering Committee. HealthTech and Medicines KTN Steering Board. UL Life Sciences Strategy Board. Life Sciences Innovation Delivery Board. | None | None |
| Professor Alicia El Haj Keele University | Research Councils TSB HEFCE European Commission | MICA BioSystems Ltd | Director of MICA BioSystems Ltd. Director of LH Ltd. | EPSRC TSB BBSRC EU Framework 7 Wellcome Trust AR UK | None |
| Professor John Fisher University of Leeds | BITE CIC Ltd Tissue Regenix Group plc De Puy University of Leeds | BITE CIC Ltd Tissue Regenix Group plc | Editorial Board, Journal Heart Valve Disease. Journal Engineering in Medicine. Board Member, Yorkshire and Humber Medilink. | EPSRC, Wellcome Trust, TSB, BBSRC, FCRF, NIHR, NIH, EU, ERC, De Puy, BITE CIC, Mathys, Tissue Regenix, Simulation Solutions, NHS BTS, JRI | None |
| Professor Lynn Gladden University of Cambridge | Unilever - Consultant | Pro Vice-Chancellor Research | Major sponsor: Johnson Matthey, Schlumberger. Shell Chair of Chemical Engineering. | None | National Physical Laboratory, member of NPL Royal Society/ Royal Academy of Engineering Advisory Group to NPL |
| Professor Patrick Grant University of Oxford | Rolls-Royce plc – Consultant Heye Special Steels (China) – Consultant IoM3/TSB Executive Director Mat KTN (Transport) | Cookson Group | Court of Cranfield University. | EPSRC MoD/DSTL Baosteel, China MHI, Japan SAPPI, Holland European Defence Agency Goodrich Royal Society TSB | |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|--|--|---|---|--|-----------------|
| Professor Andrew Hamilton University of Oxford | University of Oxford EPSRC IRB-Barcalone-Member of SAB Upstate Cancer Centre Syracuse NY-SAB Pepscan Inc – Lelysted, Holland-SAB | Trigris Pharmaceuticals, Florida | Russell Group Member. Singapore Ministry of Education Advisory Committee Member. | University of Oxford | None |
| Professor David Hand Imperial College London | Imperial College London Winton Capital Management (WCM) | Shares in Winton Capital Management. ISA shares in managed funds | Member of the UK Committee for Official Statistics. UK Strategic Forum for the Social Sciences. Technical Advisory Group of the Measuring National Wellbeing project. | None | None |
| Mr Tom Hockaday ISIS Innovation | ISIS Innovation Ltd | None | TSB Emerging Technologies and Industries Steering Group. Oxford Ltd. Free Business School Ltd. | None | None |
| Professor Alan Hughes University of Cambridge | University of Cambridge | None | Director, Centre for Business Research (University of Cambridge). Director, UK Innovation Research Centre (University of Cambridge and Imperial College London). | AHRC, EPSRC, ESRC, BIS, NESTA, TSB | None |
| Professor Neville Jackson Ricardo plc | Ricardo plc | Ricardo plc | Visiting Professor, University of Brighton. Chairman, UK Low Carbon Vehicle Partnership. Vice Chairman, European Road Transport Research Advisory Council. Member, UK Automotive Council Technology Group Governing Council. Member, Energy Research Partnership. Member, European Council for Automotive Research Programme Review Board. | Ricardo plc Technology Strategy Board Energy Technologies Institute Advantage West Midlands Department for Transport Low Carbon Vehicle Partnership | None |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|---|---|---|---|--|---|
| Professor Richard Jones University of Sheffield | University of Sheffield | None | Director, Medilink Yorkshire and Humberside. Director, White Rose Technology Seedcorn Fund. | EPSRC Kuraray Chemical Company | None |
| Professor Andrew Mackenzie University of St Andrews | Member of the SEPNET Advisory Board Reviewed the REF-readiness of the Physics department at Royal Holloway | None | Reviewing Editor for Science Magazine. | EPSRC grants Royal Society - Wolfson Research Merit Award | None |
| Professor Phil Macnaghten Durham University | None | None | None | ESRC & EPSRC: Responsible Innovation Framework | None |
| Professor Tom Melham University of Oxford | University of Oxford Balliol College Oxford Wadham College Oxford | Stock options in Jasper Design Technology | Chair of London Mathematical Society Computer Science Committee. Fellow of RS of Edinburgh. Member of Technical Advisory Board, Jasper Design Automation. | Intel Corporation EPSRC Knowledge Transfer Secondment Award | None |
| Dr Kenny Mitchell Disney Research - Interactive | The Walt Disney Company Ltd | None | Mutual Non-Disclosure Agreement with Edinburgh University. Contract project of research by Edinburgh Napier University. Client Undergraduate group project & student project with Cambridge University. NVIDIA Research Non-Disclosure Agreement. SIGGRAPH General Program Committee and Games Subcommittee. ACM Member. IEEE Member. | 3 EPSRC Engineering Doctorates European Commission FP7 PPP Future Internet – CONTENT project Phase 1. Consortium partners, BBC, Technicolor, Disney Research Zurich, DFKI, France Telecom (Orange), Thales, Barco, Telefonica, Fraunhofer Fokus, IRT, RBB, Telecom Italia, Thomson Telecom, IBBT, Grassroots | Letter of support to ForthDD, Mobile Acuity and CereProc Non directorial friends of Red Robot Labs and West Pier Studios, Boss Alien, Black Pebble Studio spun out from Brighton's Black Rock Studio |
| Professor Philip Nelson University of Southampton | University of Southampton Adaptive Audio Ltd NHK (Japan) | Adaptive Audio Ltd Opsodis Ltd | Director of Southampton Asset Management Ltd, University of Southampton Holdings Ltd, University of Southampton Science Park Ltd, ECS Partners Ltd, University of Southampton Consulting Ltd. Southampton Innovations Ltd. | Kajima Corporation (Japan) Electronics and Telecommunications Research Institute (Korea) | None |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|--|---|----------------------|--|---|---|
| Dr Rachel O'Reilly University of Warwick | University of Birmingham – SMALP network, Consultant BP - consultant | None | None | AWE, BP, EPSRC, Royal Society, University of Warwick | None |
| Professor Richard Owen Exeter University | NERC Peer Review College | None | None | Research Councils (NERC, EPSRC, ESRC) European Union | None |
| Professor Timothy Pedley University of Cambridge | None | Small privatisations | Institute of Mathematics and its applications (Council). International Union of Theoretical and Applied Mechanics (president). The Royal Society (various committees). | None | None |
| Professor John Pethica Royal Society | Trinity College Dublin & National Physical Laboratory UK | None | None | None | None |
| Professor Judith Petts University of Southampton | University of Southampton Veolia Environmental Plc | None | None | None | Mr John Armitt (brother) Chair EPSRC; Chair ODA Prof Geoffrey Petts (husband) VC Univ of Westminster |
| Mr Tim Radford Independent | 2010-2011 The Guardian Media Group HarperCollins publishers NMSI ESF UN Interagency Secretariat for Disaster Reduction American Assoc for the Advancement of Science British Council, China Macmillan | None | None | None | None |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|--|---|---|---|--|-----------------|
| Professor Paul Raithby University of Bath | None | BT Whitbread Murray International Trust Barclays Bank plc Santander | Cambridge Crystallographic Data Centre. British Crystallographic Association. European Crystallographic Association. American Chemical Society. American Crystallographic Association. | EPSRC STFC Diamond Light Source plc | None |
| Mr Ian Risk EADS Innovation Works UK | EADS | EADS | None | Research funding provided by EADS Corporate sources, Business Unit Contracts (Airbus, Astrium, Eurocopter and Cassidian) as well as public funding from EU, BIS and Welsh Govt | None |
| Dr M Roberts Guidance Ltd | Director, Guidance Navigation Holdings Ltd | None | None | None | None |
| Professor Tom Rodden University of Nottingham | None | None | Accelerate Nottingham, Aerial, Alton Towers, BBC, Blast Theory, British Library, Broadway Media Centre Nottingham, BT, Creative Industries KTN, EADS Astrium, Experian, Greater Nottingham Partnership, Infoterra, Inst Practitioners of Advertising, Invensys, Jaguar, Leica, Location & Timing KTN, Logica, Network Rail, OGC, Robocoaster, ScienceScope, SEA, Sharp, Tenet, TRL. | Nottingham City Council, Ordnance Survey, East Midlands Development Agency | None |
| Mr Martin Sadler HP Systems Security Laboratory | HP Systems Security Laboratory | None | Inst of Information Security Professionals (IISP). HP. | None | None |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|--|---|--|--|--|--|
| Professor Roy Sambles University of Exeter | University of Exeter EPSRC MoD (Consultancy) Atlas (Consultancy) | Santander Halifax Building Society. | Member of Sectional Committee 2 (Physics) of the Royal Society. Member of the Royal Society Paul Instrument Funds Award Committee. | EPSRC Sonardyne Lid (Case Award) Hewlett-Packard (Case Award) Qinetiq (Case Award) BAe (Case award & PhD Student sponsorship) Dstl (Case Award) | Son (Gavin C Sambles) Works for Serco Group plc. |
| Dr Richard Seabrook Wellcome Trust | Wellcome Trust Open University | None | MS Society IP Group RAEng – Healthcare Steering Group. Knowledge Transfer Network – Healthtech and Medicines Steering Group. Sanger Institute Translation Committee. | None | None |
| Professor Christopher Snowden University of Surrey | Vice chancellor and chief executive EPSRC TSB Governing board member Diamond Microwave Devices Ltd – consultant. Filtronic plc – consultant ERA Foundation - Director | None relevant | Council for Science & Technology. Governing body of the European Commission Joint Research Centre. Vice President RAEng. Council of the Royal Society. Vice president Universities UK (England & NI). Advisory Board for Foresight – Government office for Science. Defence Scientific Advisory Council. Patron Daphne Jackson Trust. | Freescale Inc, Arizona USA | None |
| Mrs Alison Starr GE Aviation | GE Aviation Company strategic relationships: Nottingham, Oxford, Bristol, Warwick funded by EPSRC Visiting Fellow Bristol University | Various minor shareholdings | Industrial Advisory Board- Diamond Synchrotron Source; WEAFF Non exec Director; Chair, Aerospace Training SouthWest Project for SWRDA; Chair Nat'l Advisory Committee, Aero & Defence, Human Factors. | BERR and EU funded projects Member "Human Science Board" Defence Scientific Advisory Committee | CBI ICARG Member |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|--|---|--|--|--|-----------------|
| Professor Pierre-Louis Violette EDF (R&D) | EDF EPSRC | EDF | Société Hydrotechnique de France International Association for Hydraulic Engineering and Research Agence Nationale de la Recherche European Institute for Energy Research | EDF group Agence Nationale de la Recherche ADEME European Framework Research Program ETI EPSRC, TSB | None |
| Dr David Watson IBM UK Ltd | IBM UK Ltd EPSRC Council EPSRC/RCUK for Digital Economy Advisory Board member | IBM Corporation | Chair – TSB ICT Knowledge Transfer Network RCUK/ESRC – Global Uncertainties Strategic Advisory Panel member | MoD US Army Research Laboratory | None |
| Professor Jeremy Watson Arup | Ove Arup and partners Ltd Department for Communities and Local Government | BT Group Invensys National Grid Santander | Visiting Professor Universities of Southampton and Sussex Honorary Professor at University College, London Chair HM Treasury's Engineering Interdependencies Expert Group Honorary Fellow University of Warwick Industrial Advisory Boards: Cambridge University, Imperial College, UCL, University of Reading | None | None |
| Professor Mark Welland CSA Ministry of Defence | University of Cambridge | None | None | EPSRC EC FLYBE BBSRC | None |
| Professor Ian White University of Cambridge | University of Cambridge IET Titchfield Enterprises Ltd | Zinwave Ltd PervasID Ltd | Frontiers of Optoelectronics National University of Singapore Huazhong University Wuhan National Optoelectronic Laboratory Royal Academy of Engineering Institute of Electrical and Electronics Engineers Institution of Engineering and Technology | EPSRC IKC Science Bridge Award USA EUROPIC EC FP7 CP FEMTOBLUE EU FP7 PULSE IPHOS EC FP7 CP Boeing RFID INTERNET PARADIGM EC FP7 CP Complex Photonic systems EPSRC DTC (UCL) | None |

