

Research Councils' Pension Schemes Accounts 2013-14

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Presented to Parliament pursuant to Schedule 1, paragraph 3(3) of the Science and Technology Act 1965

Ordered by the House of Commons to be printed on 16th July 2014

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This publication is available at <https://www.gov.uk/government/publications>

Print ISBN 9781474103114

Web ISBN 9781474103121

Printed in the UK for the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 06051403 07/14

Printed on paper containing 75% recycled fibre content minimum

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Report of the Manager

Statutory Background

- 1 The Research Councils' Pension Schemes' (RCPS) statements have been prepared in accordance with the relevant provisions of the 2013-14 Government Financial Reporting Manual (FReM) (www.financial-reporting.gov.uk) issued by HM Treasury and with regard to the Science & Technology Act 1965.
- 2 The RCPS is an unfunded pension scheme, in which payments from the Schemes are funded by current employees' and employers' pension scheme contributions with the difference between these contributions and Scheme expenditure financed by Grant-in-Aid provided from Department for Business, Innovation and Skills.

Description of Pension Schemes

- 3 The Nuvos scheme commenced on 30 July 2007. This is a career average pension scheme, which together with the Partnership Pension Account, forms the pension options open to 'new starters' since 30 July 2007. However, members who have a past history of membership of the Classic, Classic Plus or Premium schemes may be allowed to rejoin their former arrangement depending on the time that has lapsed since they left their former employment and the terms that they left under.
- 4 The Nuvos scheme has a pension age of 65 and an accrual rate of 2.3 percent of pensionable earnings for each year in the scheme. The total pension accrued at the end of March is then increased by the Consumer Price Index for the year to the previous September.
- 5 A Partnership Pension Account was made available to new staff from 1 October 2002, based on the portable Stakeholder Pension introduced by the Government in 2001. This is a defined contribution scheme. The employers pay the RCPS 0.8 percent of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the Principal Civil Service Pension Scheme (PCSPS). New starters were eligible to join the Premium scheme from 1 October 2002 until 29 July 2007. It provides a pension based on 1/60th of salary but without an automatic lump sum. Members joining from 1 April 1994 until 30 September 2002 entered what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. The Classic member contribution rate is 2 per cent lower than that of the Premium Scheme as a consequence of fewer benefits. Some members are in an amalgam of the two schemes known as Classic Plus.
- 7 Each public service pension scheme, with the exception of the armed forces, has been required to deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions by 2014-15. As a consequence, the contributions paid by most members towards their Research Council pension increased on 1 April 2012 and 1 April 2013. A further increase will be applied from 1 April 2014.
- 8 The extra amounts paid have been set according to the member's salary. Members have paid more towards their pension from 1 April 2012 if their pensionable earnings (salary and pensionable allowances) each year were more than £15,000 on a full-time equivalent basis.
- 9 Following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules the Research Councils' Pension Schemes (RCPS) 'by-analogy' arrangement has resulted in increased employee contribution rates from the 1 April 2012 as set out below.

Classic Scheme

Annual pensionable earnings (full-time equivalent basis)	Classic contribution rate before tax relief as at 1 April 2012	New 1 April 2013 contribution rate before tax relief
Up to £15,000	1.50	1.50
£15,001 – £21,000	2.10	2.70
£21,001 – £30,000	2.70	3.88
£30,001 – £50,000	3.10	4.67
£50,001 – £60,000	3.50	5.46
Over £60,000	3.90	6.25

Premium, nuvos and classic plus

Annual pensionable earnings (full-time equivalent basis)	Premium, nuvos and classic plus contribution rate before tax relief as at 1 April 2012	New 1 April 2013 contribution rate before tax relief
Up to £15,000	3.50	3.50
£15,001 – £21,000	4.10	4.70
£21,001 – £30,000	4.70	5.88
£30,001 – £50,000	5.10	6.67
£50,001 – £60,000	5.50	7.46
Over £60,000	5.90	8.25

- 10 The final emolument and career average schemes are operated on a pay-as-you-go basis, and are principally funded by employers' contributions from member Research Councils. The employers' contribution rate has been 26.0 percent since 1 April 2010. The previous rate of 21.3 percent was payable from 1 April 2008 until 31 March 2010. Any annual shortfall forecast between cash outgoings and cash contribution received is met by grant-in-aid received through the Research Councils' sponsoring body, the Department for Business, Innovation and Skills (BIS).

Eligible Staff

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

Information for Members

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

Accounting Officer

- 13 Professor Jackie Hunter was appointed Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) on 21 October 2013, becoming Accounting Officer for BBSRC and for the Research Councils' Pensions Schemes. Prior to that, Professor Douglas Kell was the Chief Executive of BBSRC and Accounting Officer for BBSRC and RCPS.

Administrators

- 14 The Schemes are administered by the Research Councils' Joint Superannuation Service (JSS), a unit within BBSRC. The UK Shared Business Services Ltd (SBS) provides support services to JSS.

Actuaries

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

Bankers

- 16 Banking services for the Pension Schemes in 2013-14 were provided by the Government Banking Service.

Auditors

- 17 The accounts of the Research Councils' Pension Schemes are audited by the Comptroller and Auditor General of the National Audit Office in accordance with paragraph 3(3) of Schedule 1 to the Science and Technology Act 1965. The audit fee payable is £43,000 (2012-13: £43,000).
- 18 In so far as the Accounting Officer is aware, there is no relevant audit information of which the Research Councils' Pension Schemes' auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.
- 19 No non-audit was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

Employers

- 20 During 2013-14 the following employers have had members in the Research Councils' Pension Schemes:

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

Changes during 2013-14

- 21 From 1 April 2010, 152 members of the University of Southampton staff were transferred to the Natural Environment Research Council (NERC) and became members of the Research Councils' Pension Schemes following a 'Transfer of Undertakings Protection of Employment (TUPE)'. The staff members that were formerly in the Pension and Assurance Scheme for Non Academic Staff have been dealt with on an individual basis. Former members of the Universities Superannuation Scheme were given the opportunity to Bulk Transfer their accrued benefits into the Research Councils' Pension Schemes and 49 members chose to transfer their Universities Superannuation Scheme benefits. The results of the Bulk Transfer have been included in the 2013-14 RCPS accounts.
- 22 The UK Shared Business Services Ltd (SBS), formerly named the RCUK Shared Services Centre Ltd (SSC), provides transactional services to the Research Councils' Pension Schemes. HR and Payroll sections of the Research Councils had previously been responsible for providing the JSS with the necessary data to administer the Research Councils' Pension Schemes. The SBS is now responsible for providing JSS with data for approximately 70% of the active members of the Research Councils' Pensions Schemes. The costs of setting up the SBS were not incurred by the Research Councils' Pensions Schemes.
- 23 During 2011-12, the reorganisation of the governance arrangements between BBSRC and its strategically funded institutes was completed. From the point of completion, no new recruits to the institutes, with the exception of the Pirbright Institute (previously named the Institute for Animal Health), are eligible for entry into the Research Councils Pension Scheme.
- 24 There has been no change to the employer contribution rate but following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules new variable employee rates were introduced from April 2012 and April 2013 as detailed in paragraph 9 above.
- 25 Employer legislation to require 'Auto Enrolment' into a qualifying 'Workplace Pension Scheme' commenced from October 2012. Although the date the legislation bites is dependent on the size of the employer, with larger employers affected first, followed by medium and small sized employers over the next six years, the Research Councils' Pension Schemes employers, with the exception of Scotland's Rural College, agreed to adopt the same single 'Staging Date' of 1 July 2013.
- 26 All existing scheme members on 30 June 2013 were sent a letter, under the terms of the legislation, advising them of the new legislation but confirming that as scheme members they would be unaffected. Additionally, all employees eligible to join the Research Councils' Pension Schemes that were not members on 30 June 2013 were sent a letter advising them that they had been auto entered into the scheme on 1 July 2013. All members retain the ability to 'opt out' of the scheme should they so wish.
- 27 Employees not eligible to join the Research Councils' Pension Schemes as at 30th June 2013, that were required to be auto enrolled in a 'Workplace Pension Scheme', were auto entered into the National Employment Savings Trust (NEST) and are not therefore included in these accounts.

