

Research Councils' Pension Schemes  
Accounts 2015-16



# Research Councils' Pension Schemes Accounts 2015-16

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

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HC 295

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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 2015-16 Government Financial Reporting Manual (FReM) ([www.financial-reporting.gov.uk](http://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 operating by-analogy to the Principal Civil Service Pension Scheme (PCSPS), in which payments from the Schemes are funded by current employees' and employers' pension scheme contributions with the difference between these contributions and the Scheme expenditure financed by Grant-in-Aid provided from the Department for Business, Innovation and Skills.

## Description of Pension Schemes

- 3 The Nuvos scheme commenced on 30 July 2007. This is a career average pension scheme, which together with the Partnership Pension Account, forms the pension options open to 'new starters' since 30 July 2007. However, members who have a past history of membership of the Classic, Classic Plus or Premium schemes may be allowed to re-join 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 an age related contribution to the employee's private pension provider and an additional 0.8% of pensionable pay to the RCPS to cover death in service and ill health benefits.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the PCSPS. New starters were eligible to join the Premium scheme from 1 October 2002 until 29 July 2007. Premium provides a pension based on 1/60th of salary but without an automatic lump sum. Staff in post as at 1 April 1994 and new starters through to 30 September 2002 were entered in to what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. Some members are in an amalgam of the two schemes known as Classic Plus.
- 7 Employee contribution rates and the method for calculating the rates for the RCPS changed on 1 April 2015 through the by-analogy arrangement with the PCSPS. The new method is based on the employees 'annualised earnings', which is the actual earnings in the month multiplied by 12. The employee contribution rate is tested against the 'annualised earnings' each month with the employee paying the appropriate contribution. The rates for the period 1 April 2015 to 31 March 2016 were as follows:

Annualised pensionable earnings	Classic % contribution rate before tax relief	Classic Plus; Premium & Nuvos % contribution rate before tax relief
Up to £15,000	3.00	4.60
£15,001 - £21,000	4.60	4.60
£21,001 - £47,000	5.45	5.45
£47,001 - £150,000	7.35	7.35
£150,001 and above	8.05	8.05

- 8 The annualised earning brackets change each year to allow for increases in the higher rate tax threshold. Classic scheme members earning £15,000 or less have a phased increase until they are in line with other scheme members. The rates for the period 1 April 2016 to 31 March 2017 will be as follows:

Annualised pensionable earnings	Classic % contribution rate before tax relief	Classic Plus; Premium & Nuvos % contribution rate before tax relief
Up to £15,000	3.80	4.60
£15,001 - £21,210	4.60	4.60
£21,211 - £48,471	5.45	5.45
£48,472 - £150,000	7.35	7.35
£150,001 and above	8.05	8.05

- 9 The final salary 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% since 1 April 2010. The previous rate of 21.3% 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

- 10 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

- 11 The Research Councils' Joint Superannuation Service (JSS) website, (<http://jsspensions.org.uk>) gives more information about the schemes and benefit entitlement.

#### Auditors

- 12 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 £40,500 (2014-15: £42,000).
- 13 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.
- 14 I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.
- 15 No non-audit work was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

## Employers

16 During 2015-16 the following employers have had members in the Research Councils' Pension Schemes:

- Arts and 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 and its strategically funded institutes
- UK Shared Business Services Ltd (formerly RCUK Shared Service Centre)
- Science and Technology Facilities Council
- Scotland's Rural College (formerly Scottish Agricultural College)
- Innovate UK (formerly Technology Strategy Board)

## Changes during 2015-16

- 17 Formal funding actuarial valuations are used to determine the contribution rates. The last such scheme funding valuation was as at 31 March 2006 and changes implemented in 2008-09. The subsequent scheme valuation as at 31 March 2010 was suspended by HM Treasury whilst public service pensions were being reviewed. The new scheme funding valuation process started in 2014, with a valuation as at 31 March 2012. This valuation is underway and will be completed once HM Treasury have agreed the valuation directions for the RCPS and once the reform approach for the scheme has been agreed.
- 18 The Civil Service introduced a new pension scheme in April 2015, called Alpha, which is in addition to the PCSPS arrangements comprising the Classic, Classic Plus, Premium and Nuvos sections. The RCPS is by analogy to the PCPS and not automatically permitted to operate by-analogy to Alpha due to the legislation under which Alpha was created. The RCPS have been working with Government throughout 2015-16 to develop and agree reforms. The deadline for reforming the scheme is 31 March 2018.
- 19 The RCPS was granted permission from the Department of Business, Innovation and Skills (BIS), the 'responsible authority' for the scheme, to continue past 1 April 2015 in its current arrangement to enable the pension reform process to be continue. In the interim new starters have been and will be automatically enrolled in to the Nuvos scheme with an option to switch to a Partnership pension account.
- 20 New legislation from 6 April 2015 introduced a ban on the transfer out of pension benefits from unfunded public sector defined benefit pension scheme to defined contribution pension schemes. This affects the RCPS and has seen transfers out decrease from £6.9m in 2014-15 to £3.4m in 2015-16.
- 21 The proportion of employers actively utilising the RCPS as their default scheme has decreased with a total of 12 employers, representing 23% of active members, now treating the RCPS as a closed scheme either due to governance changes or due to introducing alternative pension arrangements.
- 22 On 1 November 2012, staff from the Department of Business, Innovation and Skills (BIS) were transferred under TUPE terms to UK Shared Business Services (UK SBS). 11 members elected to transfer their accrued PCSPS pension benefits to the RCPS under Bulk Transfer terms. The transfer was delayed due to resource issues but Bulk Transfers of £1.3 million in respect of this are included in the 2015-16 RCPS Accounts.

## Anticipated changes during 2016-17

- 23 The reform discussions with HM Treasury and BIS are expected to be completed in 2016. The outcome may see the RCPS extending its by-analogy arrangement to operate by-analogy or analogous to the PCSPS as well as Alpha, seeing Joint Superannuation Services implementing Alpha for the RCPS and moving eligible members in to the Alpha scheme. Alternatively the RCPS will transfer in its entirety to the Civil Service pension arrangements with eligible members moving in to the Civil Service Alpha scheme. All pensioner and preserved members would also move in to the Civil Service pension arrangements. Reforms are expected to be implemented by 31 March 2018.