| Name | Personal Remuneration | Shareholdings | Non-pecuniary interests | Research income | Related parties |
|---|--|--|--|---|-----------------|
| Professor Rhodri Williams Swansea University | Swansea University | Shareholder in Haemometrics Ltd (Swansea University spin out company) EPSRC, NIHR, P&G NESTEC (Nestle) | None | None | None |
| Professor Lord Robert Winston Imperial College London | Imperial College London Occasional media or speaking engagements | Atazoa | Atazoa Ltd – Director. Kayplot Ltd – media company. House of Lords S&T Committee. | None | None |
| Dr Tony Wood Pfizer | Pfizer | Pfizer | Newcastle University Chemistry IAB. University of Cape Town. | None | None |
| Dr David York Proctor & Gamble | Visiting professor at Leeds University, Imperial College and Bristol. Chair, Industry Management Advisory team of the UCL macro molecules IMRC. | P&G | None | None | None |
| Professor Paul Younger University of Newcastle | University of Newcastle | NuWater Ltd Project Dewatering Ltd Cluff Geothermal Ltd Five-Quarter Energy Ltd | Trustee – Nth England Institute of Mining Engineers. Trustee – Planet Earth Institute. Chair - SustainE. | EPSRC (Co-I on Platform Grant) NERC (CASE studentship) DECC (Deep Geothermal Challenge Fund) Planet Earth Inst (PhD studentship) | None |



Professor David Delpy, Accounting Officer
June 25, 2012

REMUNERATION REPORT

UNAUDITED INFORMATION

Remuneration Policy

The remuneration of the Chief Executive of EPSRC is decided by a Remuneration Panel chaired by the Director General of Science and Research and approved by the BIS Permanent Secretary.

EPSRC's Council has established a Remuneration Committee to assess, annually, the individual performance of the EPSRC staff on personal contracts, and decide, in the light of these assessments, the remuneration they shall receive. The Committee members are the Chair of EPSRC, Chair of the Resource Audit Committee and EPSRC's Chief Executive.

The remuneration of members of EPSRC's Council is reviewed annually by the Department for Business, Innovation and Skills (BIS).

Details of the service contracts of the Chief Executive and staff on personal contracts are given in the table below.

These individuals do not have any specific contractual rights for compensation on termination of their contract.

| Chief Executive and Directors | Contract Start Date | Contract End Date | Notice Period |
|---------------------------------------|---------------------|-------------------|---------------|
| Professor D Delpy, Chief Executive | 1 September 2007 | 31 March 2014 | 3 months |
| Mrs C Coates, Director | Permanent Contract | - | 3 months |
| Mr A Emecz, Director | Permanent Contract | - | 3 months |
| Dr L Thompson, Director | Permanent Contract | - | 3 months |
| Mr A Lewis, Associate Director | Permanent Contract | - | 3 months |

AUDITED INFORMATION

Salary and Pension Entitlements

The following section provides details of the remuneration and pension interests of the Chief Executive, Directors and EPSRC Council members.

Remuneration

| Chief Executive & Senior Staff | 2011-12 Salary £k (a) | 2011-12 Performance Related Bonus (b) | 2010-11 Salary £k (a) | 2010-11 Performance Related Bonus (b) |
|--|--------------------------|---------------------------------------|--------------------------|---------------------------------------|
| Professor D Delpy (b) Chief Executive | 145-150 | 5-10 | 145-150 | 5-10 |
| Mrs C Coates (c) Director | 75-80 | 0-5 | 75-80 | 0-5 |
| Mr A Emecz (c) Director | 70-75 | 0-5 | 65-70 | 0-5 |
| Dr L Thompson (c) Director | 70-75 | 0-5 | 65-70 | 0-5 |
| Dr C Hayter Associate Director | 60-65 | n/a | 55-60 | n/a |
| Mr A Lewis (c) Associate Director | 75-80 | 0-5 | 75-80 | 0-5 |
| Dr N Viner Associate Director | 60-65 | n/a | 60-65 | n/a |
| Dr A Wall Associate Director | 60-65 | n/a | 55-60 | n/a |

| | 2011/12 | 2010/11 |
|--|----------|----------|
| Mid point of the Band of Highest paid Director | £155,000 | £155,000 |
| Median remuneration of EPSRC's staff | £29,271 | £28,678 |
| Ratio | 5.30 | 5.40 |

- a) "Salary" includes gross salary; overtime; recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. It does not include employer pension contributions and the cash equivalent transfer value of pensions.
- b) The Chief Executive's salary includes a responsibility allowance. The Performance related bonus and any change in salary are decided by a Remuneration Panel chaired by the Director General of Science and Research and approved by the BIS Permanent Secretary. In addition to the bonus disclosed in the table above, an additional appointment term bonus, also in the range £5k to £10k, will become due for payment, subject to the conditions being met, in 2012/13.
- c) Performance Related bonuses and any changes in salary for these individuals are determined by the EPSRC Remuneration Committee on an annual basis. The EPSRC Remuneration Committee comprises the Chair of Council, the Chair of the Resource Audit Committee and EPSRC's Chief Executive.
- d) The average annual earnings increase (excluding bonuses) for all these members of staff between 2010/11 and 2011/12 was 3%.
- e) There were no benefits in kind paid to any of these members of staff in 2011/12.
- f) (i) Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

- (ii) The banded remuneration of the highest-paid director in EPSRC in the financial year 2011-12 was £155,000 (2010-11, £155,000). This was 5.30 times the median remuneration of the workforce, which was £29,271 (2010-11, £28,678).
- (iii) In 2011-12, 0 (2010-11, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £17,129 to £78,982 (2010-11 £16,400 to £78,982).
- (iv) The ratio between the mid point of the band of the highest paid director and the median remuneration of EPSRC staff was 5.30 in 2011/12 (2010/11: 5.40). This change has arisen due to the highest paid director's salary range remaining fixed and the increase in the median staff salary by 2.1%.

Pension Benefits

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 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. The CETV includes any lump sum payments due on retirement.

The real increase in CETV reflects the increase in CETV 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 or arrangement) and uses common market valuation factors for the start and end of the period.

| Chief Executive, Directors and Associate Directors | Accrued pension at age 60 as at 31/03/12 or at date of leaving £'000 | Real increase in pension at age 60 £'000 | CETV at 31/03/12 £'000 | CETV at 31/03/11 £'000 | Real increase in CETV £'000 |
|--|---|---|---------------------------|---------------------------|--------------------------------|
| Professor D Delpy Chief Executive (ED 31/07/2011*) | 115-120 with no lump sum | 0-2.5 with no lump sum | 1,913 | 1,935 | 22 |
| Mrs C Coates Director | 30-35 plus 90-95 lump sum | 0-(2.5) plus 0-(2.5) lump sum | 677 | 675 | -14 |
| Mr A Emecz Director | 20-25 plus 60-65 lump sum | 0-2.5 plus 2.5-5 lump sum | 309 | 255 | 17 |
| Dr L Thompson Director | 25-30 with no lump sum | 0-2.5 with no lump sum | 472 | 415 | 24 |
| Dr C Hayter Associate Director | 10-15 plus 30-35 lump sum | 0-2.5 plus 2.5-5 lump sum | 131 | 98 | 10 |
| Mr A Lewis Assoc Director | 20-25 plus 70-75 lump sum | 0-(2.5) plus -(2.5) lump sum | 374 | 331 | -5 |
| Dr N Viner Associate Director | 20-25 plus 60-65 lump sum | 0-2.5 plus 0-2.5 lump sum | 337 | 300 | 0 |
| Dr A Wall Associate Director | 20-25 plus 30-35 lump sum | 0-2.5 plus 0-(2.5) lump sum | 317 | 279 | 7 |

*left the pension scheme

Council Members Remuneration

The Chairperson and the Council Members are appointed by the Department for Business, Innovation and Skills (BIS) on behalf of the Secretary of State for Business, Innovation and Skills. The contract terms vary between individual members, but the terms and conditions of appointment are standard. EPSRC provides each member of Council with a Code of Practice which sets out a framework in which they are expected to operate.

Council members receive an honorarium in recognition of their service to EPSRC, together with a refund of their reasonable expenses. Council members are not employees of EPSRC and the appointments are not pensionable. Members of Council who are civil servants are not entitled to receive an honorarium.

| Council Members | 2011-12 Remuneration £ | 2010-11 Remuneration £ |
|--------------------------------------|---------------------------|---------------------------|
| Mr J Armitt, CBE, FEng (Chairperson) | 16,430 | 16,430 |
| Professor A Anderson, OBE | 6,850 | 6,850 |
| Professor L Gladden, CBE, FRS, FEng | 6,850 | 6,850 |
| Professor T Pedley, FRS | 6,850 | 6,850 |
| Dr M Roberts | 6,850 | 6,850 |
| Professor J R Sambles, FRS | 9,110 | 6,850 |
| Professor C M Snowden, FRS, FEng | 6,850 | 6,850 |
| Professor P-L Viollet | 6,850 | 6,850 |
| Professor J Watson | Nil | Nil |
| Dr D Watson | 6,850 | 9,110 |
| Professor Lord R Winston | 6,850 | 9,110 |
| Dr A Wood | Nil | Nil |
| Mr Jack Boyer | 6,850 | Nil |
| Professor John Fisher | 6,850 | Nil |



Professor David Delpy, Accounting Officer

June 25, 2012

STATEMENT OF RESPONSIBILITIES

STATEMENT OF THE RESPONSIBILITIES OF THE ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL AND OF ITS CHIEF EXECUTIVE

Under Paragraph 3 of Schedule 1 to the Science and Technology Act 1965, the Secretary of State for Business, Innovation and Skills, with the approval of HM Treasury, has directed EPSRC 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 EPSRC and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the Accounts the Chief Executive is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

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

The Department for Business, Innovation and Skills has appointed the Chief Executive as the Accounting Officer of EPSRC. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding EPSRC's assets, are set out in *Managing Public Money* published by HM Treasury.