Review of the financial statements

- 28 For the year ended 31 March 2014 there was an overall position of combined net expenditure of £139.8 million compared to net expenditure of £145.7 million for the year ended 31 March 2013. The decrease in net expenditure is due to an increase in income from contributions, transfers in and bulk transfers in. The increase is then set off against higher pension costs and the additional liability from transfers in.
- 29 Income was £105.6 million in 2013-14 compared to £88.6 million for 2012-13. There was a bulk transfer in of £6.7 million in 2013-14 for NERC (no bulk transfer in 2012-13). There is also an increase in income due to an increase in pension contributions from £84.0 million in 2012-13 to £92.2 million in 2013-14 due to the increase in percentage payable by employees from 1 April 2013 and increase in membership.

- 30 In 2013-14 the pension liability rose by £330.0 million from £3.54 billion to £3.87 billion mainly due to actuarial losses of £221.0 million, interest on scheme liabilities of £144.0 million, current service cost of £84.0 million and payments out for pensions of £132.6 million. A full breakdown of the movement in pension liability can be found in note 16.11 to the accounts.

Anticipated changes during 2014-15

- 31 Increases to the employee contribution rates as detailed below apply from 1 April 2014. Employer contribution rates are unaffected.

Annual Pensionable Earnings (full-time equivalent basis)	classic scheme		premium, classic plus and nuvos	
	Current contribution rate %	New 2014 contributions %	Current contribution rate %	New 2014 contributions %
Up to £15,000	1.50	1.50	3.50	3.50
£15,001 – £21,000	2.70	3.00	4.70	5.00
£21,001 – £30,000	3.88	4.48	5.88	6.48
£30,001 – £50,000	4.67	5.27	6.67	7.27
£50,001 – £60,000	5.46	6.06	7.46	8.06
Over £60,000	6.25	6.85	8.25	8.85

- 32 Formal actuarial valuations are used to determine employer and employee contribution rates. The last actuarial evaluation undertaken for the RCPS, as at 31 March 2006, was completed in 2008-09. Subsequently, an actuarial valuation as at 31 March 2010 was initiated but was not completed before valuations for unfunded public service pension schemes were suspended by HM Treasury while future scheme terms were being developed as part of the reforms to public service pension provision. HM Treasury have issued the Government Actuary's Department (GAD), the RCPS scheme actuary, with directions for calculating public service pension scheme valuations as at 31 March 2012. Any resulting employer contribution changes from the valuation are likely to apply from 1 April 2015.
- 33 Under the Public Services Pension Act 2013 a new Civil Service Pension Scheme is to be launched in April 2015; this will affect the RCPS because of its by-analogy arrangement to the PCSPS. Dependant on HM Treasury approval the RCPS may close to new accruals in April 2015 with members that have more than 10 years to scheme pension age being moved to the 2015 New Civil Service Pension Scheme on or after April 2015.

Freestanding Additional Voluntary Contributions

- 34 Members in service are entitled to make additional voluntary contributions (AVCs) under contracts between the employee and Scottish Widows, Equitable Life Assurance Society and Standard Life, to secure additional pension benefits on a money purchase basis. Participating members each receive an annual statement of their contributions and investments directly from their AVC provider. The AVC arrangements are by analogy to those of the Principal Civil Service Pension Schemes. Employee contributions are paid directly by the participating Research Council and accordingly contributions and AVC investments are not included in these accounts.

Pension Scheme Membership

	31 March 2014	31 March 2013
	No.	No.
New Schemes		
Current members in Service	8,184	7,980
Pensions in Payment	7,643	7,209
Early Retirements	194	266
Preserved Pensions	7,961	7,932
Total	<u>23,982</u>	<u>23,387</u>
Old Schemes		
Pensions in Payment	5,178	5,256
Preserved Pensions	1,439	1,568
Total	<u>6,617</u>	<u>6,824</u>
GRAND TOTAL	<u>30,599</u>	<u>30,211</u>
	2013-14	2012-13
	No.	No.
Members in Service at 1 April	7,980	7,822
Adjustment resulting from changes notified in current year	(2)	139
Adjusted figure for 1 April	7,978	7,961
New members in year	1,061	863
Leavers and retirements in year	(855)	(844)
Members in Service at 31 March	<u>8,184</u>	<u>7,980</u>
	31 March 2014	31 March 2013
	No.	No.
Classic Scheme	2,790	3,002
Classic Plus Scheme	254	265
Premium Scheme	1,878	2,005
Nuvos Scheme	3,262	2,708
Members in Service at 31 March	<u>8,184</u>	<u>7,980</u>
Holders of Partnership Pension Accounts	<u>126</u>	<u>120</u>

Enquiries

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

Managers, Advisers and Employers

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Government Banking Service,
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Comptroller and Auditor General
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Employers:

AHRC, ESRC and EPSRC – Peter Ethelson
BBSRC – Janet Juillerat
NERC – Steve Allsop
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Polaris House, North Star Avenue, Swindon, SN2 1UY

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Scottish Institutes – Alison Cartwright
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Professor Jackie Hunter
Chief Executive and Accounting Officer of BBSRC

23 June 2014

Actuarial Statement for the Research Councils' Pension Schemes for accounts for the year ended 31 March 2014

Statement by the Actuary

Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Research Council Pension Scheme's Management Board ('the Management Board'). It summarises the pensions disclosures required for the 2013-14 Resource Accounts of the Research Council Pension Scheme ('the scheme', or 'RCPS').

The RCPS is a final salary and/or career average salary defined benefit scheme, with benefits calculated by analogy to the Principal Civil Service Pension Scheme. The PCSPS rules were laid before Parliament under the provisions of section 2(11) of The Superannuation Act 1972. These rules, and subsequent amendments, set out the rules of the PCSPS, to which RCPS operates by analogy. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

The statement is based on an assessment of the liabilities as at 31 March 2014, using membership data as at 31 March 2012.

