



**ANNUAL REPORT AND ACCOUNTS
2014 -15**

Engineering and Physical Sciences Research Council

ANNUAL REPORT AND ACCOUNTS 2014 - 15



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Technology Act 1965

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ANNUAL REPORT

Strategic Report

Fair Review of EPSRC Business

Brief History and Statutory Background

EPSRC was founded as a Research Council and received its Royal Charter in 1994 following a review of its predecessor body, the Science and Engineering Research Council (1981-1994). It traces its history back to the foundation of the Science Research Council in 1965. Based in Polaris House, Swindon, it operates alongside the other Research Councils and Research Councils UK (RCUK). The EPSRC is a Non-Departmental Public Body sponsored by the Department for Business, Innovation and Skills (BIS).

Nature of Organisation

EPSRC is at the heart of discovery and innovation in the UK and is the UK's main agency for funding research in engineering and the physical sciences. EPSRC invests around £900m a year in research and postgraduate training to help the nation handle the next generation of technological change. The areas covered range from information technology to structural engineering and mathematics to materials science. This research forms the basis for future economic development in the UK and results in improvements for everyone's health, lifestyle and culture.

The objectives for which the EPSRC was established are formally laid out within the Royal Charter:

- (i) to promote and support, by any means, high-quality basic, strategic and applied research and related post-graduate training in engineering and the physical sciences;
- (ii) to advance knowledge and technology (including the promotion and support of the exploitation of research outcomes) and provide trained scientists and engineers which meet the needs of users and beneficiaries (including the chemical, communications, construction, electrical, electronic, energy, engineering, information technology, pharmaceutical, process and other industries), thereby contributing to the economic competitiveness of our United Kingdom and the quality of life;
- (iii) in relation to the activities as engaged in by the Council under (i) and (ii) above and in such manner as the Council may see fit:
 - o to generate public awareness;
 - o to communicate research outcomes;
 - o to encourage public engagement and dialogue;
 - o to disseminate knowledge;
 - o to provide advice.

The vision and goals as laid out within the Strategic Plan published in 2015 are:

Vision – The EPSRC vision is for the UK to be the best place in the world to research, discover and innovate.

Goals – The vision is supported by two goals which emanate from the Charter:

Research and Discover- For the UK to be positioned as an international research leader, where discovery thrives and our support generates the highest quality research in engineering and the physical sciences.

Research and Innovate- For the UK's excellent research base and talented researchers to work with us to accelerate innovation for the benefit of society and the economy.

Strategic Report

Performance and Position of Organisation

The EPSRC is the primary funder of research into engineering and physical sciences in the UK. According to the results of Research Excellence Framework (REF2014), which is a measure of the quality of research in Higher Education Institutes (HEIs), almost 50% of the funding in engineering and physical sciences came from EPSRC. As the largest single funder of the current engineering and physical sciences academic research base, the EPSRC has a major impact on the UK's economy. For example, an independent report, published in March 2015 by Technopolis on the contribution of engineering research and associated training to the UK economy estimates that engineering-related sectors contributed about £280 billion in gross value added (GVA) in 2011, equivalent to 20% of the UK's total GVA. Engineering-related sectors exported goods and services valued at around £239 billion in 2011, some 48% of the total value of exports for that year.

Further evidence of the significance of EPSRC's research investment is provided by our analysis of the 1250 impact case studies submitted to the engineering and physical sciences Units of Assessment as part of the REF 2014. 85% of the studies featured EPSRC supported research or researchers, with over £1 billion of EPSRC funding cited, coupled with a similar level of funding from other sources including over £250 million from government (including £84 million from predecessors to Innovate UK), £460 million from EU Government and ~£150 million from industry (figures as reported in the REF case studies – although there is likely to be significant under-reporting, the relative proportions appear consistent with contextual data published by HESA). Reported impacts arising from these investments include cost savings of £16 billion in the public and private sectors and 400 new businesses created, employing at least 50,000 people and contributing an estimated £4 billion to the economy in revenue.