- 24 A number of employers are likely to undertake governance changes with their funded institutes and research centres which may see employees being transferred under TUPE terms to those organisations. This is likely to see a small number of organisations seeking Admitted Body status to the RCPS under the New Fair Deal guidelines which will enable affected employees to continue to remain active members in the RCPS.
- 25 The Audit and Assurance Services Group (AASG), a unit hosted by BBSRC, is transferring under TUPE terms in to the Government Internal Audit Agency (GIAA). This is expected to take place during 2016-17 which will see up to 16 members being given the opportunity to Bulk Transfer their accrued RCPS benefits in to the Civil Service pension arrangements.
- 26 The RCPS participating employers will reach their Auto Enrolment re-staging date on 1 July 2016 following the Auto Enrolment staging of 1 July 2013. It is anticipated that approximately 98 members will be re-enrolled to the RCPS. Employers that have employees not eligible for RCPS membership will re-enrol those in to the National Employment Savings Trust (NEST) and therefore will not be included in these accounts.

### **Review of the financial statements**

- 27 For the year ended 31 March 2016 there was an overall position of net expenditure of £178 million.
- 28 Income was £99 million in 2015-16 compared to £103 million for 2014-15 which was largely due to a reduction in pension contributions received.
- 29 In 2016-17 the pension liability reduced by £195 million from £4.36 billion to £4.16 billion mainly due to actuarial gains of £326 million, interest on scheme liabilities of £154 million, and current service cost of £113 million and payments out for pensions, commutations and lump sum retirements on retirement and death of £142 million. A full breakdown of the movement in pension liability can be found in note 15.11 of the accounts.

### **Freestanding Additional Voluntary Contributions**

- 30 Members in service are entitled to make additional voluntary contributions (AVCs) under contracts between the employee and Scottish Widows or 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 PCSPS. 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

	<b>31 March 2016</b>	31 March 2015
	<b>No.</b>	No.
<b>New Schemes</b>		
Current members in Service	7,895	8,039
Pensions in Payment	8,320	8,128
Early Retirements	83	121
Preserved Pensions	8,403	8,175
<b>Total</b>	<u>24,701</u>	<u>24,463</u>
<b>Old Schemes</b>		
Pensions in Payment	5,031	5,093
Preserved Pensions	1,211	1,343
<b>Total</b>	<u>6,242</u>	<u>6,436</u>
<b>GRAND TOTAL</b>	<u><b>30,943</b></u>	<u><b>30,899</b></u>
	<b>2015-16</b>	<b>2014-15</b>
	<b>No.</b>	<b>No.</b>
Members in Service at 1 April	8,039	8,184
Adjustment resulting from changes notified in current year	8	45
Adjusted figure for 1 April	<u>8,047</u>	<u>8,229</u>
New members in year	786	866
Leavers and retirements in year	(938)	(1,056)
<b>Members in Service at 31 March</b>	<u><b>7,895</b></u>	<u><b>8,039</b></u>
	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>No.</b>	<b>No.</b>
Classic Scheme	2,345	2,552
Classic Plus Scheme	229	239
Premium Scheme	1,600	1,736
Nuvos Scheme	3,721	3,512
<b>Members in Service at 31 March</b>	<u><b>7,895</b></u>	<u><b>8,039</b></u>
Holders of Partnership Pension Accounts	<u>131</u>	<u>129</u>

### Enquiries

- 30 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**

### **Accounting Officer:**

Professor Melanie Welham  
Polaris House, North Star Avenue, Swindon, SN2 1UY

Professor Melanie Welham was appointed Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) on 1 March 2016, becoming Accounting Officer for BBSRC and for the Research Councils' Pensions Schemes.

### **Manager:**

Kye Honor  
Joint Superannuation Service, Polaris House,  
North Star Avenue, Swindon, SN2 1UY

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

### **Actuary:**

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

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

### **Bankers:**

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

### **Auditors:**

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

### **Employers:**

AHRC, ESRC and EPSRC – Peter Ethelston  
BBSRC – Liz Hopkinson  
NERC – Nigel Sully  
STFC – Jerry Snewin  
Polaris House, North Star Avenue, Swindon, SN2 1UY

UK Shared Business Services – John Arnott  
Innovate UK – Anne Shaw  
North Star House, North Star Avenue, Swindon, SN2 1FA

Diamond Light Source – Deepak Kalia  
Diamond House, Harwell Science and Innovation Campus, Didcot, Oxfordshire, OX11 0DE

Scottish Institutes – Tina Mousley  
(Moredun Research Institute, Scotland's Rural College, The James Hutton Institute)  
The James Hutton Institute, Invergowrie, Dundee, DD2 5DA

### **Professor Melanie Welham**

Interim Chief Executive and Accounting Officer of BBSRC  
Date: 28 June 2016

## Statement by the actuary

### Introduction

- A.1 This statement has been prepared by the Government Actuary's Department at the request of the Research Councils' Pension Schemes Management Board. It summarises the pensions disclosures required for the 2015-16 Resource Accounts of the RCPS ('the scheme').
- A.2 The RCPS is a final salary and/or career average salary defined benefit scheme, with benefits calculated by-analogy to the PCSPS. 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 Public Service (Civil Servants and Others) Pension Regulations 2014 which closed the PCSPS and introduced the new civil service pension arrangement from 1 April 2015 do not apply to members of the RCPS although it is expected that RCPS will be reformed in line with the provisions of the new civil service pension arrangement in due course. The RCPS 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).
- A.3 The statement is based on an assessment of the liabilities as at 31 March 2012, with an approximate updating to 31 March 2016 to reflect known changes.