Membership data

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

Table A – Active members

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

* Full time equivalent as at 31 March 2012, but including assumed increased to pensionable pay to the assessment date as advised by JSS, and including pensionable allowances

Table B – Deferred members

	Number	Open Scheme Total deferred pension* (£'000 pa)	Number	Closed Schemes Total deferred pension* (£'000 pa)
Males	4,071	18,004	861	1,434
Females	3,988	11,442	838	1,291
Total	8,059	29,445	1,699	2,725

* pension amounts as at 31 March 2012; therefore not including pension increase due in April 2012

Table C – Pensions in payment

	Open Scheme		Closed Schemes	
	Number	Annual pension (£'000 pa)	Number	Annual pension (£'000 pa)
Males	3,842	54,590	2,536	22,608
Females	2,290	11,604	1,578	4,983
Spouses & dependants	696	3,464	1,181	4,958
Total	<u>6,828</u>	<u>69,658</u>	<u>5,295</u>	<u>32,549</u>

* pension amounts as at 31 March 2012; therefore not including pension increase due in April 2012

Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members of the final salary sections, and the principal assumptions applying to the 2013-14 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2014 was determined using the PUCM and the principal assumptions applying to the 2012-13 Resource Accounts.

This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Principal financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2014	31 March 2013
Rate of return (discount rate)	4.35%	4.10%
Rate of earnings increases	4.50%	3.95%
Rate of future pension increases	2.50%	1.70%
Rate of return in excess of:		
Earnings increases	-0.15%	0.15%
Pension increases (CPI)	1.80%	2.35%
Expected return on assets:	n/a	n/a

The pension increase assumption as at 31 March 2014 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

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

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

The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with the mortality rates applicable for two years of age older than members' actual age for female members not in ill-health. Mortality improvements are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom. Heavier baseline mortality assumptions are adopted for members in ill-health.

The other demographic assumptions adopted for the assessment of the liabilities as at 31 March 2014 are broadly those adopted for the 2006 funding valuation of the RCPS with the exception of age retirement rates discussed in below and rates of remarriage which have been ignored on the grounds of materiality.

We have assumed that the reforms to the PCSPS due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 will also apply to the RCPS and may affect the behaviour of members, eg members subject to a later normal pension age for accrual after 2015 might be expected to retire later. The Management Board has revised age retirement rates to reflect recent experience and made allowance in the age retirement rates for members who are expected to transfer to the new scheme on or after 1 April 2015 for the purposes of the 2013-14 Resource Accounts.

The contribution rate used to determine the accruing cost in 2013-14 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2012-13 Resource Accounts.

Liabilities

Table E summarises the assessed value as at 31 March 2014 of benefits accrued under the scheme prior to 31 March 2014 based on the data, methodology and assumptions described in paragraphs above. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ million

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	3,864	3,539	3,195	3,031	3,498
Surplus/(Deficit)	(3,864)	(3,539)	(3,195)	(3,031)	(3,498)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

The cost of benefits accruing in the year ended 31 March 2014 (the Current Service Cost) is based on a standard contribution rate of 30.6%. Members contributed between 1.5% and 8.25% of pensionable pay, depending on the section of the scheme they belong to and their full-time salary. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members. The corresponding figures for 2012-13 are also included in the table.

Table F – Contribution rate

	Percentage of pensionable pay	
	1 April 2013 to 31 March 2014	1 April 2012 to 31 March 2013
Standard contribution rate	30.6%	27.1%
Members' estimated average contribution rate	5.9%	4.2%
Employers' estimated share of standard contribution rate	24.7%	22.9%

For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 26.0%, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 2.35% for the 2013-14 Current Service Cost compared with 3.5% a year for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% a year, but this does not affect the current rate of contributions in payment.) A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

The estimated pensionable payroll for the financial year 2013-14 was £275 million (derived from the total Employer contributions of £71.5 million provided within the cashflow data and the actual Employer contribution rate of 26.0%). Based on this information, the accruing cost of pensions in 2013-14 (at 30.6% of pay) is assessed to be £84 million (including employee normal contributions). There is no past service cost and so this is the total pension cost for 2013-14.

Sensitivity analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2014 of changes to the significant actuarial assumptions.

Changes to IAS19 published on 16 June 2011 introduced enhanced disclosure requirements for defined benefit pension schemes, including RCPS. In particular, we understand these include a requirement to disclose a sensitivity analysis for each 'significant' actuarial assumption.

The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

As a result of the scheme reform, there is significant uncertainty on when members are expected to retire. The assumed age retirement rates will have a significant impact on the scheme liabilities and therefore we have included an indication of the approximate effect (on the total past service liability) of all non-Nuvos members retiring one year later than assumed in the main liability calculations.

Table G shows the indicative effects on the total liability as at 31 March 2014 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to main assumptions

Change in assumption			Approximate effect on total liability *	
Rate of return				
(i)	discount rate:	+½% a year	- 8.5%	- £330 million
(ii)	earnings increases:	+½% a year	+ 2.0%	+ £75 million
(iii)	pension increases:	+½% a year	+ 7.5%	+ £290 million
Pensioner mortality				
(iv)	additional one year increase to life expectancy at retirement:		+ 3.0%	+ £115 million
Age Retirement				
(v)	all non-Nuvos actives retiring (on average) 1 year later		- 0.5%	- £20 million

* Approximate effect rounded to the nearest ½%.

Statement of Accounting Officer's Responsibilities

Under the Science and Technology Act 1965, the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury has directed the Research Councils' Pension Schemes to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The combined financial statements must give a true and fair view of the state of affairs of the Schemes at the year end and of the net income or expenditure and cashflows for the year ended 31 March 2014. The financial statements are required to provide disclosure of any material expenditure or income that has been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. The financial statements must be prepared so as to ensure that the contributions payable to the Schemes during the year have been paid in accordance with the Schemes rules and recommendations of the Actuary.

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

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

The Accounting Officer for the Department for Business, Innovation and Skills has appointed the Chief Executive of the Biotechnology and Biological Sciences Research Council as Accounting Officer for the Research Councils' Pension Schemes. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in '*Managing Public Money*'.

Governance Statement by Chief Executive

Scope of Responsibility

As the Accounting Officer for BBSRC and RCPS, designated as such by the Department for Business, Innovation and Skills (BIS) Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the RCPS' policies, aims and objectives, while safeguarding the public funds and RCPS' assets for which I am personally responsible, in accordance with the duties assigned to me and disclosed in '*Managing Public Money*'. I ensure that RCPS has a robust governance structure which transmits, delegates, implements and enforces decisions. I am responsible for the management of opportunity and risk to achieve the right balance commensurate with RCPS' business and risk appetite.

As the Accounting Officer for BBSRC and RCPS I ensure that all decisions made are legal and comply with the Corporate Governance Framework and the relevant aspects of the Corporate Governance Code.