GOVERNANCE STATEMENT

EPSRC GOVERNANCE STATEMENT 2011-12

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of governance and internal control, which supports the achievement of the EPSRC's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible and ensuring they are properly accounted for and used economically, efficiently and effectively, in accordance with 'Managing Public Money' and the requirements set out in the Management Statement and Financial Memorandum agreed between the EPSRC and its sponsoring department, the Department for Business, Innovation and Skills (BIS).

My responsibilities as Chief Executive, are set out in the Management Statement and Financial Memorandum. I may delegate the administration of these responsibilities to EPSRC's employees but may not assign any of the responsibilities absolutely to any other person. I have established the Executive Leadership Team (ELT) to support me in discharging those duties.

2. The purpose of the Governance Statement

The Governance Statement, for which the Accounting Officer takes personal responsibility, gives a clear understanding of the dynamics of the business and its control structure. Essentially, it records the stewardship of EPSRC to supplement the accounts, providing a sense of the EPSRC's performance; and of how successfully it has coped with the challenges it faces. It provides an adequate insight into the business of the EPSRC and its use of resources to allow the Accounting Officer to make informed decisions about progress against business plans and if necessary steer performance back on track. In doing this the Accounting Officer is supported by a Governance framework which includes the Council, its Committees and Senior Management Officials.

This statement explains how EPSRC has complied with the principles of Good Governance and reviews the effectiveness of these arrangements.

3. EPSRC's Governance framework / Structure

EPSRC is governed by its Council which ensures that it pursues the objectives set out in its Royal Charter. Council establishes and agrees the overall strategic direction of EPSRC including its mission, its aims, objectives and targets, as set out in the Delivery Plan. It reviews regular financial reports on the management and performance of EPSRC ensuring that appropriate action is taken to address any concerns identified, thus ensuring the good financial management of the Council. The Council also reviews the overall risk profile of the EPSRC as well as individual risks identified by the Governance Group as carrying a high degree of threat. The Council is advised by its sub committee, the Resource Audit Committee. The Council had an 88% attendance rate in 2011-12.

During the year Council conducted an effectiveness self-assessment in the form of a questionnaire followed by discussion to arrive at a consensus view. Whilst Council was satisfied that it was able to discharge its responsibilities effectively, a number of areas for improvement have been identified and addressed during the coming year.

The Resource Audit Committee (RAC) provides assurance to Council on the adequacy and effectiveness of the EPSRC's framework of governance, risk management and controls. It provides regular assurance to Council and the Accounting Officer that the areas of risk, control and governance are being regularly reviewed for issues that may threaten the EPSRC's core business or reputation. It recommends to Council for approval the accounting policies, the accounts, and the annual report of EPSRC, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors. It advises and approves plans for audit activity and considers the results of both internal and external audits and the adequacy of management response to issues identified by audit activity. It comments on questions of value for money and the general efficiency and effectiveness with which the Council's activities are undertaken, and recommends appropriate action as necessary. The committee also offers advice on which areas of risk could be included for consideration within the risk management system. The Resource Audit

Committee had an 80% attendance rate in 2011-12. In February 2012, the Resource Audit Committee reported to Council in respect of Risk Management the following information:

Under its terms of reference, RAC is asked to assess the effectiveness of the systems established to identify, assess, manage and monitor financial and non-financial risks. As such RAC endorsed a revised Risk Management Strategy at its meeting in October 2011. ELT is responsible for managing the Corporate Risk Register.

RAC was presented with the Corporate Risk Register which now includes the direction of travel scoring as well as an indication of when a risk is due to be closed. Four new risks had recently been added to the register regarding:

The ARCHER Project, a supercomputing project that will supersede HECToR

The Triennial Review, a formal review by BIS of all Research Councils

Research Data provision, a project to collect data on Research Outcomes

Capital Funding – the bidding and approval process

RAC reported that the highest residual risks for EPSRC were:

Operation of processes carried out with RCUK SSC Ltd

BIS Commercial Strategy and

The Triennial Review

RAC reported that BIS has established a Shared Service Centre project and agreement had been reached for the SSC to begin delivering services to BIS partner organisations in a staged manner, currently scheduled to begin in late 2012. Service stabilisation is one of the pre-requisites before such services are provided and the criteria for stabilisation has been defined in agreement with BIS. A Stabilisation and Assurance Board has been established. RAC confirmed its support to the Executive in ensuring that the criteria for stabilisation are met before BIS start taking on SSC services.

In respect of Audit Committee effectiveness, in 2005, 2008 and 2010 the Resource Audit Committee undertook self-assessment exercises. In 2009 the National Audit Office produced 'The Audit Committee Self Assessment Checklist' designed to help Audit Committees in central government assess how well they apply good practice utilising a questionnaire compiled for these exercises so that it includes the most important issues and ones most relevant to the committee. Questions from previous exercises were reviewed and any relevant ones were also included. An anonymous electronic questionnaire was used to capture member's responses to the questions. A separate questionnaire was compiled specifically for the Chair to address.

The EPSRC Leadership Team (ELT), comprising the Chief Executive, Directors and Associate Directors is the executive body for EPSRC and provides leadership and guidance on risk management issues. ELT has agreed a Corporate Risk Management Policy, the purpose of which is to set out the roles and responsibilities, along with the framework and underlying principles of the control system, and regularly considers risk matters at its monthly formal meeting. In particular it reviews the Corporate Risk Register which details any risks which are of a corporate nature and are assigned to individual Directors. This register also includes any Directorate and project risks which have been given a red residual risk score. Such risks are escalated to ELT which will then consider the appropriate action to take.

The Governance Group is a sub group of the Executive Leadership Team and its membership comprises the Chief Executive (CEO) and individuals with accountabilities directly to the CEO covered by formal Management Statements – currently; Director Communications, Information and Strategy; Director Research Base; Director Business Innovation; Associate Director, Operations. Its responsibilities are to ensure that the structures, use of resources and relationships are consistent with public accounting standards; oversight of Annual Report and Accounts; oversight of Business Critical projects including support for Resource Audit Committee of Council; compliance with laws and regulations, including Health and Safety; setting of internal financial and management controls.

Along with the other Research Councils EPSRC is currently undertaking a review of its three key governance documents, the Management Structure, the Code of Conduct and the Financial Memorandum, to ensure their compliance with the new Corporate Governance Code. A triennial review of Research Councils by BIS has recently commenced, and the review will include an assessment of the governance framework and its fitness for purpose.

4. The Risk and Control Framework

EPSRC Risk Management Guidelines were updated in 2011/12 and communicate how risk management is carried out at EPSRC. It describes the activities required to manage risk effectively. The guidelines are based on the guiding principles of risk management but takes account of the EPSRC's structure and processes.

The Accounting Officer assigns responsibility for each of the Corporate Risks to one or more of the Directors. Each Director bears a responsibility for these and the risks associated with his/her Directorate's activities. A Director may choose to delegate responsibility for the day-to-day administration of risk and associated mitigation or contingency plans to a member of the Directorate staff.

The Directors and their senior managers review the risk register for their own Directorate on a regular basis: to consider new risks or new elements to an existing risk; for changes in status (changes in the likelihood of occurrence or in the impact that would be felt should the risk be realised) as a result of factors internal or external to the Council; for progress in mitigating risks; to determine whether or not the existing controls are adequate; and to determine whether further actions are required.

In addition proposed projects or initiatives are considered at an early stage to assess the potential risks and to determine the balance of benefits and risks. The relevant Director or delegated staff member will then make a decision on whether or not to proceed, or will seek a decision from the Governance Group.

Each Directorate has an individual responsible for co-ordinating risk management activities.

EPSRC replaced its Risk Management system in 2011-12. EPSRC's Risk and Assurance team maintain the Corporate Risk register and report to the ELT Governance Group on a regular basis. These risks have been evaluated within Directorates, to include consideration of the desired level of risk appetite having regard to EPSRC strategies and priorities; controls have been assessed and responsibilities for management of risks assigned at various levels. EPSRC's Risk Register is reported at every RAC meeting.

EPSRC's risk register is accessible to all staff through EPSRC's intranet site as well as other documents, such as the EPSRC risk policy. General risk awareness is made available to staff through issued guidance and the corporate induction programme. RAC reviews the corporate risk register and provides advice to Council on significant risks. Council review significant high-level risks and monitor the overall risk profile of EPSRC.

EPSRC operates in a low risk environment with a control framework subject to public sector oversight. Risk appetite is determined by a risk tolerance boundary whereby assessed risks considered to be at the highest level of risk are escalated to Council for consideration.

In 2011-12 EPSRC successfully completed its first year of implementation of the Management of Risk of Financial Loss (MRoFL) toolkit. Six core processes were comprehensively reviewed, and evidenced by RCIAS end-to-end audits. The conclusions of those audits is commented on below.

EPSRC reviewed its framework of delegated authority in 2011-12, resulting in a revised delegated authority scheme, as well as initiating a new process of the Accounting Officer writing formal delegation letters to the Directors and Associate Directors. This strengthens the transparency of the assurance framework and provides clear lines of sight along the delegation chain.

Information Risk

EPSRC has in place a system of control for Information Risk with exceptions and areas of concern noted in our annual return to BIS. EPSRC is compliant with the relevant requirements set out in the Security Risk Management Overview

The report properly reflects an assessment of specific Information Assurance risk areas that are consistent with EPSRC's risk appetite as recorded in the it's risk register.

All of EPSRC's review processes and outcomes have been validated by the Research Councils Internal Audit Service.

Shared Services Centre (SSC) and Client Services Group (CSG)

The SSC provides processing services in human resources, procurement, payroll, finance, grants, and IT to all seven Research Councils. During 2011-12, work was ongoing to develop further the security and controls framework operating between the Research Councils and the SSC.