### 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**

	Open Scheme	
	Number	Total pensionable pay* (£ thousand pa)
<b>Males</b>	4,731	179,364
<b>Females</b>	3,193	94,784
<b>Total</b>	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**

	Open Scheme		Closed Schemes	
	Number	Total deferred pension* (£ thousand pa)	Number	Total deferred pension* (£ thousand pa)
<b>Males</b>	4,071	18,004	861	1,434
<b>Females</b>	3,988	11,442	838	1,291
<b>Total</b>	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* (£ thousand pa)	Number	Annual pension* (£ thousand pa)
<b>Males</b>	3,842	54,590	2,536	22,608
<b>Females</b>	2,290	11,604	1,578	4,983
<b>Spouses &amp; dependants</b>	696	3,464	1,181	4,958
<b>Total</b>	<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

- A.5 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 financial assumptions applying to the 2015-16 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2016 was determined using the PUCM and the principal financial assumptions applying to the 2014-15 Resource Accounts.
- A.6 This statement takes into account the benefits normally provided under the RCPS, 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

- A.7 The principal financial assumptions adopted to prepare this statement are shown in Table D.

**Table D – Principal financial assumptions**

Assumption	31 March 2016	31 March 2015
Rate of return (discount rate)	3.60 %	3.55 %
Rate of earnings increases*	4.20 %	4.20 %
Rate of future pension increases	2.20 %	2.20 %
Rate of return in excess of:	1.37 %	1.30 %
Pension increases (CPI)	-0.60 %	-0.65 %
Earnings increases	n/a	n/a
Expected return on assets:		

\* short term adjustments have been made to this assumption for the period to 2020

- A.8 The pension increase assumption up to and including 31 March 2016 are based on the Consumer Price Index (CPI) expectation of inflation.

### Demographic assumptions

- A.9 The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

- A.10 The standard mortality tables known as S1NXA (for normal health pensioners and dependants) and S1IXA (for ill-health pensioners) are used but with mortality rates reduced to 87% (current male pensioners), 77% (future male pensioners), 98% (current female pensioners) and 85% (future female pensioners) of actual rates (100% for both male and female future ill-health pensioners). These assumptions are the same as those adopted for the 2014-15 Annual Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption has been updated in line with the latest ONS projections. The 2014-15 Annual Accounts were based on the 2012-based projections.
- A.11 The contribution rate used to determine the accruing cost in 2015-16 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2014-15 Resource Accounts.

### Liabilities

- A.12 Table E summarises the assessed value as at 31 March 2016 of benefits accrued under the scheme prior to 31 March 2016 based on the data, methodology and assumptions described in paragraphs F.4 to F.11. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

£ Million	31 March 2016	31 March 2015	31 March 2014	31 March 2013	31 March 2012
<b>Total market value of assets</b>	nil	nil	nil	nil	nil
<b>Value of liabilities</b>	4,162	4,360	3,864	3,539	3,195
<b>Surplus/(Deficit)</b>	(4,162)	(4,360)	(3,864)	(3,539)	(3,195)
<b>of which recoverable by employers</b>	n/a	n/a	n/a	n/a	n/a

### Accruing costs

- A.13 The cost of benefits accrued in the year ended 31 March 2016 (the Current Service Cost) is based on a standard contribution rate of 39.6%. Members contributed between 3.0% and 8.1% of pensionable pay, depending on the level of their pay. 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 of 6.5%. The corresponding figures for 2014-15 are also included in the table.

**Table F – Contribution rate**

	Percentage of pensionable pay	
	2015-16	2014-15
<b>Standard contribution rate</b>	39.6%	34.1%
<b>Members' estimated average contribution rate</b>	6.5%	6.5%
<b>Employers' estimated share of standard contribution rate</b>	33.1%	27.6%

- A.14 For the avoidance of doubt, the actual rate of contributions payable by employers, 26.0% of pensionable pay for 2015-16, is not the same as the employers' share of the standard contribution rate as above (33.1% for 2015-16). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Resource Accounts is the discount rate. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS19.
- A.15 The estimated pensionable payroll for the financial year 2015-16 was £280 million (derived from the total Employer contributions of £73 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 2015-16 (at 39.6% of pay) is assessed to be £111 million (including employee normal contributions).

A.16 A past service cost of £2 million has been included for 2015-16 in recognition of the announced Government policy to provide full indexation on GMPs for members who reach State Pension Age between 6 April 2016 and 5 December 2018. I am not aware of any other material past service costs which have arisen over 2015-16.

A.17 There were no settlement costs during 2015-16.

### Sensitivity analysis

A.18 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 2016 of changes to the most significant actuarial assumptions.

A.19 The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

A.20 As a result of the ongoing discussions on scheme reform, there remains significant uncertainty associated with how members will retire in future. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the final salary sections and so I have included an indication of the approximate effect (on the total past service liability) of assuming all non-Nuvos members retire one year later.

A.21 Table G shows the indicative effects on the total liability as at 31 March 2016 of changes to these assumptions (rounded to the nearest ½ %).

**Table G - Sensitivity to significant assumptions**

Change in assumption		Approximate effect on total liability*	
<b>Financial assumptions</b>			
(i) discount rate:	+½ % a year	-9.0 %	-£375 million
(ii) (long term) earnings increase:	+½ % a year	+1.0 %	£40 million
(iii) pension increases:	+½ % a year	+8.5 %	£355 million
<b>Demographic assumptions</b>			
(iv) additional one year increase to life expectancy at retirement:		+3.0 %	£125 million
(v) Non-nuvos active members retiring (on average) 1 year later		-0.5 %	£20 million

\* Approximate effect rounded to the nearest ½ % and £5 million respectively.

Government Actuary's Department  
20 May 2016

## 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 cash flows for the year ended 31 March 2016. 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

## 1. Scope of Responsibility

As the Accounting Officer appointed by BIS on 1 March 2016, replacing professor Jackie Hunter, for the Biotechnology and Biological Sciences Research Council (BBSRC) and the Research Councils' Pension Scheme (RCPS) 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 the RCPS' assets for which I am personally responsible, in accordance with the responsibilities assigned to me and disclosed in 'Managing Public Money'.

The Department for Business, Innovation and Skills (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 the RCPS and its sponsoring department, BIS

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

## 2. 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 RCPS, and provides a sense of the Schemes' performance during the year and how successfully it has coped with the challenges it faced. The statement explains how the RCPS has complied with the principles of good governance, reviews the effectiveness of these arrangements, and complies fully with the corporate governance code.

## 3. Governance Framework

In my role as Accounting Officer for BBSRC and the 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 2015-16 ([www.bbsrc.ac.uk/annualreport](http://www.bbsrc.ac.uk/annualreport)) and on the BBSRC website ([www.bbsrc.ac.uk](http://www.bbsrc.ac.uk)).