The BIS Accounting Officer has designated me as the Accounting Officer of RCPS, responsible for the effective, safe and efficient operation of the RCPS in accordance with the Management Statement and Financial Memorandum agreed between RCPS and its sponsoring department, the Department for Business, Innovation and Skills (BIS).

During the accounting period, there was a change of Accounting Officer – Professor Douglas Kell was the Accounting Officer until October 2013, after which I assumed Accounting Officer responsibility.

RCPS, together with the Research Councils, is reliant on the UK Shared Business Services Ltd (UK SBS), formerly called the RCUK Shared Services Centre (SSC), for the provision of administration systems and this statement also explains the oversight and assurance process and results for the services supplied.

The Purpose of the Governance Statement

The Governance statement, for which I take personal responsibility, gives a clear understanding of the dynamics of the RCPS and its control structure. It records the stewardship of the organisation, and provides an overview of how successfully the organisation has coped with the challenge it faces.

Governance Framework

In my role as Accounting Officer for BBSRC and RCPS, I am supported by BBSRC's Council, its Boards, and the Executive team within BBSRC. Further information about BBSRC's governance framework can be found in the BBSRC Annual Report & Accounts 2013-14 (www.bbsrc.ac.uk/annualreport) and on the BBSRC website (www.bbsrc.ac.uk).

RCPS Management Board

The RCPS Management Board act as managers of the Scheme, are responsible for ensuring the Scheme rules are adhered, ensure that the Scheme is operated according to legislation, and is administered efficiently and effectively.

The RCPS Management Board met four times during 2013-14 and comprises the following members:

- Peter Ethelson – AHRC, ESRC, and EPSRC
- Janet Jullierat – BBSRC
- Steve Allsop – NERC
- Jerry Snewin – STFC
- Jack Markiewicz – UKSBS
- Ann Shaw – Technology Strategy Board
- Deepak Kalia – Diamond Light Source
- Alison Cartwright – Scottish Institutes

Joint Superannuation Services

RCPS is administered by the Joint Superannuation Services (JSS), which operates as a unit within BBSRC. Therefore control and audit issues facing BBSRC are likely to be of relevance to RCPS.

System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of RCPS' policies, aims and objectives, to evaluate the likelihood of those risks being realised and realising their impact only then, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the RCPS for the year ended 31 March 2014 and up to the date of approval of the annual accounts, and accords with HM Treasury guidance.

The Risk and Control Framework

Overall responsibility for risk management within RCPS rests with me as Accounting Officer. I sign this annual Governance Statement as part of the RCPS audited Annual Accounts. The task of implementing and maintaining BBSRC's and RCPS' overall risk management policy and strategy is delegated to the BBSRC Executive Director of Finance who fulfils the role of the Director responsible for risk. The task of reviewing the RCPS risk management framework is delegated to the Head of Joint Superannuation Services (JSS).

The Head of JSS undertakes a review of the Risk Management Framework three or four times per year. Additionally, a member of the RCPS Management Board will act on behalf of the Board to consider the outcomes of the reviews and endorse any mid-year changes to the Risk Management Framework, which are then advised to the Board. The RCPS Management Board formally considers and agrees the Risk Management Framework documents on an annual basis.

The Audit and Assurance Services Group (AASG) reviews the key risks to the RCPS on an annual basis. A rolling 5 year audit plan is followed to allow for a comprehensive review of the RCPS. The AASG also undertakes a programme of internal audits for BBSRC and all UKSBS clients. The findings of these audits are of relevance to RCPS and are described later in this statement.

BBSRC and RCPS actively encourage a culture of effective risk management. This recognises that effective risk management is an essential component of successful business operations, rather than simple risk avoidance.

BBSRC and RCPS adopt HM Treasury best practice on corporate governance and risk management. Risk management and internal control are considered on a regular basis by the BBSRC Executive and Audit Board during the year. The BBSRC Audit Board also reviews the annual accounts of the RCPS.

The activities of the Audit and Assurance Services Group (AASG) in respect of RCPS are reviewed by Audit Board and the scope of the internal audit plan for the coming year, which is based on the overall assessment of risk, is agreed. With this overarching view of audit activities, the Audit Board plays a pivotal role in evaluating and reviewing the evidence supporting the Chief Executive's assurance statement on internal control.

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

Risk Assessment

RCPS management identifies key risks and the possible threats/opportunities should these risks crystallise. It assesses the probability, impact and proximity, and considers the inherent, current and target exposure levels. Existing controls and mitigation plans are noted alongside an indication of the current trajectory of the risk in the RCPS Risk Register. If risks materialise, they are transferred to the RCPS Issues Register, which is managed alongside the RCPS Risk Register.

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

As at 31 March 2014, the Register had 10 risks which had been agreed and were being monitored. Of the 10 risks, three risks were rated with a red current risk score. The successful delivery of mitigations plans will reduce this exposure to two risks with a red residual risk score.

The two red residual risks related to: (i) the impact on RCPS of the introduction of a new scheme in 2015 in terms of resource impact for JSS and potential loss of reputation resulting from any delays in processing by JSS; and (ii) the impact on RCPS of the Government's Pension Reform. Other risks relate to: loss of key staff resulting in inability to deliver services; JSS not being advised of new starters or leavers leading to inaccuracies in the JSS database and potential reputational impact.

New Risk Management System

As part of the on-going process of improving and further embedding risk management within BBSRC and RCPS a New Risk Management System (NRMS) is being introduced. This is being rolled out throughout BBSRC, starting in March 2014. RCPS will have the opportunity to amalgamate the RCPS Risk Register into the new risk system, or transfer the most significant risks onto the BBSRC system.

Counter Fraud

There were no instances of fraud identified within the RCPS during 2013-14. In March 2014, BBSRC introduced a Counter Fraud e-learning package throughout the organisation, which is mandatory for all BBSRC and JSS staff.

UK SBS Ltd has provided me with assurance over the necessary controls in place regarding protection against fraud. Necessary improvements to control frameworks are on-going. UK SBS is not aware of any fraud or suspected fraud affecting RCPS.

I consider the level of risk of financial loss to which the RCPS has been exposed to be low and I am confident that the RCPS financial statements for 2013-14 are free from material misstatement from fraud.

Regularity

I can confirm that for the financial year ended 31 March 2014, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that HM Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2013-14.

Significant Audit Findings

Seven core audits were carried out in BBSRC - which included JSS as an operating unit within BBSRC - and all received substantial assurance. No significant control weaknesses were identified that should be disclosed in the governance statement.

AASG carried out 20 cross-client audits, of which 20% [4] were advisory and (55%) [11] received substantial assurance. 25% [5] cross council audits received an overall rating of limited assurance: RCUK Governance, Risk Management and Control; Business Continuity Planning; External IT Service Providers; IS/IT Strategy; and Critical Systems Assurance. No significant control weaknesses were identified that should be disclosed in the governance statement.