Future Performance

Our Strategic Plan 2015 www.epsrc.ac.uk/newsevents/pubs/strategic-plan-2015/ sets out how EPSRC will:

- deliver a portfolio of world-class research by internationally regarded leaders;
- support more extensive and rapid exploitation of research outcomes;
- maintain the UK's reputation for excellence and keep it at the heart of global research and innovation;
- nurture the next generation of skilled researchers and innovators and provide the knowledge and skills vital to a healthy, sustainable and prosperous society throughout strategies and Balancing Capability, Building Leadership and Accelerating Impact.

Our plans since 2011 have concentrated on shaping our portfolio to ensure it delivers high quality research for the UK and on creating a high-quality training environment by increasing our support for cohorts of doctoral students. For 2015-16, building on high-quality research and postgraduate training we conduct in the UK, our strongest emphasis will be on generating the greatest possible impact and value from our investments. In supporting the Government's strategies for growth, we will use the investment allocated to us to;

- sustain the kind of world-leading research base which secures the UK's reputation for research excellence and which attracts both leading researchers to work here and inward investment;
- help realise the Government's Industrial Strategy;
- invest in the next 'Great Technologies' e.g. Quantum Technologies;
- increase the numbers of highly-skilled individuals the UK needs to build and sustain a high-tech economy;
 - help turn ideas quickly into jobs and profits through the increased attraction of industrial investment alongside our own
 - building UKs capacity through Small and Medium Enterprises (SMEs);
 - secure better value for money from public funds through leverage on our research and training investment.

Strategic Report

Principal Risks and Uncertainties

EPSRC's risk management process is designed to manage risk and not eliminate it. The quarterly review process allows risk owners to comment on mitigation actions and provide assurance that risks are being managed.

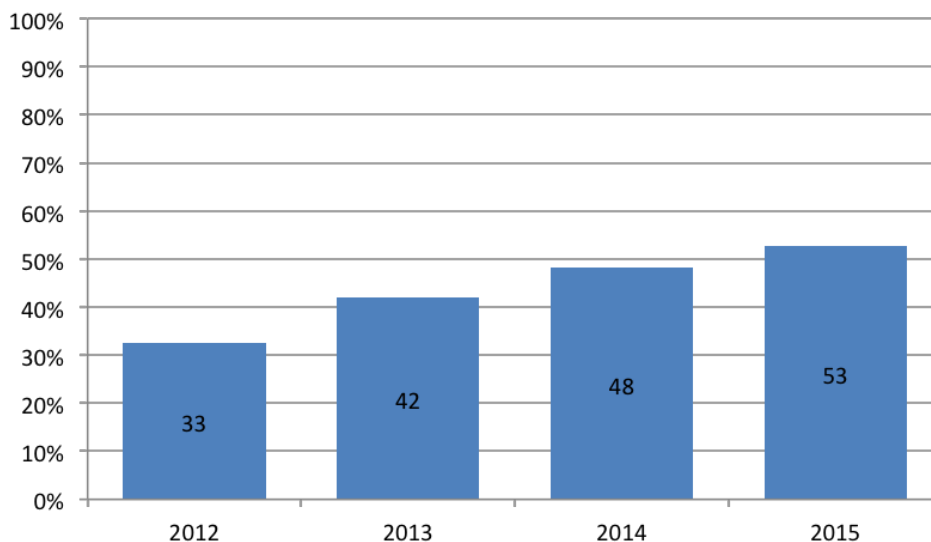
Strategic risks are identified through the Executive Leadership Team and regularly reviewed by Audit and Risk Assurance Committee and Council, who pay particular attention to those highlighted as significant high-level risks. It is through this process that EPSRC is able to manage the key headline risks that impact on the delivery of the EPSRC's programmes and operations and enables mitigating actions to be agreed and implemented.

The principal operational risks for EPSRC are the challenges posed by the shared services environment (for more detail refer to the Governance Statement p32) while the principal strategic risks are those involving EPSRC's need to provide an appropriately robust evidence base of the value of current activities and the sustained impact of previously funded work and the need to enable researchers to deliver their full potential for excellent research and wide benefits to society and the economy.