CSG represents all seven Research Councils in their relationship with the SSC as clients. The SSC project ended on 31 March 2011. Since that date, and therefore for the whole of the 2011-12 financial year, the body responsible for co-ordinating the Councils' collective engagement with the SSC as clients has been the CSG. 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 agreed on a cross-council basis. It is expected that during the course of 2012-13 other bodies will start to receive a range of services from the SSC at which point the Councils will no longer be the principal clients and the continued role of the CSG and its ability to fulfil an assurance role will require further consideration.


Looking ahead, the expansion of the SSC's client base presents the Councils with both threats and opportunities. It is expected that greater economies of scale will lead to reductions in unit costs and therefore service charges. There is, however, some concern around the potential disruption to the current level of service over the coming year and potentially beyond as a diverse range of new clients come on board. There is also some concern that a lack of immediate interest in taking up grants services on the part of new customers may lead to a downgrading of its relative importance. It will be important, therefore, that appropriate new governance arrangements are put in place to protect the Research Councils during this period of transition.

In respect of 2011-12, CSG has produced an Assurance Statement which identifies the key areas of concern identified by the RCIAS end to end audits (see below). From January 2012, a joint SSC/CSG assurance report has been agreed and submitted to the BIS Assurance Board. The current level of assurance is amber in recognition of the large number of end to end process audits with only limited assurance at this stage. A programme of priority development work for the first quarter of 2012-13 has also been agreed and funded so that it is currently expected that it will be possible to achieve the necessary stabilisation in all functional areas by the end of June 2012.

Research Councils' Internal Audit Service (RCIAS)

In 2011-12 the Resource Audit Committee considered a number of audit reports from the Research Councils' Internal Audit Service (RCIAS) which provided assurance on a range of internal EPSRC systems of governance, management and risk assessment and control. RCIAS audits of the EPSRC covered eight separate areas, seven of which received substantial assurance and one (Equipment Loans and Funding) received partial assurance.

The Director of Internal Audit is required to provide me with an opinion on the overall adequacy and effectiveness of the EPSRC's framework of governance, risk management and control. This opinion is provided in accordance with Governance Internal Audit Standards and is informed through the work of internal audit completed during the year in line with the internal audit plan agreed by management and the Audit Board. The internal audit plan covers three assurance components:

-
- 
- EPSRC core activities;
 - EPSRC/RCUK SSC Shared assurance; and
 - Cross-Council assurance.

Based on the work of internal audit, the Director of Internal Audit was able to provide substantial assurance that the system of internal control in place at the EPSRC for the year ended 31 March 2012 was operating effectively. This assurance can be broken down between the three assurance components as follows:

EPSRC core activities and cross-client assurance: substantial assurance reflecting a generally sound system of internal control, designed to meet its objectives, and that controls are generally being applied consistently. However, some weaknesses in design and/or inconsistent application of controls put the achievement of particular objectives at risk; and

EPSRC/RCUK SSC shared assurance: limited assurance highlighting weaknesses in the design and/or inconsistent application of controls, that puts the achievement of the stabilisation of processes at risk in a number of the areas reviewed.

The RCIAS report highlights critical outstanding actions relating to the processes to mitigate risk in the following areas:

- duplication of payments;
- auditing expense claims;
- cash management reconciliations;
- IT application security; and
- master data maintenance.

The weaknesses noted above were identified through the RCIAS work on the SSC end-to-end shared business processes where responsibility for addressing identified weaknesses is shared between the SSC and Research Councils. The current level of assurance is amber in recognition of the large number of end to end process audits with only limited assurance at this stage. A programme of priority development work for the first quarter of 2012-13 has also been agreed and funded so that it is currently expected that it will be possible to achieve the necessary stabilisation in all functional areas by the end of June 2012. Over the coming year, EPSRC, collectively with the other Research Councils and the SSC, will pursue resolution of these issues.

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

Research Councils' UK Assurance Unit

The Research Councils' UK Assurance Unit is hosted by BBSRC and acts on behalf of 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 EPSRC 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 2011/12, 17 visits were undertaken along with 15 desk based reviews. Where we have identified specific issues with universities an action plan is in place to ensure appropriate improvements are introduced. The findings from the work undertaken in 2011/12 provided a satisfactory level of assurance.

With effect from April 2012, the Research Councils Internal Audit Service (RCIAS) merged with RCUK Assurance to create a single audit and assurance body. The new merged organisation is called "Audit and Assurance Services Group (AASG)" which reflects this new combined assurance role and the multi client dimension which it now serves.

5. Review of Effectiveness

As Accounting Officer/Chief Executive 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 and internal auditors within the organisation who have responsibility for the development and maintenance of the governance structures, internal control framework, and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

I have reported on the four areas of risk relating to the RCIAS cross council audits in the previous section and can report we are actively seeking to take remedial action and mitigate the risks of financial loss. I have considered the probability and impact of these risks to be low.

In this Statement I have reported that we have a robust control framework in place and that we have identified the highest residual risks for EPSRC on the corporate risk register. RCIAS have undertaken end to end process audits in respect of SSC services and although they have received limited assurance, a programme is in place to secure stabilisation by the end of June 2012. The Director of RCIAS has provided me with substantial assurance on the system of internal control in place in EPSRC.

I have been advised on the implications of the result of the review of the effectiveness of the system of Governance including internal control and risk management by the Council and Audit Committee and a plan to address any weaknesses and ensure continuous improvement of the system is 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 EPSRC's overall governance and internal control structures are sound and ensure that public money is properly accounted for and used economically, efficiently and effectively.



Professor David Delpy, Accounting Officer

June 25, 2012

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 Engineering and Physical Sciences Research Council for the year ended 31 March 2012 under the Science and Technology Act 1965. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Council, Chief Executive and auditor

As explained more fully in the Statement of Responsibilities of the Council and the Chief Executive, the Chief Executive 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 Engineering and Physical Sciences Research Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Engineering and Physical Sciences 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 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 Engineering and Physical Sciences Research Council's affairs as at 31 March 2012 and of the 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.

ACCOUNTS

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 the Science and Technology Act 1965; and
- the information given in the Management Commentary 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
July 5, 2012

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

ACCOUNTS

Statement of Account

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2012

| | Notes | 2011-12 £000 | 2010-11 Restated £000 |
|--|-------|-----------------|-----------------------------|
| EXPENDITURE | | | |
| Research | 4 | 536,151 | 549,533 |
| Energy Technologies Institute LLP | 5 | 17,840 | 6,091 |
| Public Engagement Programme | 6 | 2,262 | 7,002 |
| UK Research Facilities | 7 | 12,392 | 12,921 |
| International Subscriptions | 8 | 868 | 787 |
| Postgraduate Awards | 9 | 185,488 | 203,828 |
| Research Fellowships | 10 | 55,825 | 56,672 |
| Staff Costs | 11 | 12,293 | 13,651 |
| Other Expenditure | 12 | 19,849 | 15,121 |
| Share of Losses of Joint Ventures | 15 | 696 | 501 |
| Total Expenditure | | 843,664 | 866,107 |
| INCOME | | | |
| Other Operating Income | 3 | 27,494 | 34,042 |
| Net Expenditure | | 816,170 | 832,065 |
| Non Operating Income | 3 | 5 | - |
| Net Expenditure after Interest and Non Operating Income | | 816,165 | 832,065 |
| Other Comprehensive Expenditure | | | |
| Net (Gain)/Loss on Revaluation of Property Plant and Equipment | 13 | (388) | 1,154 |
| Net (Gain)/Loss on Revaluation of Intangibles | 14 | (4) | (2) |
| Total Comprehensive Expenditure for the year | | 815,773 | 833,217 |

The Notes on pages 38 to 58 form part of these Accounts.

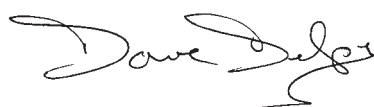
ACCOUNTS

Statement of Account continued

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

| | Notes | as at 31 March 2012 £000 | 31 March 2011 £000 |
|--|-------|-----------------------------|-----------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 27,999 | 20,551 |
| Intangible assets | 14 | 6 | 28 |
| Investment in Joint Venture | 15 | 3,759 | 4,455 |
| Total non-current assets | | 31,764 | 25,034 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 16 | 16,202 | 66,533 |
| Cash and cash equivalents | 17 | 3,518 | 4,081 |
| Total current assets | | 19,720 | 70,614 |
| Total assets | | 51,484 | 95,648 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 18 | (87,547) | (120,610) |
| Provisions for liabilities and charges | 19 | (672) | - |
| Total current liabilities | | (88,219) | (120,610) |
| NON CURRENT LIABILITIES | | | |
| Provisions for liabilities and charges | | - | - |
| Assets less liabilities | | (36,735) | (24,962) |
| TAXPAYER'S EQUITY | | | |
| Revaluation reserve | | 1,962 | 1,570 |
| General Reserve | | (38,697) | (26,532) |
| | | (36,735) | (24,962) |



Professor David Delpy, Accounting Officer
25 June, 2012

The Notes on pages 38 to 58 form part of these Accounts.

ACCOUNTS

Statement of Account continued

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF CASH FLOWS

For the year ended 31 March 2012

| | Notes | 2011-12 £000 | 2010-11 Restated £000 |
|--|-------|------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Expenditure after interest | | (816,165) | (832,065) |
| ADJUSTMENTS FOR NON-CASH TRANSACTIONS | | | |
| Write Offs | 18 | 3 | (592) |
| Amortisation | 14 | 26 | 5 |
| Depreciation and loss on disposal of assets | 12 | 10,747 | 6,361 |
| Share of Losses of Joint Venture | 15 | 696 | 501 |
| Increase/(Decrease) in Provisions | 19 | 672 | (234) |
| (Increase)/Decrease in Trade and other Receivables | 16 | 50,331 | (2,678) |
| Increase/(Decrease) in Trade and other Payables | 18 | (33,066) | 15,615 |
| Net Cash Outflow from Operating Activities | | (786,756) | (813,087) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of Property, Plant and Equipment | 13 | (17,887) | (4,074) |
| Disposals of Property, Plant and Equipment | | 80 | - |
| Purchase of Investment Asset | 15 | - | (4,459) |
| Transfer to Shares | | - | 4,459 |
| Net Cash Outflow from Investing Activities | | (17,807) | (4,074) |
| Net Cash Outflow before Financing | | (804,563) | (817,161) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Grant in Aid from BIS | | 804,000 | 817,000 |
| Net Financing | | 804,000 | 817,000 |
| Net Decrease in Cash and Cash Equivalents | | (563) | (161) |
| Cash and Cash Equivalents at 1 April 2011 | 17 | 4,081 | 4,242 |
| Cash and Cash Equivalents at 31 March 2012 | 17 | 3,518 | 4,081 |

The Notes on pages 38 to 58 form part of these Accounts.