Results from the UKSBS work confirm that the controls operating across end-to-end processes have continued to improve. 100% [14] of the processes examined in 2013-14 received substantial assurance, compared to 86% [12] in 2012-13. However, not all material improvements have been made to the system of internal control to ensure that system objectives are achieved and the control and risk management frameworks need improving in the following areas:

- There are quality shortfalls in the master data that supports the purchase to Pay and Order to Cash processes;
- Across the client-base, non-compliance with some iExpenses processes remain high (e.g. in Q3 10% of expense claims examined were not properly receipted).

The Controls and Security Framework (CSF) that underpins the end-to-end processes is 50% substantially assured. 50% [3] of the areas within the CSF audits completed in 2013-14 received limited assurance: Change Control; Master Data Maintenance; and Database Security and Control. Action plans and monitoring are now in place at UK SBS to address issues raised within the CSF audits.

There is one significant control weakness remaining open at the year-end:

- The Centre does not have disaster recovery arrangements covering all information systems and the arrangements that are in place have not been tested.

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

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance, risk management and system of internal control. My review is informed by the work of the internal auditors, and the executive managers within the Research Councils' Pension Schemes and the Research Councils who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The principle elements of support for the Accounting Officer's assurance statement are the work of the RCPS Management Board, the BBSRC Executive, the BBSRC Audit Board, including review of the work of AASG, the risk management frameworks developed and responses to external management letters which identify if control gaps exist.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Research Councils' Pension Schemes Management Board and the BBSRC Audit Board and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

During 2013-14 and 2012-13 there were no personal data incidents.

There are still significant issues relating to UK SBS Ltd which require close scrutiny going forwards:

- UK SBS Ltd service delivery – RCPS continues to work closely with UK SBS Ltd to achieve stabilisation. In line with Government directives, there is a need for UK SBS Ltd to develop a wider client base to realise the full benefits to be derived from bulk transactional processing. I remain concerned by the risk associated with this growth; that the priorities for UK SBS Ltd introduced by new clients may divert resources away from service improvement and benefit delivery for existing clients. BBSRC and RCPS will continue to work collaboratively with other clients to monitor and engage with UK SBS Ltd to achieve a reliable service.
- UK SBS Ltd technical platform - there is a separate but linked issue which also has a potentially significant impact on future shared services provision. RCPS is currently operating with a technical platform (Oracle) provided by UK SBS Ltd which requires upgrading. This upgrade will be a major project due to the current system being significantly customised. This is an issue we will be taking forward with UK SBS Ltd in 2014-15.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that RCPS's overall governance and internal control structures result in risk being managed to a reasonable level and I can provide assurance that it supports the achievement of the RCPS's policies, aims and objectives.

Professor Jackie Hunter
Chief Executive and Accounting Officer of BBSRC

23 June 2014

The Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Research Councils' Pension Schemes for the year ended 31 March 2014 under the Science & Technology Act 1965. These comprise the Combined Statements of Comprehensive Net Expenditure, Financial Position, Changes in Taxpayer's Equity, Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Science & Technology Act 1965. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Research Councils' Pension Schemes' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Research Councils' Pension Schemes; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Report of the Manager to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Research Councils' Pension Schemes' affairs as at 31 March 2014, and of their total combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Secretary of State for Business, Innovation and Skills directions issued under the Science and Technology Act 1965.

Opinion on other matters

In my opinion, the information given in Report of the Manager and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

9th July 2014

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

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Notes	31 March 2014		2012-13
		£'000	£'000	£'000
Principal Arrangements – Research Councils' Pension Schemes				
Income				
Contributions receivable	3	92,172		83,999
Transfers in: individuals	4	4,921		1,926
Transfers in: bulk	4	6,682		–
Other pension income	8	121		(86)
Recoveries		1,716		2,834
		105,612		88,673
Expenditure				
Pension cost	5	84,000		72,000
Transfers out	6	5,291		2,260
Transfers in		6,000		–
Enhancements	7	5,000		5,000
Interest on scheme liabilities	11	144,000		154,000
Administration costs	10	1,131		1,160
		(245,422)		(234,420)
Combined Net (Expenditure) for the year		(139,810)		(145,747)
Other Comprehensive Net Expenditure				
Recognised gains and losses for the year		–		–
Actuarial (losses)	16.15	(221,000)		(241,000)
Total Comprehensive Net Income/ (Expenditure) for the year ended 31 March 2014		(360,810)		(386,747)

All activities are regarded as continuing.

The notes on pages 24 to 34 form an integral part of these accounts.

Combined Statement of Financial Position as at 31 March 2014

	Notes	31 March 2014	2012-13
Current assets			
Receivables	13	1,986	2,375
Cash and cash equivalents	14	8,407	6,476
Total current assets		10,393	8,851
Current liabilities			
Payables (amounts falling due within one year)	15	(5,398)	(5,317)
Net current assets, excluding pension liability		4,995	3,534
 Pension liability	 16.11	 (3,867,322)	 (3,540,551)
Net liabilities, including pension liabilities		(3,862,327)	(3,537,017)
 Combined schemes – Total net liabilities		(3,862,327)	(3,537,017)
 Taxpayers' equity			
General fund		(3,862,327)	(3,537,017)

Professor Jackie Hunter,
Chief Executive BBSRC,
Accounting Officer

Date: 23 June 2014

The notes on pages 24 to 34 form an integral part of these accounts.

Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

	Notes	31 March 2014 £'000	2012-13 £'000
Balance at 1 April		(3,537,017)	(3,187,270)
Grant in Aid: drawn down	18	35,500	37,000
Combined net outgoings		(139,810)	(145,747)
Actuarial (losses)/gains		(221,000)	(241,000)
Recalculation of closing provision		—	—
Balance at 31 March		<u>(3,862,327)</u>	<u>(3,537,017)</u>

The notes on pages 24 to 34 form an integral part of these accounts.

Combined Statement of Cash Flows for the year ended 31 March 2014

	Notes	31 March 2014 £'000	2012-13 £'000
Cash flows from operating activities			
Combined net (expenditure)/income for the year		(139,810)	(145,747)
(Increase) in receivables – principal arrangements		389	3,298
(Decrease)/increase in payables		81	(110)
Decrease in provision for non cash transactions			
Current service cost	5	84,000	72,000
Interest cost	11	144,000	154,000
Transfers out		–	–
Transfers in		6,000	–
Enhancements		5,000	5,000
Increase in pension provision for use of pension liabilities			
Benefit payments	16.13	(132,579)	(127,159)
Payments to or on account of leavers	16.14	(650)	(685)
Net cash outflow from operating activities		<u>(33,569)</u>	<u>(39,403)</u>
Cash flows from financing activities			
Net Parliamentary financing	18	35,500	37,000
(Decrease)/increase in cash and cash equivalents		<u>1,931</u>	<u>(2,403)</u>
Cash and cash equivalents at the beginning of the period	14	6,476	8,879
Cash and cash equivalents at the end of the period	14	8,407	6,476
(Decrease)/increase in cash		<u>1,931</u>	<u>(2,403)</u>

The notes on pages 24 to 34 form an integral part of these accounts

Notes to the Schemes' Statements

1 Basis of preparation of the Schemes' statements

The Schemes' statements have been prepared in accordance with the relevant provisions of the 2013-14 Government Financial Reporting Manual (FReM) by HM Treasury, including the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Retirement Benefit Plans. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

These accounts show the unfunded pension liability and movements in that liability during the year. These accounts also have regard to the Science and Technology Act 1965.