Performance against Key Performance Indicators

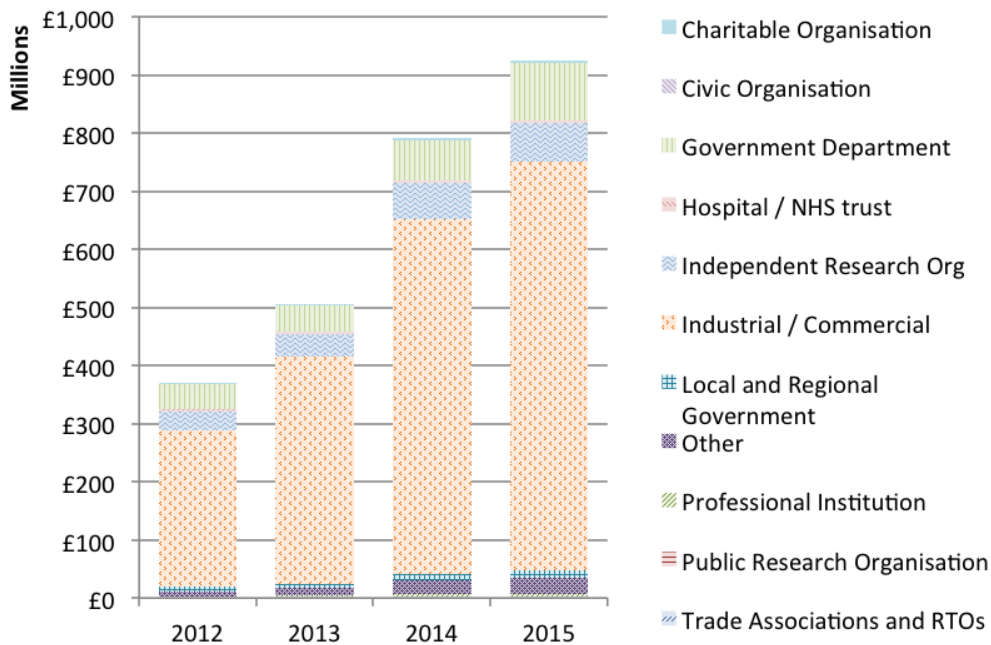
EPSRC's performance is measured against objectives across a large number of areas, helping the Council to provide funding across the range of engineering and physical science disciplines to academics carrying out excellent research at every stage of their career. Our KPIs ensure that EPSRC funding responds to the requirements of the research community and results in research, which fosters new collaborations with industrial and other non-academic partners, informs public policy and ensures UK researchers are key players on the international stage.