## 4. RCPS Management Board

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

The RCPS Management Board met four times during 2015-16. Board members and their attendance at those meetings was:

Name of Member	Organisation	Attendance
Jan Juillerat	BBSRC (Chair of the Board)	4/4
Peter Ethelston	AHRC, ESRC and EPSRC	4/4
Liz Hopkinson	BBSRC	4/4
Nigel Sully	NERC	4/4
Jerry Snewin	STFC	4/4
John Arnott	UK SBS Ltd	4/4
Anne Shaw	Innovate UK	1/4
Deepak Kalia	Diamond Light Source	2/4
Tina Mousley	Scottish Institutes	3/4
Tony Bell	Trade Unions	1/4

## 5. Joint Superannuation Services

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

## 6. 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 ongoing process designed to identify and prioritise the risks to the achievement of BBSRC's and the RCPS' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in respect of the RCPS for the year ended 31 March 2016 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

## 7. The Risk and Control Framework

Overall responsibility for risk management within the 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 the RCPS' overall risk management policy and strategy is delegated to the BBSRC Executive Director, Finance and Campus Operations who fulfils the role of the Director responsible for risk.

The task of reviewing the Schemes' risk management framework is delegated to the Head of JSS. The Head of JSS undertakes a review of the Risk Management Framework three or four times per year. 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 as part of their Cross-Client Assurance programme for 2015-16. The scope of the audit is agreed with the Chair of the RCPS Management Board. The AASG also undertakes a programme of internal audits for BBSRC and UK SBS clients.

BBSRC and the 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 the 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 RCPS Annual Accounts.

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

### 7.1 Risk Assessment

At 31 March 2016, the BBSRC Risk Register had 50 risks all of which had assigned controls in order to mitigate them to an acceptable level within BBSRC's risk appetite.

The key operational risks identified in BBSRC's Risk Register that equally affect the RCPS are:

- *UK SBS Quality and Delivery of services*  
There is a risk regarding the continuity and quality of service received from UK SBS. Actions being taken to mitigate the impact of this risk include; BBSRC representation on Working Groups to ensure regular review of UK SBS performance; engagement with UK SBS on the planned closure; pan RCUK and BIS working to develop alternative solutions; and a review of BBSRC's Business Continuity Plan is underway.
- *Operational Cost Reduction Programme (OCRP)*  
There is a risk regarding the programme effectively managing change. Actions being taken to mitigate the impact of this risk include; BBSRC providing resource to the OCRP to assist in delivering effective change; proactive planning for the future; and clear two way communications between both BBSRC and its employees and BBSRC and its community.
- *Loss of Key Staff*  
There is a risk regarding the difficulty in recruiting and retaining staff in the current period of change and uncertainty. Actions being taken to mitigate the impact of this risk include; promoting the existing reward mechanisms, staff benefits, and training and professional development opportunities; talent management and succession planning framework; addressing key issues raised in the Civil Service People Survey; and the Appraisal and Performance Development Review process being used to identify any skills gaps.

The 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.

The Head of JSS reviews the RCPS risk register with the Chair of the RCPS Management Board three or four times per year or whenever a new risk is identified. Each recorded risk is allocated a risk owner and mitigation owner. The RCPS Management Board has oversight of the RCPS Risk Register which is also reviewed at the RCPS Management Board meetings. The RCPS Management Board ensure that appropriate risks are recorded, that mitigation plans exist and adequate controls are in place or planned.

As at April 2016, the register had 10 risks which had been agreed and were being monitored. Of the 10 risks, three were rated with a red risk score. The three red risks relate to: (i) the potential resource impact on JSS resulting from multiple institute and research centre changes at the same time as pension reform activities, (ii) the impact on the RCPS of the Government's Pension Reform policy; and (iii) the impact of the potential deterioration of service provided by UK SBS. Other risks relate to: new legislation or policies and the impact on core processes or resource; fraud or misappropriation of pension; 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.

## 7.2. Regularity and Propriety

BBSRC is committed to establishing and applying appropriate regularity and propriety standards, including applying appropriate cultures and behaviours and does not tolerate any form of fraud, bribery and/or corruption. The key components in this regard are:

- Fraud and Bribery policy;
- Research Council Whistleblowing policy;
- Gifts and Hospitality policy;
- Complaints procedure; and
- Research Council Code of Conduct policy.

A mandatory e-Learning awareness training package covering fraud and bribery was rolled out and completed by all staff in 2014-15 and has been completed by all new starters in 2015-16.

The Chair of the Audit Committee is the nominated contact for BBSRC staff to raise any concerns which may fall under the Whistleblowing policy.

I confirm that for 2015-16:

- Neither I, my predecessor, nor my staff authorised a course of action, the financial impact of which is that transactions infringe the regulatory requirements as set out in Managing Public Money;
- There were no novel, contentious or repercussive transactions that required BIS or HM Treasury approval;
- There were two attempted frauds identified by UK SBS which were dealt with appropriately and therefore did not result in a material loss of financial control;
- There were no cases of whistleblowing and that the arrangements which we have in place for whistleblowing are effective.

## 7.3. Information security and assurance

BBSRC continues to implement and embed security best practices within its operations, including those standards specifically mandated by Government. BBSRC submits an annual health check to BIS and has consistently maintained or improved its performance against these measures. Audit findings and lessons learnt from security incidents are responded to in a timely manner leading to improvements in our security controls.

All BBSRC and the RCPS staff undertakes mandatory security training.

BBSRC experienced a small number of security incidents and near misses in 2015-16, none of which required the notification of the Information Commissioner's Office.

## 8. Review of Effectiveness

As Accounting Officer it is my responsibility to ensure a sound system of governance and internal control is being maintained. In 2015-16 this review is informed by the work of BBSRC Audit Committee, BBSRC Executive Directors, the RCPS Management Board, the assurance opinion provided by the Accounting Officer of UK SBS 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 principal elements of support for the Accounting Officer's assurance statement are the work of the Audit Board the BBSRC Executive, the RCPS Management Board, including the review of business critical programmes, the annual report from the Director of AASG, BBSRC and the RCPS' Executive Directors' stewardship statements, the risk management frameworks developed by BBSRC and the RCPS, and responses to external management letters which identify if control gaps exist.