Where the FReM permits a choice in accounting policy, the accounting policy judged to be the most appropriate to the particular circumstances of RCPS for the purpose of giving a true and fair view have been selected. The particular policies adopted by RCPS are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

a Research Councils' Pension Schemes – principal arrangements

The Schemes' statement summarises the transactions of the RCPS which acts as a principal. The statement of financial position shows the deficit on the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things the movements in the liability analysed between the pension cost, enhancements and transfers in and out and the interest on the Scheme liability. The actuarial position of the Pension Scheme is dealt with in the Report of the Actuary, and the Scheme statement should be read in conjunction with that Report.

b Early Retirement Lump Sums – agency arrangements

The RCPS acts as an agent for employers in the payment of Early Retirement Lump Sums (ERLS). ERLS paid out are invoiced and generally recovered from employers within a month. These financial flows are not brought into account in the financial statements. However, they do recognise the liabilities arising from the timing difference between amounts paid and recovered (see note 16 of accounts).

c Adoption of new or amended standards effective in 2013-14

The following revised standards have been applied by the Scheme from 1 April 2013.

IAS 19 (revised) Employee Benefits	Amendments to IAS 19 – Improving disclosures and reporting of employee benefit	effective 1 January 2013
---------------------------------------	--	-----------------------------

2 Accounting Policies

a Contributions Receivable

Income includes contributions received and receivable from payrolls run during the year by contributing employers.

b Other Pension Income

Other pension income is accounted for when the income becomes due.

c Pension Cost and Interest on Scheme Liabilities

The pension cost, including current and past service cost and interest cost on scheme liabilities are calculated by the Government Actuary's Department (GAD). Payments by the schemes are treated as a reduction in the pension liability.

d Transfers Out

Transfers out are included once notified by the person transferring and by their new pension scheme and the payment is due.

e Transfers In

Transfers in are included once notified by the person transferring and agreed by their previous pension scheme administrators and the receipt is made.

f Bulk Transfers

These relate to groups of members who are transferred under TUPE arrangements (Transfer of Undertakings (Protection of Employment) Regulations) mostly due to the closure of a site(s) or changes to governance arrangements in their organisation.

g Administration Costs

The schemes pay for the Joint Superannuation Services (JSS) unit hosted by BBSRC. The accrued costs of JSS are charged as an administration expense in the schemes' Combined Statement of Comprehensive Net Expenditure. Any amounts owing to BBSRC are included in payables. Any amounts owed by BBSRC are included in receivables.

h Agency Arrangements – Early Retirement Lump Sums

Some pension schemes pay a retirement lump sum when a member reaches the appropriate scheme retirement age. If a leaver has yet to reach the scheme retirement age then the Early Retirement Lump Sum (ERLS) is not payable from the pension scheme. Under an agency agreement with the Research Councils, the ERLS is calculated and paid from pension scheme funds and then invoiced to the respective employing Research Council. Any ERLS paid but not yet recovered is accrued in recoveries and included in receivables.

Where pension schemes pay retirement lump sums when the member reaches the scheme retirement age they will, where there was an ERLS recovered from the respective Council, pay the retirement lump sum to that Council.

i Pension Liability

The movements and balance on the pension liability are supplied by the Government Actuary's Department (GAD).

Accrued payments by the schemes are shown as reductions in the pension liability. GAD estimate these payments before the year end. Any difference is included as other actuarial gains and losses.

Actuarial gains and losses can occur for a number of reasons. These are changes to financial assumptions used from year to year i.e. change in inflation rate used, changes in demographic assumptions i.e. mortality rate, changes in the methodology used and other experience gains and losses. All information is included in the accounts in accordance with the GAD report.

Lump sums on retirement and pensions are payable from the first day of retirement.

Refunds of contributions to members leaving the service are made up of any required transfer to the state scheme pension and income tax due with the balance refunded to the member.

j General Fund

Grant-in-Aid is provided from Department for Business, Innovation and Skills (BIS) Request for Resources to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the schemes' finances. The cash received is not treated as income but, as a contribution from a controlling party, is credited to the general fund.

Additional grant funding required to fund bulk transfers out of the scheme that is not met by the employers is credited to the General Fund in accordance with the FReM.

k Financial Instruments

The Pension Scheme is not exposed to the same level of risk as many business entities and the financial assets and liabilities at the reporting date are included at amortised cost. Where the time value of money is material, the amount of the asset or liability will be the present value of the expenditures/income expected to be required to settle the obligation. The discount rate used will be the real discount rate set by HM Treasury, currently at 2.7%.

Trade receivables

Trade receivables are not interest bearing and are carried at original invoice amount less allowance for impairment. Provision for impairment is established when there is objective evidence that the Pension Scheme will not be able to collect all amounts due according to the original terms of the receivable. The amount of provision is the difference between the carrying amount and recoverable amount and is recognised in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognised in the period in which related money, goods or services are received or when a legally enforceable claim against the Pension Scheme is established or when the corresponding assets or expenses are recognised.

l Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances.

m Pension Benefits Payable

These are payments due to eligible members which arise from accrued service.

n Lump Sums Payable on Death in Service

A death benefit lump sum is payable to whoever the scheme member has nominated as their 'death benefit nominee' and is accounted for when due.

o Additional Voluntary Contributions

Employee contributions are paid directly by the participating Research Council to the pension provider and accordingly contributions and AVC investments are not included in these accounts.

3 Contributions receivable	31 March 2014	2012-13
	£'000	£'000
Employers' contributions	72,069	69,011
Employees' contributions: normal	18,407	13,365
Employees' contributions: purchase of added years and added pension	1,696	1,623
	92,172	83,999

In 2014-15, £72 million employers contributions, £18 million employees contributions and £1.6 million added years contributions are expected. Employee contributions will be higher than 2013-14 due to the increase in employee contribution rates introduced on 1st April 2014.

4 Pension transfers in	31 March 2014	2012-13
	£'000	£'000
Individual Transfers in	4,921	1,926
Bulk Transfers in	6,682	–
	11,603	1,926

The bulk transfer relates to 152 members of the University of Southampton staff, who were transferred to the Natural Environment Research Council (NERC) in 2010 and became members of the Research Councils' Pension Schemes following a 'Transfer of Undertakings Protection of Employment (TUPE)'. The staff members that were formerly in the Pension and Assurance Scheme for Non Academic Staff have been dealt with on an individual basis. Former members of the Universities Superannuation Scheme were given the opportunity to Bulk Transfer their accrued benefits in to the Research Councils' Pension Schemes and 49 members chose to transfer their Universities Superannuation Scheme benefits and the receipt from this was received in June 2013.