Proportion of portfolio that is collaborative with non-academic partners



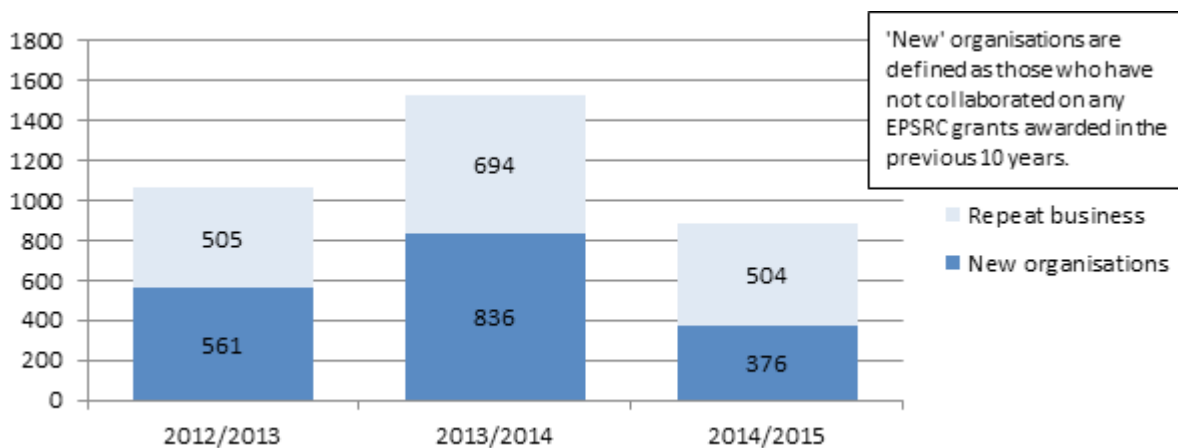
Strategic Report

The chart below shows leverage on EPSRC's portfolio from non-academic partners



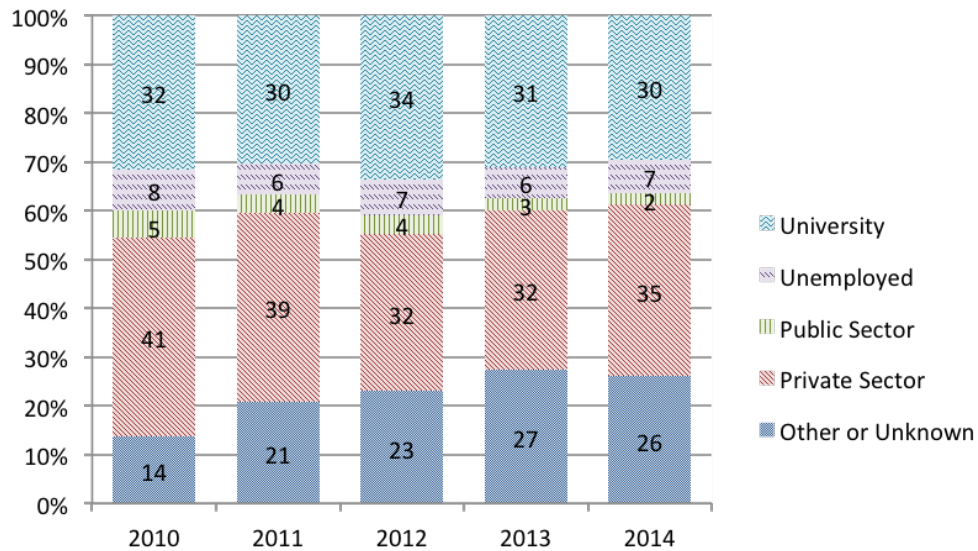
The chart below represents collaborating non-academic partner organisations on new grants awarded in year. The overall number of collaborating non-academic partner organisations on current grants as of 1 April each year has steadily increased over the last 3 years by 40% (2253 in 2013 to 3155 in 2015).

The peak in 2013-14 is due to Collaborative Doctoral Training Awards (CDTs) where 35% non-academic partner collaborations exist due to CDT involvement.



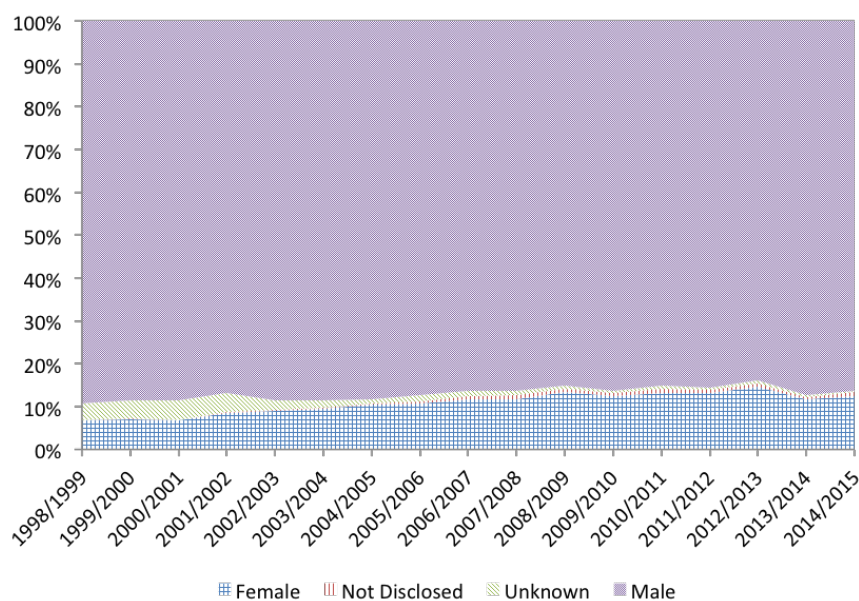
Strategic Report

EPSRC invests in approximately 9,300 doctoral students, representing 25% of all Engineering and Physical Sciences PhDs, and 10% of all UK PhDs. Over 2,400 PhDs graduate each year having received EPSRC support, of which around one third are collaborative with business. The chart below shows the destination trends for the last five years.