### 8.1 Audit and Assurance Services Group (AASG)

The Director of AASG is required to provide me with an opinion on the overall adequacy and effectiveness of BBSRC's framework of governance, risk management and control. This opinion is informed through the work of internal audit completed during the year and provides assurance in two areas: BBSRC core activities and cross-client activities with a BBSRC involvement.

In 2015-16 sufficient internal work has been undertaken to allow the Director of AASG to provide a positively stated (evidence-based) and reasonable (not absolute) assurance opinion on the overall adequacy and effectiveness of BBSRC's system of internal control.

#### Overall Opinion

The overall opinion is **moderate assurance** the definition of which is; some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. There are no qualifications to this opinion.

Through the BBSRC Core Audit 7 assurances provided, 43 % [3] reflect substantial assurance and 57 % [4] reflect moderate assurance. 13 cross-client Research Council audits were carried out relevant to BBSRC; 8 % [1] received substantial assurance and 69 % [9] received moderate assurance. 23 % [3] of the audits received an overall rating of limited assurance; Retained Function Assurance: Procurement; Fraud Management - Fraud Risk Management Including Grant Giving; and 10 Steps to Cyber Security.

BBSRC has a comprehensive system for tracking implementation of audit recommendations. Progress on the implementation of core audit recommendations is closely monitored within BBSRC and regularly reviewed by the Audit Committee. Cross-client audit recommendations are monitored through the cross Council Risk and Assurance Network.

### 8.2 UK Shared Business Services Ltd (UK SBS Ltd) assurance

UK SBS Ltd (UK SBS) provides processing services in human resources, procurement, payroll, finance, grants and IT to all seven Research Councils including JSS and the RCPS.

#### UK SBS Ltd 2015-16 Performance

The Accounting Officer of UK SBS has written to me stating that the Head of Internal Audit (Government Internal Audit Agency) has provided an opinion of Moderate Assurance for both the internal operations within UK SBS and for its customer facing operations.

To compensate for the weaknesses in UK SBS BBSRC has been operating a system of detective controls to identify and rectify service failings. AASG has examined this additional control system, the outcomes of which were:

- Payroll – Moderate Assurance
- GPC and iExpenses – Moderate Assurance
- Purchase to Pay – Moderate Assurance
- Strategic Procurement – Limited Assurance

The accepted audit recommendations in these areas will be taken forward in 2016-17.

During the year the databases sitting behind Oracle were updated to bring them back into technical support from Oracle. This update did however lead to an unplanned system outage of two weeks which resulted in business continuity plans being implemented by UK SBS and the RCUK Executive.

### **Cyber Security**

BBSRC recognises the ongoing and increased Cyber Security threats and the challenges to managing them. We have a commitment to continually improve our controls, training and awareness. Whilst there have been a small number of incidents they have not resulted in data loss or classed as high risk.

BBSRC receives IT Infrastructure services in support of common key business services from UK SBS. These are subject to governance arrangements and subject to regular audits. These arrangements allow us to continuously assess and challenge performance including the review of cyber security threats and management of security incidents. These are reported separately in the annual report.

BBSRC remains committed to assessing our cyber security controls against the Cyber Security Essentials scheme and the Cyber Security Ten Steps to identify any improvements that are required.

### **Business Continuity and Disaster Recovery**

In 2015, the Research Councils and UK SBS collectively started a number of initiatives to mitigate the most serious risks that were faced. In this context it was recognised that the business systems employed by the Research Councils and UK SBS are currently out of support. Additionally, UK SBS is entering into a transition period over the next 2 years, as new business systems are implemented and UK SBS disbanded. These factors pose a significant risk to the Research Councils.

A cross-Council group, which includes UK Space Agency (UKSA) and AASG, was set up in August 2015 to consider possible erosion of UK SBS services as plans for their future evolve. The group considered and agreed mitigations in the key areas of Research Council business:

- Identify potential areas at risk in each area in the event of any reduction in the quality of service provided by UK SBS;
- Compile a summary detailing the background, key activities, overview of risks and options for mitigation of risks;
- Liaise with UK SBS to identify the current status of their Business Continuity plans and take appropriate actions to ensure this are aligned to minimise disruption in the areas identified by the Research Councils;;
- Harmonise as far as possible Research Councils Business Continuity/Disaster Recovery plans under an overarching umbrella;
- Plans to upgrade and test the existing disaster recovery facilities.

It has become clear that the potential for erosion of service is increasing, evidenced by recent losses of service. The RCUK community has introduced a number of measures to maintain oversight of ongoing performance, including further monitoring of services, setting up a Finance Rapid Response Group and in the case of IT; the Research Councils have significant ICT in-house capability. UK SBS, in liaison with the Research Councils, will also carry out a lessons learnt exercise for the most recent loss of service. The Chair of RCUK Executive Group has written to the BIS Principal Accounting Officer alerting him of the collective concerns of the Research Councils regarding the ongoing vulnerability and fragility of UK SBS systems.

### **Future Operations**

BIS announced in 2015 that the UK SBS is to be disbanded within the next 3 years which will require BBSRC and RCPS to move to another supplier within that time. UK SBS acknowledge risks to continued resilience including reliance on legacy systems and capacity and capability. UK SBS' ability to maintain service delivery, prepare for and transfer services over the next two to three years will be highly dependent on capacity and capability. Decisions on the BIS shared services strategy and other programmes will impact on UK SBS' ability to manage change and retain key skills. To date, there have been no material errors or omissions reported to me, although the risk of error has increased.

Whilst the resolution of the above system issues could be seen as a positive outcome, I am concerned there is a need to assess and stabilise the platform in order to minimise the risk of further disruption. BBSRC, the other Research Councils and the RCUK Executive will continue to strengthen the business continuity plans already in place, including a review of the lessons learned from the outage this year.

### **8.3 External Audit**

The RCPS Annual Accounts are audited by the National Audit Office who produce an Audit Completion Report.

## 9. Conclusion

The Governance Statement represents the results of the review of effectiveness of the system of governance and internal control. I have considered the evidence provided with regards to the production of the Annual Governance Statement and the advice of AASG and BBSRC Audit Committee. The conclusion of the review is sufficient to satisfy me that the system of governance and internal control is appropriate to the RCPS.