5 Pension cost	Notes	31 March 2014	2012-13
		£'000	£'000
Current service cost	16.11	84,000	72,000
		84,000	72,000

6 Transfers out	31 March 2014	2012-13
	£'000	£'000
Individual transfers out to other schemes	5,291	2,260
	5,291	2,260

7 Enhancements	31 March 2014	2012-13
	£'000	£'000
Enhancements	5,000	5,000
	5,000	5,000

8 Other pension income	31 March 2014	2012-13
	£'000	£'000
Amounts receivable in respect of:		
Other (outgoings)/income	121	(86)
Bank interest receivable	–	0
	121	(86)

9 Additional Voluntary Contributions

There are no AVC payments made through the Pension Schemes. Any AVCs made are free standing additional voluntary contributions which are private arrangements between the employee and the relevant institutions, and details cannot be included in these accounts. Details of arrangements whereby employees can make AVCs can be found in paragraph 34 of the Annual Report.

10 Administration costs	31 March 2014	2012-13
	£'000	£'000
Total running costs	695	745
Pensioner payroll agency fees	18	142
Auditors' remuneration	42	43
Actuarial charges	372	226
Bank Charges	4	4
	<u>1,131</u>	<u>1,160</u>

11 Interest on Scheme liabilities	31 March 2014	2012-13
	£'000	£'000
Interest charge for the year	16.11 <u>144,000</u>	<u>154,000</u>

12 Compensation benefits payable

There is no liability to the Pension Schemes as all compensation payments are funded by the Research Councils.

13 Receivables – contributions due in respect of pensions	31 March 2014	2012-13
	£'000	£'000
<i>13a Analysis by receipt type</i>		
Prepaid lump sums	832	1,301
Pension contributions due from employers and employees	424	581
Other receivables	730	493
	<u>1,986</u>	<u>2,375</u>

13b Intra-Government Balances

	Amounts falling due within one year	
	31 March 2014	2012-13
	£'000	£'000
Other central government bodies	376	473
Other organisations	1,610	1,902
	<u>1,986</u>	<u>2,375</u>

There are no Intra Government Balances falling due after more than one year for 2013-14 or 2012-13.

14 Cash and cash equivalents	31 March 2014	2012-13
	£'000	£'000
Balance at 1 April	6,476	8,879
Net change in cash balances	1,931	(2,403)
Balance at 31 March	<u>8,407</u>	<u>6,476</u>

The following balances at 31 March were held at:

Government Banking Service	<u>8,407</u>	6,476
Balance at 31 March	<u>8,407</u>	<u>6,476</u>

15 Payables – in respect of pensions

	31 March 2014	2012-13
	£'000	£'000
<i>15a Analysis by expenditure type</i>		
Payables to other Research Councils	2,833	2,833
Other payables (including administration expenses)	2,522	2,441
Audit fee payable	43	43
	<u>5,398</u>	<u>5,317</u>

The Payables to other Research Councils comprises monies due to BBSRC. In 2010-11 £7,833K was paid to RCPS to cover the costs of pensions when the payroll moved to the new shared services system. In 2011-12, £5M was repaid against this balance. Final repayment of the outstanding balance is scheduled during 2014-15.

15b Intra-Government Balances

	Amounts falling due within one year	
	31 March 2014	2012-13
	£'000	£'000
Other central government bodies	3,521	3,628
Other organisations	1,877	1,689
Balance at 31 March	<u>5,398</u>	<u>5,317</u>

There are no Intra Government Balances falling due after more than one year for 2013-14 or 2012-13.

16 Provisions for pension liabilities

16.1 The Research Councils' Pension Schemes are unfunded defined benefit schemes. The Report of the Actuary on pages 9 to 12 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2014 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2014	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010
Inflation	2.50%	1.70%	2%	2.65%	2.75%
Earnings increase	4.50%	3.95%	4.25%	4.90%	4.29%
Notional discount rate used to discount the Schemes' liabilities	4.35%	4.10%	4.85%	5.60%	4.60%
Discount rate net of inflation	2.35%	2.35%	2.80%	2.80%	–
Increase in pensions CPI	1.80%	2.35%	2.80%	2.90%	–

The life expectancy of normal health current pensioners at age 60 for men is 28.3 (2012-13: 28.21) and women is 29.1 (2012-13: 28.8). The life expectancy of normal health future pensioners at age 60 for men is 30.0 (2012-13: 30.0) and women is 30.7 (2012-13: 30.5)

The life expectancy of normal health current pensioners at age 65 for men is 23.4 (2012-13: 23.4) and women is 24.2 (2012-13: 23.9). The life expectancy of normal health future pensioners at age 65 for men is 25.6 (2012-13: 25.6) and women is 26.3 (2012-13: 26.1)

16.2 The Schemes' administrators are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

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

16.3 Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. The variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

16.4 These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the Schemes' Managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

16.5 The assumption that has the biggest impact on the amount of the reported liability is the discount rate. As set out in the FReM, and as required by IAS 19, the Schemes' Managers use the AA corporate bond rate to discount liabilities. From 2005-06, the Government Actuary has calculated the rate annually on behalf of HM Treasury, who then advise the Schemes' Managers of the rate for the year. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

16.6 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Schemes' Managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Schemes' Managers, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

16.7 The value of the liability on the Combined Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The administrators of the schemes accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in note 15.11. Note 15.15 analyses "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

16.8 The reforms due to be implemented in April 2015 relating to age retirement and the increased member contributions being phased in from April 2012, may affect the behaviour of members, and due to the uncertainty surrounding the impact of these changes as there is insufficient experience data on which to base any assumption, no allowance has been made in these accounts.

16.9 In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years". The last formal actuarial valuation undertaken for the RCPS as at 31 March 2006 was completed in 2008-09. Consequently, a formal actuarial valuation as at 31 March 2010 was initiated but this was not completed as formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury on value for money grounds while consideration was given to recent changes to public service pensions and while future scheme terms were developed as part of the reforms to public service pension provision. Since 31 March 2012, HM Treasury have reinstated the requirement for a full actuarial valuation as at 31 March 2012. The scheme administrators have provided GAD with the RCPS membership data as at 31 March 2012 in order that a full actuarial valuation can be carried out as at this date. The primary purpose of the formal 2012 actuarial valuation will be to set employer and employee contribution rates to take effect from 1 April 2015. An actuarial valuation of the scheme for IAS19 has been carried out as at 31 March 2012 using the data provided for the 2012 actuarial valuation. Sufficient additional data has been supplied to GAD to enable the IAS19 liability as at 31 March 2014 to be approximately assessed based on the calculated IAS19 liability as at 31 March 2013.

16.10 Analysis of the provision for pension liability

	2013-14	2012-13	2011-12	2010-11
	£ million	£ million	£ million	£ million
RCPS				
Active members	1,332	1,232	1,094	1,100
Deferred members	694	604	540	506
Current pensioners	1,358	1,252	1,135	999
Total	3,384	3,088	2,769	2,605
Closed schemes	£ million	£ million	£ million	£ million
Deferred members	71	62	57	60
Current pensioners	409	390	370	366
Total	480	452	427	426
Total provision for pension	3,864	3,540	3,196	3,031

Sensitivity analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2014 of changes to the significant actuarial assumptions.