The Destinations of Leavers from Higher Education (DLHE) survey asks leavers from higher education what they are doing six months after graduation. About three quarters of leavers complete the survey.

Ensuring equality and diversity across the engineering and physical sciences community is of key importance to the Council and the chart below shows gender of awarded investigators by financial year of decision.



Strategic Report

Going Concern

The financial statements have been prepared on a Going Concern basis. For full disclosure please refer to Note 1(a) of the Accounts.

Financial Performance

Net expenditure for the year rose by £41m, from £907m to £948m. About 94% of EPSRC's total expenditure is on research, training and fellowship grants (2013-14 93%) and approximately 3% on facilities grants and contributions and the Energy Technologies Institute (ETI) (2013-14 3%). The increase in expenditure is mainly due to a £50m increase in Research; this is mostly due to additional funding from BIS. Net Assets increased by £7m from -£13m - £20m. The payables were reduced by £17m and receivables were reduced by around £12m and the only other movement was a small reduction in Non-Current assets of £2m. Total Grant-In-Aid drawn down was £952m (2013-14 £938m).

Outturn

£000	Resource	Capital	Total
Allocation	810,661	144,400	955,061
Outturn	810,144	144,351	954,461
In year under/(overspend)	517	49	600
Reconciliation of Net Resource Expenditure between Allocation, Outturn and Accounts			
BIS Allocation:			
Administration			11,219
Programmes			799,442
Capital			144,400
Total			955,061
Administration Expenditure per Management Accounts			10,824
Programmes Expenditure per Management Accounts			799,320
Capital Expenditure per Management Accounts			144,317
Total Expenditure per Management Accounts			954,461
Capital Additions			(9,658)
Notional Charge			3,516
Revaluation			50
Total Net Expenditure			948,369

Creditor Payment Policy

The EPSRC observes HM Treasury Guidance and makes every effort to pay creditors within 5 days of receipt of invoice. Where this is not possible, the EPSRC observes the CBI's Prompt Payers' Guide and adheres to the Principles of the Prompt Payers' Code, endeavouring to ensure compliance with the agreed terms of payment of creditors' invoices and to pay them within 30 days of receipt of goods and services. During 2014-15 an average of 86% of payments were made within 5 days (2013-14 81%).

Strategic Report

Efficiency

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

For further details on the RCUK Efficiency Programme please refer to the Governance Statement on page 29.

The Professional Support Unit (PSU) was established in 2013 to provide professional services in Facilities, Finance, Human Resources (HR), Information Technology (IT), Project Management and Reprographics to three Research Councils: Arts and Humanities Research Council (AHRC), Engineering and Physical Sciences Research Council and Economic and Social Research Council (ESRC).

The purpose of the PSU is to deliver economies of scale, reduce costs and harmonise the policies and processes it operates on behalf of the three Councils. In order to achieve its aims, the PSU will not only receive direction from the PSU Management Board to implement change but also possess the authority to propose and create efficiencies and harmonisation to benefit the three Councils, that will include:

- value for money;
- synergies of shared resource;
- improvement and streamlining of policies and procedures through the pooling of best practice, via harmonisation.

UK Shared Business Services Ltd (UK SBS)

UK SBS Ltd provides operational and transactional services to EPSRC covering Finance, HR, IT, Procurement and Payroll. A review of UK SBS Ltd service delivery and the associated assurance issues are covered elsewhere within the Governance Statement.

Diversity and Equality

EPSRC policy on recruitment and selection is based on the Equality Act 2010 and focuses on the ability of the candidate to perform the job regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. If disability should occur during employment, the EPSRC would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

EPSRC holds 'two ticks' Positive About Disabled People status which is awarded to employers who have made a commitment to employ, keep and develop the abilities of disabled staff. The annual review was successful and retention of the award was confirmed for a further year.