Professor Melanie Welham  
Interim Chief Executive and Accounting Officer  
Date: 28 June 2016

# 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 2016 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 and the Report of the Actuary 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 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 2016, 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 on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements 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  
Date: 30 June 2016

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



## Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Notes	2015-16		2014-15
		£'000	£'000	£'000
<b>Principal Arrangements - Research Councils' Pension Schemes</b>				
Income				
Contributions receivable	3		92,462	95,484
Transfers in: individuals	4		4,345	6,247
Transfers in: bulk	4		1,296	-
Other pension income	7		154	-
Recoveries			1,125	1,300
			<u>99,382</u>	<u>103,031</u>
<b>Expenditure</b>				
Service cost	5	113,000		96,000
Transfers in	4	5,641		6,247
Enhancements	6	4,000		3,000
Pension funding cost	10	154,000		167,000
Administration costs	9	1,033		1,107
			<u>(277,674)</u>	<u>(273,354)</u>
			<u>(178,292)</u>	<u>(170,323)</u>
<b>Combined Net (Expenditure) for the year</b>				
<b>Other Comprehensive Net Expenditure</b>				
Actuarial gains/(losses)	15.15		326,000	(366,000)
<b>Total Comprehensive Net Income/(Expenditure) for the period ended 31 March 2016</b>				
			<u>147,708</u>	<u>(536,323)</u>

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 2016

	Notes	<b>31 March 2016</b>	31 March 2015
		<b>£'000</b>	£'000
<b>Current assets</b>			
Receivables	12	4,768	2,173
Cash and cash equivalents	13	14,621	9,619
<b>Total current assets</b>		<b>19,389</b>	<b>11,792</b>
<b>Current liabilities</b>			
Payables (amounts falling due within one year)	14	(2,512)	(2,464)
<b>Net current assets, excluding pension liability</b>		<b>16,877</b>	<b>9,328</b>
Pension liability	15.11	(4,164,819)	(4,359,978)
<b>Net liabilities, including pension liabilities</b>		<b>(4,147,942)</b>	<b>(4,350,650)</b>
<b>Combined schemes - Total net liabilities</b>		<b>(4,147,942)</b>	<b>(4,350,650)</b>
<b>Taxpayers' equity</b>			
General fund		(4,147,942)	(4,350,650)

Professor Melanie Welham,

Chief Executive BBSRC,

Accounting Officer

Date: 28 June 2016

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 2016

	Notes	<b>2015-16</b>	2014-15
		<b>£'000</b>	£'000
Balance at 1 April		(4,350,650)	(3,862,327)
Grant in Aid: drawn down	17	55,000	48,000
Combined net outgoings		(178,292)	(170,323)
Actuarial (losses)/gains	15.15	326,000	(366,000)
Recalculation of closing provision		-	-
Balance at 31 March		<u>(4,147,942)</u>	<u>(4,350,650)</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 2016

	Notes	2015-16 £'000	2014-15 £'000
<b>Cash flows from operating activities</b>			
Combined net (expenditure)/income for the year		(178,292)	(170,323)
(Increase) in receivables - principal arrangements		(2,595)	(187)
(Decrease)/increase in payables		48	(2,934)
<b>Decrease in provision for non cash transactions</b>			
Service cost	5	113,000	96,000
Interest cost	10	154,000	167,000
Transfers out		-	-
Transfers in		-	-
Enhancements	6	4,000	3,000
<b>Increase in pension provision for use of pension liabilities</b>			
Net movement on transfers	15.11	2,280	(710)
Benefit payments	15.13	(141,581)	(137,888)
Payments to or on account of leavers	15.14	(858)	(746)
<b>Net cash outflow from operating activities</b>		<u>(49,998)</u>	<u>(46,788)</u>
<b>Cash flows from financing activities</b>			
Grant in Aid	17	55,000	48,000
Increase in cash and cash equivalents		<u>5,002</u>	<u>1,212</u>
Cash and cash equivalents at the beginning of the year	13	9,619	8,407
Cash and cash equivalents at the end of the year	13	14,621	9,619
Increase in cash		<u>5,002</u>	<u>1,212</u>

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

# Notes to the Schemes' Statements

## 1. Basis of preparation of the Schemes' statements

The Schemes' statements have been prepared in accordance with the relevant provisions of the 2015-16 Government International IFRS Financial Reporting Manual (FReM) [www.financial-reporting.gov.uk/](http://www.financial-reporting.gov.uk/) issued by HM Treasury, which reflect the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Retirement Benefit Plans. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

### **a) Research Councils' Pension Schemes – principal arrangements**

The Schemes' 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 2015-16**

There have been no new revised standards and interpretation applied by the Schemes since 1 April 2014.

## 2. Accounting Policies

### **a) Contributions Receivable**

Income includes contributions received and receivable from payrolls run during the year by contributing employers. Transfers in are included when notified by the person transferring and by their old pension scheme.

### **b) Other Pension Income**

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

### **c) Pension Cost and Interest on Scheme Liabilities**

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

### **d) Transfers Out**

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

### **e) Transfers In**

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

**f) Bulk Transfers**

These relate to groups of members who are transferred under TUPE arrangements (Transfer of Undertakings (Protection of Employment) 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 credited to the Statement of Tax Payers' Equity in accordance with the FReM.

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) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances.

**l) Pension Benefits Payable**

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

**m) 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.

**n) 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**

	<b>2015-16</b>	2014-15
	<b>£'000</b>	£'000
Employers' contributions	72,693	72,958
Employees' contributions: normal	18,265	20,875
Employees' contributions: purchase of added years and added pension	1,504	1,651
	<u>92,462</u>	<u>95,484</u>

In 2016-17, £73 million employers contributions, £18 million employees contributions and £1.5 million added pension contributions are forecasted.

**4. Pension transfers in**

	<b>2015-16</b>	2014-15
	<b>£'000</b>	£'000
Individual Transfers in from other schemes	4,345	6,247
Group Transfers in from other schemes	1,296	-
	<u>5,641</u>	<u>6,247</u>

On 1 November 2012, staff from the Department of Business, Innovation and Skills (BIS) were transferred under TUPE terms to UK Shared Business Services (UK SBS). 11 members elected to transfer their accrued PCSPS pension benefits to the RCPS under Bulk Transfer terms. Bulk Transfers of £1.3 million in respect of this are included in the 2015-16 RCPS Accounts.