ACCOUNTS

Statement of Account continued

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the year ended 31 March 2012

| | Revaluation Reserve £000 | General Reserve £000 | Total Reserves £000 |
|---|--------------------------------|----------------------------|---------------------------|
| Balance at 1 April 2010 | 2,722 | (11,467) | (8,745) |
| Net Loss on Revaluation of Tangible and Intangible Assets | (1,152) | - | (1,152) |
| Grant-in-Aid Financing received in year | - | 817,000 | 817,000 |
| Net Expenditure for the Year | - | (832,065) | (832,065) |
| Balance at 31 March 2011 | 1,570 | (26,532) | (24,962) |
| Balance at 1 April 2011 | 1,570 | (26,532) | (24,962) |
| Net Gain on Revaluation of Tangible and Intangible Assets | 392 | - | 392 |
| Grant-in-Aid Financing received in year | - | 804,000 | 804,000 |
| Net Expenditure for the Year | - | (816,165) | (816,165) |
| Balance at 31 March 2012 | 1,962 | (38,697) | (36, 735) |

The Notes on pages 38 to 58 form part of these Accounts.

ACCOUNTS

Notes to the EPSRC's Accounts

1. STATEMENT OF ACCOUNTING POLICIES

a) Basis of Accounting

The Accounts have been prepared in accordance with a direction given by the Secretary of State with the approval of HM Treasury, in pursuance of Section 2 (2) of the Science and Technology Act 1965. These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice in accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the EPSRC for the purpose of giving a true and fair view has been selected.

The particular policies adopted by EPSRC are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

The Accounts meet the accounting standards issued or adopted by the Accounting Standards Board so far as these requirements are appropriate in accordance with the FReM.

b) Going Concern

These Financial Statements 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 EPSRC can be expected to have access.

In December 2010 David Willetts, Minister for Universities and Science, announced the EPSRC's financial allocations for 2011-12 through to 2014-15. The EPSRC considers that these allocations, while slightly reduced, will not materially affect the operations of the EPSRC and therefore the Accounts have been prepared on a going concern basis.

c) Adoption of New Standards

New standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), becoming effective during the year, have not had a material impact on the EPSRC's financial statements.

Adoption of new or revised standards effective and major FReM changes for 2011-12:

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2012, have been adopted in these financial statements, taking account of the specific interpretations and adaptations included in the FReM.

d) Change in Accounting Policy

In accordance with the 2011-12 FReM, the income accounting treatment has been revised as follows:

- (a) Only grant in aid and any other grants from the parent department are now recognised as financing, so co-funding from other bodies is now recognised as income, and the prior year figures have been restated. This has increased prior year income and reduced the prior year net expenditure after interest by £28,068,000. In the Statement of Cash Flows prior year net cash outflow from operating activities has increased and net cash outflows from financial activities has reduced by £28,068,000, with no net impact on the cash and cash equivalents balance as at 31 March 2011. In the Statement of Changes to Taxpayers Equity in addition to the reduction in net expenditure after interest, the income funding line has been removed. These changes have no net effect on the prior year Statement of Financial Position, which remains as published for 2010-11.
- (b) The option to defer income under IAS 20, unless repayment conditions have been agreed with the funder, has been removed. This change has no material impact on the current or prior year accounts.

ACCOUNTS

Notes to the EPSRC's accounts continued

Income accounting policy

Co-funded income from other bodies arises where public and private sector bodies have agreed to co-fund some of EPSRC research expenditure. Such income is recognised when EPSRC is entitled to the income. Income is deferred where there are conditions in the co-funding agreement that have not been met by EPSRC as at the year end.

e) Property, Plant and Equipment and Depreciation/Amortisation

Capital expenditure includes the purchase of land, buildings, construction and services projects, equipment and intangible assets valued at £10,000 (2010-11: £3,000) or more.

Property, plant and equipment are included at cost or at valuation. The basis of valuation is Open Market Value for existing use where this can be established, otherwise Current Depreciated Replacement Cost.

Land and Buildings and major items of equipment are professionally valued at least every five years, at which time the remaining useful life of each revalued asset is also reassessed. The last valuation was in March 2011, conducted by Powis Hughes and Associates, Chartered Surveyors. The basis of the valuation was Open Market Value. Appropriate indices are used in between formal professional valuations.

Surpluses or deficits on revaluation are taken to the Revaluation Reserve, except that any permanent diminution in value is charged to the Statement of Comprehensive Net Expenditure in the year in which it arises. 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 fixed asset, that element of the Revaluation Reserve which thereby becomes realised is transferred directly to the Income and Expenditure Reserve.

Property, plant and equipment are depreciated at rates calculated to write off the costs or the valuation of each asset evenly over its expected useful life, as follows:

| | |
|---------------------------------|-----------------|
| Freehold land | not depreciated |
| Freehold buildings | 62 years |
| Specialist scientific equipment | 3 – 15 years |
| IT equipment | 3 years |
| Fixtures and fittings | 5 years |
| General office equipment | 5 years |
| Vehicles | 4 years |

Assets in the course of construction are not depreciated until the asset is available for use.

Intangible assets are amortised evenly over their expected useful lives as follows:

| | |
|----------|---------|
| Software | 5 years |
| Licences | 3 years |

f) Operating Segments

The primary format used for segmental reporting is by programme expenditure as this reflects EPSRC's internal management structure and reporting. EPSRC's assets and liabilities are shared across the operating segments, and as segmental information on assets and liabilities is not used internally, disclosure is not needed.

g) Ownership of Equipment Purchased with EPSRC Research Grants

Equipment purchased by an organisation with research grant funds supplied by the EPSRC belongs to the organisation and is not included in the EPSRC's property, plant and equipment. Through the Conditions of Grant applied to funded organisations, the EPSRC must be informed if, during the life

ACCOUNTS

Notes to the EPSRC's accounts continued

of the research grant, the need for the equipment diminishes substantially or it is not used for the purpose for which it was funded. The EPSRC reserves the right to determine the disposal of such equipment and to claim the proceeds of any sale.

h) Equipment Located Elsewhere

EPSRC owns assets with a combined net book value of £23.1M which are located elsewhere but are included in the Statement of Financial Position.

This figure includes the HECToR supercomputing facility, which came into operation in October 2007. At the Statement of Financial Position date the combined net book value of assets held at the facility in Edinburgh was £20.4M (2010/11 £11.8M). Of these assets, £8.9M is currently under construction, and the remaining £11.5M is shown under IT equipment.

A pool of scientific equipment is provided and updated by the Science and Technology Facilities Council (STFC) on behalf of the EPSRC, specifically for loan to research organisations. Wherever located, this equipment remains the property of the EPSRC and is therefore included in the Statement of Financial Position.

i) Grant in Aid

Grant-in-Aid received for revenue purposes has been regarded as a contribution from a controlling party giving rise to a financial interest in the organisation. Hence, Grant-in-Aid has been accounted for as financing, not income and is credited to the General Reserve.

j) Research and Development

As a research organisation, all the EPSRC's research and development expenditure is charged to the Statement of Comprehensive Net Expenditure when it is incurred. Intellectual property rights arising from research and development funded by the EPSRC are passed to the organisations performing the research.

k) Operating Leases

EPSRC currently hold no finance leases. Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the period of the lease.

l) Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transactions. Any exchange differences arising in the ordinary course of business are taken to the Statement of Comprehensive Net Expenditure. Assets and liabilities in foreign currencies in existence at the Statement of Financial Position date are translated at the rates ruling at that date.

m) Research Grants

Subject to the terms and conditions under which research grants are awarded, the EPSRC makes payments for grants on the basis of pre-determined quarterly profiles. Profiles are arranged, in overall terms, to reflect the rate and incidence of expenditure at the grant holding organisation. Payments are normally made in the period to which they relate, although the EPSRC retains some latitude in timing. Grant expenditure is accounted for on an accruals basis to reflect the usage of grant funds on work carried out. Future commitments at the Statement of Financial Position date are disclosed in Note 22.

n) Value Added Tax

As the EPSRC is partially exempt for VAT purposes, all items of expenditure and fixed asset purchases are shown inclusive of VAT where applicable. Residual input tax reclaimed under the partial exemption scheme is taken to the Statement of Comprehensive Net Expenditure as other income.

ACCOUNTS

Notes to the EPSRC's accounts continued

o) Pension Scheme

The employees of the Council 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 benefits are by analogy to the Principal Civil Service Pension Scheme, except that while the schemes provide retirement and related benefits based on final or average emoluments, redundancy and injury benefits are administered and funded by the Council. As permitted by paragraph 31 of IAS 19, the Company has recorded the pension contributions payable for the period as its charge to the Statement of Comprehensive Net Expenditure.

p) Employee Benefits

Under IAS 9 "Employee Benefits" an entity is required to recognise short term employee benefits when an employee has rendered a service in exchange for those benefits. No material benefits have been recognised by EPSRC for the year ended 31 March 2012.

q) Derivatives and Other Financial Instruments

Due to the non-trading nature of its activities and the way in which EPSRC is financed, EPSRC 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 IFRS 7, mainly apply. EPSRC 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 EPSRC in undertaking its activities.

Trade receivables are not interest bearing and are carried at original invoice amount less allowance for non collectable amounts. 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 are recognised in the period in which related money, goods or services are received or when a legally enforceable claim against EPSRC is established or when the corresponding assets or expenses are recognised.

Receivables and payables which mature or become payable within 12 months from the Statement of Financial Position date have been omitted from the currency profile.

r) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits.

s) Accounting Estimates

The Council makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances at the reporting date. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

The estimated economic useful lives of property, plant and equipment and intangibles are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on experiences with similar assets and practices of similar businesses. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on the use of an asset. An increase in the estimated useful life of any item of property, plant and equipment and intangibles would decrease the recorded operating expenses and increase non current assets values.

ACCOUNTS

Notes to the EPSRC's accounts continued

t) Key Accounting Judgements

EPSRC's significant accounting policies are stated above. Not all of these policies require management to make difficult subjective or complex judgements. Those that follow are intended to provide an understanding of the policies that management consider critical because of the level of complexity and judgement involved in their application and their impact on the financial statements.

- **Provisions for Liabilities**

Estimates are subject to uncertainty regarding timing or amounts of obligations (legal or constructive) due by the EPSRC. Significant judgements are made regarding probability and measurement of obligations. Specifically EPSRC provides for the liability arising from Research and Training Grants by accruing expenditure that is due and also recording prepayments where the timing of payments are ahead of expenditure being incurred by grant holders.

- **Impairment of Assets**

Property, Plant and Equipment are included at recoverable amounts. Management assess whether assets retain their recoverable amount or whether the asset is impaired, suffering a permanent diminution in value. Judgements are made on obsolescence, damage and loss resulting from normal business operations, and changes in value as part of the annual review of Property Plant and Equipment.