The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

As a result of the scheme reform, there is significant uncertainty on when members are expected to retire. The assumed age retirement rates will have a significant impact on the scheme liabilities and therefore we have included an indication of the approximate effect (on the total past service liability) of all non-Nuvos members retiring one year later than assumed in the main liability calculations.

The table that follows shows the indicative effects on the total liability as at 31 March 2014 of changes to these assumptions (rounded to the nearest ½%).

Change in assumption	Approximate effect on total liability *	
Rate of return		
(i) discount rate: +½% a year	-8.50%	- £330 million
(ii) earnings increases: +½% a year	2.00%	+ £75 million
(iii) pension increases: +½% a year	7.50%	+ £290 million
Pensioner mortality		
(iv) additional one year increase to life expectancy at retirement:	3.00%	+ £115 million
Age Retirement		
(v) all non-Nuvos actives retiring (on average) 1 year later	-0.50%	- £20 million

16.11 Analysis of movements in the Schemes' liability

	Notes	31 March 2014	2012-13
		£'000	£'000
Schemes' liability at 1 April		3,540,551	3,196,395
Current service cost	5	84,000	72,000
Enhancements		5,000	5,000
Interest on the Schemes' liabilities		144,000	154,000
Benefits payable	16.12	(132,579)	(127,159)
Payments to or on account of leavers	16.13	(650)	(685)
Analysis of actuarial losses/(gains) on the Schemes' liabilities	16.14	221,000	241,000
		320,771	344,156
		3,861,322	3,540,551
Recalculation of closing provision		–	–
Net bulk staff transfer in		6,000	–
Net bulk staff transfer out		–	–
Schemes' liability at 31 March		3,867,322	3,540,551

16.12 During the year ended 31 March 2014, employers and employees contributions represented an average of 30.6 percent of pensionable salaries (2012-13: 27.1 percent). The employers pension rate for 2013-14 and future years until further notice will be 26.0 percent.

16.13 Analysis of benefits paid

	31 March 2014	2012-13
	£'000	£'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	(114,990)	(109,504)
Commutations and lump sum benefits on retirement or death	(17,589)	(17,655)
As per Combined Statement of Cash Flows	(132,579)	(127,159)

16.14 Analysis of payments to or on account of leavers

	31 March 2014	2012-13
	£'000	£'000
Refunds to members leaving service	(650)	(685)
As per Combined Statement of Cash Flows	(650)	(685)

16.15 Analysis of actuarial gains/losses on the Schemes' liabilities

	31 March 2014	2012-13
	£'000	£'000
Experience gains arising on the Schemes' liabilities	(19,000)	(24,000)
Change in assumptions underlying the present value of Schemes' liabilities	240,000	265,000
Per Statement of Recognised gains and losses	221,000	241,000

16.16 History of experience gains/(losses) – all recognised in the Statement of Total Recognised Gains and Losses

See note 16.15	Experience gains/ (losses)	Percentage of the Schemes' liabilities at 31 March	Amount recognised in Statement of Changes in Taxpayers Equity	Percentage of the Schemes' liabilities at 31 March
2013-14	19,000	0.5%	19,000	0.5%
2012-13	24,000	0.7%	24,000	0.7%
2011-12	(1,000)	0.0%	(1,000)	0.0%
2010-11	65,000	2.1%	65,000	2.1%
2009-10	(34,000)	-1.0%	(34,000)	-1.0%

17 Annual compensation payments pre-funded by employers

Annual compensation payments are payments to early retirees in advance of their pension entitlements under the Research Councils' Pension Schemes. These payments are made by the Pension Schemes and are reimbursed by the employer. The balances are for ACPs payable in the next 10 years as employees can leave employment at 55 instead of 65 for men and 60 for women.

	31 March 2014	2012-13
	£'000	£'000
Balance at 1 April	7,558	8,825
Amount paid in year to the Pension Schemes	(1,440)	(1,168)
Addition in year	158	–
Release in year	–	(99)
Balance at 31 March	6,276	7,558
To be used in the next 12 months	1,839	1,439
To be used after more than 12 months	4,437	6,119

18 Grant-in-Aid

Grant-in-Aid is provided from the Department for Business, Innovation and Skills (BIS) Request for Resources 2 to the Biotechnology and Biological Sciences Research Council (BBSRC) as the Council with responsibility for administering the Schemes' finances. The allocation for 2013-14 was £35.5 million (2012-13 was £37 million) all of which was drawn down by the Pension Schemes.

19 Related Party Transactions

The Research Councils are Non-Departmental Public Bodies sponsored by the Department for Business, Innovation and Skills (BIS).

The BIS is regarded as a related party. During the period 1 April 2013 to 31 March 2014 the Research Councils' Pension Schemes had various material transactions with BIS and with other entities for which BIS is regarded as the parent Department. These were the Biotechnology and Biological Sciences Research Council (BBSRC), the Engineering and Physical Sciences Research Council (EPSRC), the Economic and Social Research Council (ESRC), the Natural Environment Research Council (NERC), the Science and Technology Facilities Council (STFC), and the Technology Strategy Board (TSB). Amounts received from BIS have been disclosed in note 18.

During the year none of the senior and other key management staff, or other related parties, has undertaken any material transactions with the Research Councils' Pension Schemes. In addition the Schemes have had material transactions in the form of contributions from Research Councils whose employees are members of the Schemes.

Related Party Transactions

	Pension Contributions		Receivables		Payables	
	31 March 2014 £'000	2012-13 £'000	31 March 2014 £'000	2012-13 £'000	31 March 2014 £'000	31 March 2013 £'000
Transactions with Research Councils						
BBSRC	2,596	2,358	211	79	3,521	3,628
EPSRC	1,770	1,735	–	–	–	–
ESRC	1,079	967	–	–	–	–
NERC	19,013	19,582	76	111	–	–
STFC	15,506	14,670	83	82	–	–
TSB	2,055	1,530	–	195	–	–
AHRC	608	565	1	1	–	–
Transactions with other employers						
SERAD	7,754	7,512	–	29	–	–
SSC	5,498	4,270	4	4	–	–
Other	16,231	15,822	1,610	–	1,877	–
Other related parties	–	–	–	1,874	–	1,689
Total	72,110	69,011	1,985	2,375	5,398	5,317

20 Losses and Special Payments

No losses were incurred, or special payments made, during the year.

21 Events after the reporting Period

There were no reportable events after the Reporting Period between the year end and the Comptroller and Auditor General certified the accounts, the date when the accounts were authorised for issue. The financial statements do not reflect events after this date. Reference has been made to events that are likely to occur in 2014-15 in paragraphs 31 to 33 of the Annual Report.

22 Financial Instruments

As the cash requirements of the Schemes are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector scheme of a similar size. The majority of financial instruments relate to contracts for non financial items in line with the Schemes' expected purchase and usage requirements and the Schemes are therefore exposed to little credit, liquidity or market risk.

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ISBN 978-1-4741-0311-4



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