**5. Service cost**

	Notes	<b>2015-16</b>	2014-15
		<b>£'000</b>	£'000
Current service cost	15.11	111,000	96,000
Past service cost	15.11	2,000	-
		<u>113,000</u>	<u>96,000</u>

**6. Enhancements**

	<b>2015-16</b>	2014-15
	<b>£'000</b>	£'000
Enhancements	4,000	3,000
	<u>4,000</u>	<u>3,000</u>

**7. Other pension income**

	<b>2015-16</b>	2014-15
	<b>£'000</b>	£'000
Amounts receivable in respect of :		
Other (outgoings)/income	154	-
Bank interest receivable	-	-
	<u>154</u>	<u>-</u>

## 8. Additional Voluntary Contributions

There are no AVC payments made through the Pension Schemes. Any AVCs made are free standing additional voluntary contributions which are private arrangements between the employee and the relevant institutions, and details cannot be included in these accounts. Details of arrangements whereby employees can make AVCs can be found in paragraph 29 of the Annual Report.

## 9. Administration costs

	<b>2015-16</b>	2014-15
	<b>£'000</b>	£'000
Total running costs	656	598
Pensioner payroll agency fees	18	18
Auditors' remuneration	41	42
Actuarial charges	313	444
Bank Charges	5	5
	<u>1,033</u>	<u>1,107</u>

## 10. Pension financing cost

	Notes	<b>2015-16</b>	2014-15
		<b>£'000</b>	£'000
Interest charge for the year	15.11	<u>154,000</u>	<u>167,000</u>

## 11. Compensation benefits payable

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

## 12. Receivables - contributions due in respect of pensions

	<b>31 March 2016</b>	31 March 15
	<b>£'000</b>	£'000
<b>12a Analysis by receipt type</b>		
Prepaid lump sums	38	1,024
Pension contributions due from employers and employees	1,098	754
Other receivables	3,632	395
	<u>4,768</u>	<u>2,173</u>



**13. Cash and cash equivalents**

	<b>31 March 2016</b>	31 March 2015
	<b>£'000</b>	£'000
Balance at 1 April	9,619	8,407
Net change in cash balances	5,002	1,212
Balance at 31 March	<u>14,621</u>	<u>9,619</u>

The following balances at 31 March were held at:

Government Banking Service	<u>14,621</u>	<u>9,619</u>
Balance at 31 March	<u>14,621</u>	<u>9,619</u>

**14. Payables - in respect of pensions**

	<b>31 March 2016</b>	31 March 2015
	<b>£'000</b>	£'000
<b>14a Analysis by expenditure type</b>		
Other payables (including administration expenses)	2,471	2,422
Audit fee payable	41	42
	<u>2,512</u>	<u>2,464</u>

## 15. Provisions for pension liabilities

### 15.1 The Research Councils' Pension Schemes are unfunded defined benefit schemes

The Report of the Actuary on pages 7 to 10 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2016 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2016	At 31 March 2015	At 31 March 2014	At 31 March 2013
Inflation	<b>2.20%</b>	2.20%	2.50%	1.70%
Earnings increase	<b>4.20%</b>	4.20%	4.50%	3.95%
Notional discount rate used to discount the Schemes' liabilities	<b>3.60%</b>	3.55%	4.35%	4.10%
Discount rate net of inflation	<b>1.40%</b>	1.35%	1.85%	2.25%
Increase in pensions CPI	<b>1.37%</b>	1.30%	1.80%	2.35%

The life expectancy of normal health current pensioners at age 60 for men is 29.5 (2014-15: 29.7) and women is 30.5 (2014-15: 31.1). The life expectancy of normal health future pensioners at age 60 for men is 32.3 (2014-15: 32.6) and women is 33.4 (2014-13: 34.2)

The life expectancy of normal health current pensioners at age 65 for men is 24.5 (2014-15: 24.8) and women is 25.5 (2014-15: 26.2). The life expectancy of normal health future pensioners at age 65 for men is 27.7 (2014-15: 28.1) and women is 28.9 (2014-15: 29.6)

### 15.2

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 Schemes;
- Income and expenditure, including details of any bulk transfers into or out of the Schemes; and
- Following consultation with the actuary, the key assumptions that should be used to value the Schemes liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

### 15.3

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

### 15.4

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the 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.

**15.5**

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

**15.6**

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

**15.7**

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.

**15.8**

The reforms due to be implemented in April 2018 relating to age retirement and the increased member contributions being phased in from April 2012, may affect the behaviour of members. The age retirement rates adopted reflect recent experience and allow for the expected impact of the reformed scheme on members retirement behaviour in future.

**15.9**

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years". The last formal actuarial valuation undertaken for the RCPS as at 31 March 2006 was completed in 2008-09. Consequently, a formal actuarial valuation as at 31 March 2010 was initiated but this was not completed as formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury on value for money grounds while consideration was given to recent changes to public service pensions and while future scheme terms were developed as part of the reforms to public service pension provision. Since 31 March 2012, HM Treasury have reinstated the requirement for a full actuarial valuation as at 31 March 2012. The 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 was to set employer and employee contribution rates effective from 1 April 2015. An actuarial valuation of the scheme for IAS19 has been carried out as at 31 March 2016 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 2016 to be approximately assessed based on the calculated IAS19 liability as at 31 March 2015.

**15. 10 Analysis of the provision for pension liability**

	<b>2015-16</b>	2014-15	2013-14	2012-13
	<b>£ million</b>	£ million	£ million	£ million
<b>RCPS</b>				
Active members	1,542	1,538	1,332	1,232
Deferred members	710	805	694	604
Current pensioners	1,415	1,487	1,358	1,252
<b>Total</b>	<u>3,667</u>	<u>3,830</u>	<u>3,384</u>	<u>3,088</u>
<b>Closed schemes</b>				
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Deferred members	72	80	71	62
Current pensioners	425	450	409	390
<b>Total</b>	<u>497</u>	<u>530</u>	<u>480</u>	<u>452</u>
<b>Total provision for pension</b>	<u>4,164</u>	<u>4,360</u>	<u>3,864</u>	<u>3,540</u>

**Sensitivity analysis**

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty, IAS19 requires disclosure of the approximate effects on the actuarial liability as at 31 March 2016 of changes to the significant actuarial assumptions.