2. ANALYSIS OF NET EXPENDITURE BY SEGMENT

The primary format used for segmental reporting is by category of expenditure, as this reflects the internal management reporting of EPSRC. EPSRC receives funding from its sponsoring department, BIS, separately for Programme and Administration. We have separately identified administration costs in 2011-12.

EPSRC's staff costs, other operating expenditure and depreciation are attributed to either Administration or Programme costs. If costs are directly attributable to the delivery of EPSRC's scientific programme, they are attributed to the Programme budget; if not, they are classed as Administration.

| 2011-12 | Research £000 | Postgraduate training £000 | Other Programme £000 | Admin £000 | Total 2011-12 £000 |
|--------------------------------------|------------------|----------------------------------|----------------------------|----------------|--------------------------|
| Research | 536,151 | - | - | - | 536,151 |
| Energy Technologies Institute LLP | 17,840 | - | - | - | 17,840 |
| Public Engagement | - | - | 2,262 | - | 2,262 |
| UK Research Facilities | 12,392 | - | - | - | 12,392 |
| International Subscriptions | - | - | 868 | - | 868 |
| Postgraduate Awards | - | 185,488 | - | - | 185,488 |
| Research Fellowships | - | 55,825 | - | - | 55,825 |
| Staff Costs | - | - | 4,582 | 7,711 | 12,293 |
| Other Operating Expenditure | - | - | 1,100 | 7,976 | 9,076 |
| Losses in Joint Ventures | - | - | - | 696 | 696 |
| Depreciation | - | - | 10,466 | 307 | 10,773 |
| Total Operating Expenditure | 566,383 | 241,313 | 19,278 | 16,690 | 843,664 |
| Income | (18,413) | (1,800) | (4,468) | (2,818) | (27,499) |
| Net Expenditure | 547,970 | 239,513 | 14,810 | 13,872 | 816,165 |

ACCOUNTS

Notes to the EPSRC's accounts continued

| 2010-11 Restated | Research £000 | Postgraduate training £000 | Other Programme £000 | Admin £000 | Total 2010-11 £000 |
|--------------------------------------|------------------|----------------------------------|----------------------------|----------------|--------------------------|
| Research | 549,533 | - | - | - | 549,533 |
| Energy Technologies Institute LLP | 6,091 | - | - | - | 6,091 |
| Public Engagement | - | - | 7,002 | - | 7,002 |
| UK Research Facilities | 12,921 | - | - | - | 12,921 |
| International Subscriptions | - | - | 787 | - | 787 |
| Postgraduate Awards | - | 203,828 | - | - | 203,828 |
| Research Fellowships | - | 56,672 | - | - | 56,672 |
| Staff Costs | - | - | 6,214 | 7,437 | 13,651 |
| Other Operating Expenditure | - | - | 1,904 | 6,851 | 8,755 |
| Losses in Joint Ventures | - | - | - | 501 | 501 |
| Depreciation | - | - | 6,009 | 357 | 6,366 |
| Total Operating Expenditure | 568,545 | 260,500 | 21,916 | 15,146 | 866,107 |
| Income | (20,830) | (5,230) | (1,132) | (6,850) | (34,042) |
| Net Expenditure | 547,715 | 255,270 | 20,784 | 8,296 | 832,065 |

3. INCOME

| | 2011-12 £000 | 2010-11 Restated £000 |
|-------------------------------------|-----------------|-----------------------------|
| RCUK income | 1,164 | 3,720 |
| Income From Other Research Councils | 15,104 | 16,089 |
| Income From Central Government | 4,626 | 4,015 |
| Income From Other Bodies | 4,745 | 7,964 |
| Other Income | 1,860 | 2,254 |
| Total | 27,499 | 34,042 |

| | 2011-12 £000 | 2010-11 £000 |
|------------------------------|-----------------|-----------------|
| EU income | 268 | 164 |
| Cofunded Grants Income | 24,012 | 27,904 |
| Income for Services Provided | 3,214 | 5,974 |
| Non Operating Income | 5 | - |
| Total | 27,499 | 34,042 |

ACCOUNTS

Notes to the EPSRC's accounts continued

4. RESEARCH

Total gross expenditure on research grants shown by theme:

| | 2011-12 | 2010-11 (restated) |
|--------------------------------------|----------------|-----------------------|
| | £000 | £000 |
| Digital Economy | 25,826 | 25,333 |
| Energy | 104,339 | 96,312 |
| Global Uncertainties | 6,043 | 6,317 |
| Healthcare | 53,573 | 54,111 |
| Living With Environmental Change | 3,932 | 6,090 |
| Manufacturing | 50,306 | 61,509 |
| National Capability Engineering | 58,806 | 64,378 |
| National Capability ICT | 64,386 | 66,367 |
| National Capability Infrastructure | 52,772 | 45,714 |
| National Capability Mathematics | 22,394 | 24,261 |
| National Capability Physics | 93,774 | 99,141 |
| Total Expenditure on Research | 536,151 | 549,533 |

EPSRC adopted a new theme based approach to the delivery of research in 2011-12. In previous years we have reported the analysis by programme.

5. ENERGY TECHNOLOGIES INSTITUTE LLP

Energy Technologies Institute LLP (ETI LLP) was established in 2008 as a joint initiative between the public and private sectors to encourage research and investment in new and emerging energy technologies.

ETI LLP has been established with the aim to accelerate the development, demonstration and eventual commercial deployment of a focused portfolio of energy technologies which will increase energy efficiency, reduce greenhouse gas emissions and help achieve energy and climate change goals.

EPSRC and the Technology Strategy Board (TSB) represent the public sector's 50% interest in the partnership. The Secretary of State for Business, Innovation and Skills is a designated member of ETI LLP but EPSRC and TSB are responsible for providing the member's contributions on behalf of BIS.

EPSRC has made payments of £17,840k (2010-11 £6,091k) to ETI LLP which have been expensed as EPSRC itself does not have an investment in ETI LLP.

ACCOUNTS

Notes to the EPSRC's accounts continued

6. PUBLIC ENGAGEMENT PROGRAMME

| | 2011-12 £000 | 2010-11 £000 |
|--------------------------------------|-----------------|-----------------|
| PEP Awards | 66 | 2,023 |
| PEP Fellowships | 252 | 387 |
| PEP Additional Programme Expenditure | 1,944 | 4,592 |
| Total Expenditure on PEP | 2,262 | 7,002 |

EPSRC has a Public Engagement Programme (PEP) for its research grant holders and Fellows. PEP Additional Programme Expenditure in 2011/12 includes payments totalling £1.7M (2010/11 £2.1M) made on behalf of Research Councils UK.

7. UK RESEARCH FACILITIES

| | 2011-12 £000 | 2010-11 £000 |
|--|-----------------|-----------------|
| High Performance Computing: | | |
| University of Edinburgh (HECToR) | 7,137 | 7,798 |
| Total High Performance Computing | 7,137 | 7,798 |
| Science and Technology Facilities Council facilities | 3,495 | 3,473 |
| Other Expenditure on Research Facilities | 1,760 | 1,650 |
| Total Expenditure on UK Research Facilities | 12,392 | 12,921 |

EPSRC provides facilities to enable world class research. HECToR, a high end computing facility, was introduced in October 2007. At the Statement of Financial Position date, EPSRC held assets with a combined net book value of £20.4M at the HECToR facility. Of this amount £8.9M is currently under construction and the remaining £11.5M is shown as IT equipment.

8. INTERNATIONAL SUBSCRIPTIONS

Total amounts paid in the year for current operations:

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| European Science Foundation (ESF) | 487 | 344 |
| International Fusion Research (ITER) | 221 | 243 |
| Institute des Hautes Etudes Scientifiques (IHES) | 160 | 200 |
| Total Expenditure on International Subscriptions | 868 | 787 |

ACCOUNTS

Notes to the EPSRC's accounts continued

9. POSTGRADUATE AWARDS

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Collaborative Training Accounts | 44,851 | 42,755 |
| Doctoral Training Grants | 72,182 | 82,664 |
| Dorothy Hodgkin Postgraduate Awards | 4,984 | 4,549 |
| International Doctoral Scholarships | 179 | 542 |
| Centres for Doctoral Training | 61,887 | 57,136 |
| Roberts Skills Training | 0 | 13,777 |
| Other Awards | 1,405 | 2,405 |
| Total Expenditure on Postgraduate Awards | 185,488 | 203,828 |

EPSRC acts as a manager for the Dorothy Hodgkin Awards on behalf of Research Councils UK (RCUK). Funding toward Dorothy Hodgkin Awards is provided by the Research Councils and by industrial collaborators.

Roberts Skills Training is not an EPSRC Postgraduate Award; rather it is expenditure to deliver enhanced training for postgraduate and postdoctoral award holders. In 2011 a decision was made to embed this funding in future awards and consequently will not be separately identified.

10. RESEARCH FELLOWSHIPS

| | 2011-12 £000 | 2010-11 Restated £000 |
|--|-----------------|-----------------------------|
| Academic | 7,766 | 13,419 |
| Advanced | 7,397 | 11,246 |
| European Young Investigator (EURYI) | 57 | 418 |
| Post-Doctoral | 7,591 | 7,853 |
| Senior | 1,399 | 2,326 |
| Career Acceleration Fellowships | 16,338 | 8,783 |
| Leadership Fellowships | 12,997 | 10,479 |
| Other Fellowships | 2,280 | 2,148 |
| Total Expenditure on Research Fellowships | 55,825 | 56,672 |

ACCOUNTS

Notes to the EPSRC's accounts continued

11. STAFF NUMBERS AND RELATED COSTS

(a) Staff Costs

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Salaries and Wages | | |
| Permanent Staff | 8,001 | 8,994 |
| Agency Staff & Contract Personnel | 781 | 1,336 |
| Social Security Costs | 579 | 634 |
| Other Pension Costs | 1,993 | 2,143 |
| Council and Panel Members' Fees and Honoraria | 319 | 484 |
| Current Staff Costs | 11,673 | 13,591 |
| Net Early Retirement Costs | 620 | 60 |
| Total Expenditure on Staff Costs | 12,293 | 13,651 |

(b) Staff Numbers

Average numbers of full-time equivalent employees during the year

| | 2011-12 | 2010-11 |
|---|------------|------------|
| Senior Management | 37 | 43 |
| Managerial and Supervisory | 155 | 175 |
| Administrative Support | 42 | 56 |
| Average Number of Staff Employed | 234 | 274 |
| Contract Staff | 2 | 1 |
| Agency Staff | 0 | 14 |
| Total Average Number of Staff | 236 | 289 |

(c) Remuneration of Council and Panel Members

The total emoluments of the Chairperson, Mr John Armit, were £16,430 including taxable benefits (2010/11 £16,430).