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

As a result of the ongoing discussions on scheme reform, there remains significant uncertainty associated with how members will retire in future. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in the final salary sections so we have included an indication of the approximate effect (on the total past service liability) of assuming all non-Nuvos members retire one year later.

The table that follows shows the indicative effects on the total liability as at 31 March 2016 of changes to these assumptions (rounded to the nearest ½ %).

<b>Change in assumption</b>	<b>Approximate effect on total liability*</b>	
<b>Rate of return</b>		
(i) discount rate: +½ % a year	-9.00 %	-£375 million
(ii) earnings increases: +½ % a year	1.00 %	+£40 million
(iii) pension increases: +½ % a year	8.50 %	+£355 million
<b>Pensioner mortality</b>		
(iv) additional one year increase to life expectancy at retirement:	3.00 %	+£125 million
<b>Age Retirement</b>		
(v) all non-Nuvos actives retiring (on average) 1 year later	-0.50 %	- £20 million

**15.11 Analysis of movements in the Schemes' liability**

	Notes	2015-16 £'000	2014-15 £'000
Schemes' liability at 1 April		<b>4,359,978</b>	3,867,322
Current & Past service cost	5	<b>113,000</b>	96,000
Enhancements		<b>4,000</b>	3,000
Interest on the Schemes' liabilities		<b>154,000</b>	167,000
Benefits payable	15.13	<b>(141,581)</b>	(137,888)
Payments to or on account of leavers	15.14	<b>(858)</b>	(746)
Net movements on transfers		<b>2,280</b>	(710)
Analysis of actuarial losses/(gains) on the Schemes' liabilities	15.15	<b>(326,000)</b>	366,000
		<b>(195,159)</b>	492,656
		<b>4,164,819</b>	4,359,978
Net bulk staff transfer in		-	-
Net bulk staff transfer out		-	-
<b>Schemes' liability at 31 March</b>		<b>4,164,819</b>	4,359,978

**15.12**

During the year ended 31 March 2016, employers and employees contributions represented an average of 39.6 percent of pensionable salaries (2014-15: 34.1 percent). The employers pension rate for 2015-16 and future years until further notice will be 26.0 percent.

**15.13 Analysis of benefits paid**

	2015-16 £'000	2014-15 £'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	<b>(125,162)</b>	(121,133)
Commutations and lump sum benefits on retirement or death	<b>(16,419)</b>	(16,755)
As per Combined Statement of Cash Flows	<b>(141,581)</b>	(137,888)

**15.14 Analysis of payments to or on account of leavers**

	2015-16 £'000	2014-15 £'000
Refunds to members leaving service	<b>(858)</b>	(746)
As per Combined Statement of Cash Flows	<b>(858)</b>	(746)

**15.15 Analysis of actuarial gains/(losses) on the Schemes' liabilities**

	2015-16 £'000	2014-15 £'000
Experience gains arising on the Schemes' liabilities	<b>66,000</b>	103,000
Change in assumptions underlying the present value of Schemes' liabilities	<b>260,000</b>	(469,000)
Per Statement of Recognised gains and losses	<b>326,000</b>	(366,000)

**15.16 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
	£'000	
2015-16	66,000	1.6%
2014-15	103,000	2.4%
2013-14	19,000	0.5%
2012-13	24,000	0.7%
2011-12	(1,000)	0.0%
2010-11	65,000	2.1%
2009-10	(34,000)	-1.0%
2008-09	47,000	1.6%
2007-08	3,000	0.1%

**16. Annual compensation payments pre-funded by employers**

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

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	4,519	6,276
Amount paid in year to the Pension Schemes	(1,234)	(1,817)
Addition in year	-	60
Release in year	(84)	-
Balance at 31 March	<u>3,201</u>	<u>4,519</u>
To be used in the next 12 months	1,298	1,387
To be used after more than 12 months	1,903	3,132

**17. Grant-in-Aid**

Grant-in-Aid is provided from the Department for Business, Innovation and Skills (BIS) Request for Resources to the Biotechnology and Biological Sciences Research Council (BBSRC) as the Council with responsibility for administering the Schemes' finances. The allocation for 2015-16 was £55 million (2014-15 was £48 million) all of which was drawn down by the Pension Schemes.

**18. Related Party Transactions**

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

The BIS is regarded as a related party. During the period 1 April 2015 to 31 March 2016 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), Innovate UK (previously TSB), and the Arts & Humanities Research Council (AHRC).

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	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Transactions with Research Councils</b>						
BBSRC	2,516	2,728	3,534*	211	(673)	3,521
EPSRC	1,895	1,775	-	-	-	-
ESRC	1,095	1,092	11	-	-	-
NERC	20,146	19,453	25	76	-	0
STFC	16,747	16,018	36	83	-	-
Innovate UK	3,523	2,596	391	-	-	-
AHRC	801	757	1	1	-	-
<b>Transactions with other employers</b>						
Scottish Employers	6,937	2,965	256	-	-	-
UKSBS Ltd	3,601	4,713	3	4	-	-
Other	15,432	20,361	511	1,610	(1,839)	1,877
<b>Total</b>	<b>72,693</b>	<b>72,458</b>	<b>4,768</b>	<b>1,985</b>	<b>(2,512)</b>	<b>5,398</b>

\* Receivable balance from BBSRC is higher than in previous years due to £3.5m receivable for a cash transfer to BBSRC in March 2016 to cover cashflows and the repayment had not cleared the bank on 31 March 2016.

**19. Losses and Special Payments**

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

**20. Events after the reporting period**

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made. Sensitivity analysis around the key financial assumptions underpinning the actuarial valuation of the Scheme liabilities that may potentially be affected by this decision can be found on page 10.

There were no other material events after the Reporting Period between the year end and the date 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 2016-17 in paragraphs 23 to 26 of the Annual Report.

**21. Financial Instruments**

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

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