The standard honorarium paid to Council members was £6,850 (2010/11 £6,850).

The standard daily attendance allowance paid to Panel members was £160 (2010/11 £160).

| | No | 2011-12 £000 | No | 2010-11 £000 |
|---|----|-----------------|----|-----------------|
| Council Members' Annual Honoraria: | 14 | 103 | 14 | 89 |
| Daily Attendance Fees paid to Panel Members | | 104 | | 135 |
| Social Security Costs | | 2 | | 9 |
| | | 209 | | 233 |
| Chairman's Emoluments | | 16 | | 16 |
| Total Expenditure on Council and Panel Members | | 225 | | 249 |

ACCOUNTS

Notes to the EPSRC's accounts continued

(d) Superannuation

The employees of the Council 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 have varied between 1.5% and 3.5% depending on scheme. However, from 1 April 2011-12 employee contribution rates have been increased and depending upon pensionable salary will range between 1.5% to 3.9% for the classic scheme and 3.55% to 5.95% for the other schemes.

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.

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 RCPS is an unfunded multi-employer defined benefit state scheme which is funded on a pay as you go basis. Contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period with future benefits being earned during the current period to be paid out of future contributions. In RCPS, EPSRC has no legal or constructive obligation to pay those future benefits. Its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of RCPS, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason RCPS is treated as a defined contribution plan as stated in IAS 19.

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".

ACCOUNTS

Notes to the EPSRC's accounts continued

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.

For 2011/12, employers contributions of £1,993k were payable to RCPS (2010/11: £2,143k) at 26.0% of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

(e) Compensation schemes and exit packages

During 2011-12 EPSRC conducted a voluntary exit scheme on voluntary redundancy terms

The following table sets out the details of the packages agreed. No such packages were agreed in 2010-11.

| Exit Package Cost Band | Number of voluntary Redundancies agreed |
|----------------------------|---|
| < £10,000 | 0 |
| £10,000 to £25,000 | 5 |
| £25,000 to £50,000 | 7 |
| £50,000 to £100,000 | 4 |
| £100,000 to £150,000 | 1 |
| Total Exit Packages agreed | 17 |

ACCOUNTS

Notes to the EPSRC's accounts continued

12. OTHER EXPENDITURE

| | 2011-12 £000 | 2010-11 £000 |
|--|-----------------|-----------------|
| Office Costs, Utilities and Services | 6,519 | 6,137 |
| Rent, Rates and Maintenance | 818 | 897 |
| Equipment and Supplies | 751 | 348 |
| Travel and Subsistence | 643 | 1,045 |
| Consultancies | 125 | 648 |
| Administration, subscriptions and bank charges | 116 | 131 |
| External Auditors' Remuneration | 75 | 120 |
| Write Offs and Recoveries | 29 | (571) |
| Non-Cash Items | | |
| Depreciation and Amortisation | 10,773 | 6,366 |
| Total Other Expenditure | 19,849 | 15,121 |

Audit fees for 2010-11 included £40k in respect of additional audit fees for 2009-10.

13. PROPERTY, PLANT AND EQUIPMENT

| | Land £000 | Buildings £000 | IT £000 | Plant & Machinery £000 | Furniture & Fittings £000 | Payments on Account and Assets under Construction £000 | Total £000 |
|--|--------------|-------------------|---------------|------------------------------|---------------------------------|--|---------------|
| Net Book Value at 1 April 2011 | 1,625 | 3,261 | 2,709 | 3,146 | 727 | 9,083 | 20,551 |
| Cost or Valuation at 1 April 2011 | 1,625 | 3,275 | 31,483 | 5,980 | 1,429 | 9,083 | 52,875 |
| Additions | - | - | 9,000 | - | - | 8,887 | 17,887 |
| Disposals | - | - | - | - | (47) | - | (47) |
| Reclassification | - | - | 9,006 | - | - | (9,006) | - |
| Revaluations | 45 | 92 | 101 | 162 | 37 | - | 437 |
| Transfers | - | - | - | - | - | (77) | (77) |
| At 31 March 2012 | 1,670 | 3,367 | 49,590 | 6,142 | 1,419 | 8,887 | 71,075 |
| Depreciation | | | | | | | |
| At 1 April 2011 | - | 14 | 28,774 | 2,834 | 702 | - | 32,324 |
| Charged in year | - | 115 | 9,704 | 501 | 148 | - | 10,468 |
| Disposals | - | - | - | - | (47) | - | (47) |
| Revaluations | - | 97 | 46 | 105 | 83 | - | 331 |
| At 31 March 2012 | - | 226 | 38,524 | 3,440 | 886 | - | 43,076 |
| Net book value at 31 March 2012 | 1,670 | 3,141 | 11,066 | 2,702 | 533 | 8,887 | 27,999 |
| Asset financing | | | | | | | |
| Owned | 1,670 | 3,141 | 11,066 | 2,702 | 533 | 8,887 | 27,999 |
| Leased | - | - | - | - | - | - | - |
| Net book value at 31 March 2012 | 1,670 | 3,141 | 11,066 | 2,702 | 533 | 8,887 | 27,999 |

ACCOUNTS

Notes to the EPSRC's accounts continued

These assets are funded solely from Grant-in-Aid

EPSRC currently has one asset in the course of construction which is the HECToR Supercomputing Facility. The asset under construction element of HECToR is £8.9M.

The last professional valuation of land and buildings was in March 2011, conducted by Powis Hughes and Associates, Chartered Surveyors. The basis of the valuation was Open Market Value for existing use. The valuation was made in accordance with RICS Appraisal and Valuation Manual or a named alternative. Between formal professional valuations appropriate indices are used.

| | Land £000 | Buildings £000 | IT £000 | Plant & Machinery £000 | Furniture & Fittings £000 | Payments on Account and Assets under Construction £000 | Total £000 |
|--|--------------|-------------------|---------------|------------------------------|---------------------------------|--|---------------|
| Cost or Valuation at 1 April 2010 | 2,349 | 3,500 | 30,955 | 6,139 | 1,305 | 12,761 | 57,009 |
| Reclassification | - | 1 | (71) | 92 | 10 | - | 32 |
| Additions | - | - | 3,293 | - | - | 781 | 4,074 |
| Disposals | - | - | - | (81) | (9) | - | (90) |
| Transfer to shares | - | - | - | - | - | (4,459) | (4,459) |
| Revaluations | (724) | (226) | (2,694) | (170) | 123 | - | (3,691) |
| At 31 March 2011 | 1,625 | 3,275 | 31,483 | 5,980 | 1,429 | 9,083 | 52,875 |
| Depreciation | | | | | | | |
| At 1 April 2010 | - | 8 | 24,488 | 3,646 | 458 | - | 28,600 |
| Reclassification | - | 1 | 1,208 | (1,177) | - | - | 32 |
| Charged in year | - | 113 | 6,408 | 305 | 224 | - | 7,050 |
| Disposals | - | - | - | (81) | (9) | - | (90) |
| Revaluations | - | (108) | (3,330) | 141 | 29 | - | (3,268) |
| At 31 March 2011 | - | 14 | 28,774 | 2,834 | 702 | - | 32,324 |
| Net book value at 31 March 2011 | 1,625 | 3,261 | 2,709 | 3,146 | 727 | 9,083 | 20,551 |

ACCOUNTS

Notes to the EPSRC's accounts continued

14. INTANGIBLE ASSETS

| | Software £000 | Licences £000 | Total £000 |
|--|------------------|------------------|---------------|
| Net Book Value at 1 April 2011 | 28 | - | 28 |
| Cost or valuation | | | |
| At 1 April 2011 | 179 | 49 | 228 |
| Revaluation | | | |
| At 31 March 2012 | 179 | 49 | 228 |
| Amortisation | | | |
| At 1 April 2011 | 151 | 49 | 200 |
| Charged in year | 26 | - | 26 |
| Revaluation | (4) | - | (4) |
| At 31 March 2012 | 173 | 49 | 222 |
| Net book value at 31 March 2012 | 6 | 0 | 6 |
| Cost or valuation | | | |
| At 1 April 2010 | 259 | 18 | 277 |
| Reclassification | (61) | 31 | (30) |
| Additions | - | - | - |
| Revaluation | (19) | - | (19) |
| At 31 March 2011 | 179 | 49 | 228 |
| Amortisation | | | |
| At 1 April 2010 | 186 | 18 | 204 |
| Reclassification | (61) | 31 | (30) |
| Charged in year | 5 | - | 5 |
| Revaluation | 21 | - | 21 |
| At 31 March 2011 | 151 | 49 | 200 |
| Net book value at 31 March 2011 | 28 | 0 | 28 |

15. INVESTMENT IN JOINT VENTURE

| | SSC "A" Shares £ | SSC "B" Shares £ | Total £ |
|--|------------------------|------------------------|------------------|
| At 1 April 2011 | 1 | 4,455,341 | 4,455,342 |
| Additions in year | - | - | - |
| Share in losses of joint ventures | - | (696,000) | (696,000) |
| Net book value at 31 March 2012 | 1 | 3,759,341 | 3,759,342 |
| At 1 April 2010 | 1 | 497,153 | 497,154 |
| Additions in year | - | 4,459,188 | 4,459,188 |
| Share in losses of joint ventures | - | (501,000) | (501,000) |
| Net book value at 31 March 2011 | 1 | 4,455,341 | 4,455,342 |

ACCOUNTS

Notes to the EPSRC's accounts continued

The EPSRC's share ownership in RCUK Shared Services Centre Limited (SSC Ltd) is one (2011 one,) "A" ordinary share of £1 and 5,110,148(2011 4,459,188) "B" shares of £1 each. The "A" shares carry a voting right per share. Each of the seven Research Councils is a joint investor in the project and each Council's individual share is 14.29%. The "B" shares convey ownership rights to the holder, including any distributions or proceeds from sale of the SSC Ltd. The "B" shares are apportioned in accordance with the agreed share of the implementation costs – EPSRC's allocation is therefore 8.24% (2011 8.24%).

The operating results, assets and liabilities of SSC Ltd have been equity accounted in the Group's Financial Statements in accordance with IAS 31. SSC Ltd has posted a loss for the year of £13.7M (unaudited) (2010-11 loss of £5.7M).

The Research Councils entered into a supplementary shareholders' agreement with the Secretary of State for Business, Innovation and Skills on 4 October 2011 to allot the Secretary of State for Business, Innovation and Skills one "A" ordinary share in the capital of RCUK SSC Ltd. This supplementary agreement confirmed the covenants of the original shareholders' agreement, signed 8 August 2007, remain extant. On that basis, there are no changes to control arrangements, and Councils retain the same level of investment in RCUK SSC Limited.

RCUK Shared Services Centre Limited (SSC) (registered in England, registration number 6330639). Place of business – North Star House, North Star Avenue, Swindon, SN2 1FF.

16. TRADE RECEIVABLES AND OTHER CURRENT ASSETS

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Amounts falling due within 1 year: | | |
| Trade receivables | 2,754 | 13,762 |
| Other Receivables | - | - |
| Prepayments | 5,486 | 49,096 |
| Accrued income | 7,962 | 3,675 |
| | 16,202 | 66,533 |

| | 2011-12 £000 | 2010-11 £000 |
|---------------------------------------|-----------------|-----------------|
| Analysis by Source: | | |
| Other Central Government Bodies | 9,420 | 48,280 |
| Public Corporations and Trading Funds | 5,231 | 18,253 |
| Bodies external to Government | 1,551 | - |
| | 16,202 | 66,533 |

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Analysis of the provision for doubtful debts: | | |
| Opening Balance | (60) | 0 |
| Charged to Statement of Comprehensive Net Expenditure | (9) | (60) |
| Utilised during the period | 69 | - |
| Closing Balance | - | (60) |

ACCOUNTS

Notes to the EPSRC's accounts continued

17. CASH AND CASH EQUIVALENTS

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Balance at 1 April | 4,081 | 4,242 |
| Net change in cash and cash equivalent balances | (563) | (161) |
| Balance at 31 March | 3,518 | 4,081 |

The following balances at 31 March 2012 were held at:

| | | |
|-----------------------------------|--------------|--------------|
| Government Banking Service | 3,148 | 2,458 |
| Commercial banks and cash in hand | 370 | 1,623 |
| Balance at 31 March | 3,518 | 4,081 |

18. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Amounts falling due within 1 year: | | |
| VAT | 4 | (2) |
| Trade Payables | 4,054 | 8,466 |
| Other Payables | - | 91 |
| Accruals | 78,779 | 108,405 |
| Deferred Income | 4,710 | 3,650 |
| | 87,547 | 120,610 |

| | 2011-12 £000 | 2010-11 £000 |
|---------------------------------------|-----------------|-----------------|
| Analysis by source | | |
| Other central government bodies | 11,989 | 8,294 |
| Public Corporations and Trading Funds | 71,521 | 112,316 |
| Bodies external to Government | 4,037 | - |
| | 87,547 | 120,610 |

19. PROVISIONS FOR LIABILITIES AND CHARGES

| | Severance Costs £000 | Total £000 |
|----------------------------------|-------------------------|---------------|
| Balance at 1 April 2011 | - | - |
| Increase in Provision | 672 | 672 |
| Payment/utilisation of provision | - | - |
| Decrease in Provision | - | - |
| Reduction in Provision | - | - |
| Net Movement in Provision | - | - |
| Balance at 31 March 2012 | 672 | 672 |

The provisions relate to the liability to pay redundancy payments as detailed in note 11(e).

ACCOUNTS

Notes to the EPSRC's accounts continued

20. CAPITAL COMMITMENTS

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Contracted capital commitments at 31 March for which no provision has been made | - | - |
| HECToR (Cray Inc/University of Edinburgh HPCX Ltd/National Algorithms Group) | 6,867 | 24,731 |
| Total | 6,867 | 24,731 |

Contractual commitments of £6.9M existed at 31 March 2012 with regard to the service provision of the supercomputer, HECToR. The value of the contractual commitments are for the whole of the remaining project and include service charges and computational engineering support. These costs are not capitalised as fixed assets, as they are written off in the year they are incurred.

21. COMMITMENTS UNDER LEASES

a) Operating leases

The total future minimum lease payments under operating leases are given in the table below for each of the following periods:

| | 2011-12 £000 | 2010-11 £000 |
|---|-----------------|-----------------|
| Obligations under operating leases comprise: | | |
| Buildings: | | |
| Not later than one year | - | 2 |
| Later than one year and not later than five years | - | - |
| Later than five years | - | - |
| | - | 2 |
| Other: | | |
| Not later than one year | 23 | 8 |
| Later than one year and not later than five years | 11 | 15 |
| Later than five years | - | - |
| | 34 | 23 |

b) Finance leases

The EPSRC has no obligations under finance leases.

ACCOUNTS

Notes to the EPSRC's accounts continued

22. OTHER FINANCIAL COMMITMENTS

The EPSRC estimates that the future costs to completion of research and training grants at 31 March 2012 are £1,846 million. The payments to which the EPSRC is committed during 2011/12, analysed by the period during which the commitment expires are as follows:

| | 2011-12 £000 | 2010-11 £000 |
|---|------------------|------------------|
| Not later than one year | 702,921 | 703,481 |
| Later than one year and not later than five years | 1,118,973 | 1,225,235 |
| Later than five years | 24,915 | 49,260 |
| Total financial commitments | 1,846,809 | 1,977,976 |

23. CONTINGENT LIABILITIES

The EPSRC had no contingent liabilities as at 31 March 2012.

24. RELATED-PARTY TRANSACTIONS

EPSRC is a Non Departmental Public Body sponsored by the Department for Business, Innovation and Skills (BIS). It complies with the International Accounting Standard on Related Party Transactions (IAS 24) as amended for Central Government use by HM Treasury.

For the purpose of IAS 24, BIS and its partner organisations are regarded as related parties. During the year, EPSRC had various material transactions with BIS and other bodies for which BIS is regarded as the parent department as listed below. In addition, EPSRC had material transactions with other Government Departments as listed below.

| BIS Group | 2011-12 Transactions £000 | 2011-12 outstanding balance £000 |
|---|------------------------------|-------------------------------------|
| Business Innovation and Skills | (804,000) | - |
| Arts and Humanities Research Council | 370 | (342) |
| Biotechnology and Biosciences Research Council | (2,154) | 646 |
| Economic and Social Research Council | 598 | 288 |
| Higher Education Funding Council | (399) | 179 |
| Medical Research Council | (204) | (584) |
| Natural Environment Research Council | (215) | (1,661) |
| Shared Services Centre | 4,217 | (71) |
| Science and Technology Research Council | 2,073 | 770 |
| Technology Strategy Board | (375) | (242) |
| UK Atomic Energy Authority | 30,380 | - |
| UK Space Agency | (36) | 2 |

| Other Central Government | 2011-12 Transactions £000 | 2011-12 outstanding balance £000 |
|--|------------------------------|-------------------------------------|
| Research Council Pension Scheme | 2,198 | - |
| Defence Science and Technology Laboratory | 3,303 | - |

During the year EPSRC announced the following grants to organisations in respect of proposals from members of EPSRC Council:

ACCOUNTS

Notes to the EPSRC's accounts continued

| Organisation | Proposer | Grant Reference | Value £000 |
|-------------------------|---------------------|-----------------|------------|
| University of Cambridge | Professor L Gladden | EP/J501438/1 | 1,229 |
| | | EP/J016209/1 | 449 |
| | | EP/K503496/1 | 1,663 |

The relevant Council members were not involved in the approval of these grants.

During the year EPSRC announced the following grants to organisations in respect of proposals from members of EPSRC Council:

| Organisation | Research Grants No. | Research Grants £000 | Postgraduate Awards No. | Postgraduate Awards £000 | Research Fellowships No. | Research Fellowships £000 |
|-----------------------------|---------------------|----------------------|-------------------------|--------------------------|--------------------------|---------------------------|
| University of Cambridge | 48 | 19,966 | 2 | 7,983 | 4 | 3,387 |
| Cranfield University | 3 | 1,150 | 2 | 628 | 1 | 777 |
| University of Exeter | 16 | 5,674 | 2 | 856 | 4 | 3,966 |
| Imperial College London | 51 | 46,756 | 2 | 9,573 | 12 | 8,636 |
| University of Glasgow | 24 | 9,389 | 2 | 2,564 | 1 | 961 |
| Sheffield Hallam University | 2 | 379 | - | - | - | - |
| University of Surrey | 8 | 2,185 | 2 | 1,582 | - | - |

No Council member was involved in the approval of grants or awards to the organisation where he/she is a member of staff.

During the year EPSRC announced the following grant to individuals with connections to the EPSRC executive team:

| Organisation | Proposer | Grant Reference | Value £000 |
|----------------------|-----------------------|-----------------|------------|
| University of Oxford | Professor II Thompson | EP/K502376/1 | 219 |

ACCOUNTS

Notes to the EPSRC's accounts continued

EPSRC operates a process of peer review of proposals for research grants, as part of which "Colleges", panels formed of senior members of the academic and industrial communities, evaluate grant proposals for the quality and importance of the research area and then propose a ranking for funding. EPSRC receives their recommendations but is not bound by them, taking as it does other significant factors into account, such as the availability of funds and Government policy. These panel members are not therefore regarded as Related Parties within the context of IAS 24.

EPSRC has adopted a Code of Practice for all those who assist the work of the Council, which embraces the "Seven Principles of Public Life" drawn up by the Nolan Committee and endorsed by Parliament. This is designed to remove any staff member from any decision-making process under which he/she or any of his/her close family may benefit.

During the year, EPSRC identified those members of staff who could be regarded as being in positions of financial influence, and required a declaration from each of any financial transactions with EPSRC under which the staff member or a member of his/her immediate family was in receipt of a significant amount of money from EPSRC, and where the staff member was able to exercise any influence over the transaction.

Such a declaration was also required from members of Council, the Resource Audit Committee, and Strategic Advisory teams. A Council Members' Register of Interests is available for viewing on EPSRC's website.

25. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

As the cash requirements of EPSRC are met through Grant-in-Aid provided by the Department for Business, Innovation and Skills, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with EPSRC's expected purchase and usage requirements and therefore EPSRC is exposed to little credit, liquidity or market risk.

26. LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments that need to be reported.

27. EVENTS AFTER THE REPORTING PERIOD

IAS 10 Events after the reporting period, require the disclosure of the date on which the financial statements were "authorised for issue" and who gave that authorisation. There were no significant events between the Statement of Financial Position date and July 5 2012 the date when the Accounting Officer authorised the Accounts. The Financial Statements do not reflect events after this date.

Feedback

We welcome feedback on all our publications.
Comments on this Annual Report should be sent to:

Andrew Lewis

Associate Director, Operations
EPSRC
Polaris House
North Star Avenue
Swindon SN2 1ET
T: 01793 444031
F: 01793 444221
E: andrew.lewis@epsrc.ac.uk

Contact us:

EPSRC
Polaris House
North Star Avenue
Swindon SN2 1ET
T: 01793 444100
E: infoline@epsrc.ac.uk
www.epsrc.ac.uk

Research Councils UK

T: 01793 444420
E: info@rcuk.ac.uk
www.rcuk.ac.uk



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