EPSRC supports the Mindful Employer initiative and is a signatory to the Charter for Employers who are positive about mental health. PSU HR attends seminars and networking events involving other organisations. The initiative indicates a positive attitude about mental health and demonstrates EPSRC's commitment to improving the working lives of its employees.

PSU HR is working with the three Councils it supports to source, develop and introduce unconscious bias training for employees, board and committee members and external reviewers. This training will commence towards the end of the 2014-15 reporting year and run through 2015.

As a funder of research, EPSRC is committed to attracting and retaining the best potential researchers from a diverse population into research careers. EPSRC has worked closely with other Research Councils to publish

Strategic Report

a high level analysis of its diversity data on grant and fellowship applications, awards and success rates by gender, age and ethnicity with an accompanying narrative. The intention is to update this data and to monitor the data at a more in depth level to identify any specific areas of concern for future action.

EPSRC is working with partners to identify the most effective actions to bring about long-term change to develop a diverse research base in engineering and physical sciences. EPSRC works with the Royal Society to fund Dorothy Hodgkin Fellowships aimed at early career researchers who require a flexible working pattern. This year 3 fellows were supported. It also provides £120k p.a. to the Daphne Jackson Trust to support return researchers to their careers after a break of 2 or more years. During the year, it has become involved with the Women in Science and Engineering (WISE) network whose mission is to increase the gender balance in the UK's STEM workforce, pushing the presence of female employees from 13% as it stands now, to 30% by 2020. Areas for future action include a dialogue campaign with universities to share Institution specific diversity data and identify successful interventions.

Employee Engagement

Employee involvement in management and policy matters continues through ongoing dialogue between all colleagues within EPSRC. The Professional Support Unit (PSU) which was formed in 2013-14 and hosted by AHRC, continues to engage with colleagues to facilitate management and policy matters for HR, Finance, IT and Project work in support of AHRC, EPSRC and ESRC.

EPSRC continues to recognise and consult with the Public and Commercial Services Union and Prospect on issues relating to pay and terms and conditions of employment. Consultation takes place through the Joint Negotiation Consultative Committee meeting on a quarterly basis. During the year, the move to a harmonised set of non-pay employment terms and conditions has continued.

Investors in People

EPSRC retains its Investors in People status.

Civil Service People Survey (CSPS)

EPSRC has, for the fourth year, participated in the Civil Service People Survey. Participation is up from 67% to 72% and the engagement index rose by 6 points to 66 which is 1 index point above the High Achievers index of 65 and 6 points above the Civil Service average.

EPSRC continues with weekly staff updates from Executive Leadership Team (ELT), a monthly management forum and CEO meetings with teams to promote employee engagement. Output from the CSPS is part of this engagement process.

Health and Safety

EPSRC is a joint member of a cross-Research Council Health and Safety Committee. This committee considers and manages health and safety for AHRC, EPSRC and ESRC and is supported and managed by PSU HR. The committee has developed and implemented a common health and safety policy across the three Research Councils and has a continuous programme of inspections and engagement with employees in the three Research Councils. Joint Building and Office Services continues to provide health and safety support and administration across the seven Research Councils, relating to induction of new starters, first aid and fire safety.

Strategic Report

Staff Report

The number of persons of each gender who were employed by EPSRC shown as average full-time equivalents over the year ended 31 March 2015 are as follows:

	Male	Female
Directors	2	2
Senior managers	12	14
Other Employees	69	120
Total	83	136

The number of Council and Strategic Advisory Network board members of each gender are as follows:

	Male	Female
Council	14	5
Audit and Risk Assurance Committee	5	2
Strategic Advisory Network	23	9
Total	42	16

Environmental Policy

The Natural Environment Research Council (NERC) has developed a cross-Council Environment Policy which is supported by EPSRC, who continues to work with other Research Councils and tenants of Polaris House, Swindon in ensuring the building's impact on the environment is as limited as possible. Currently 91% of waste is recycled – paper, metal, plastic, wood, food waste, old PCs and printers, mobile phones, toner cartridges, batteries and spectacles are all routinely recycled. An environmental plan for the site contains a number of objectives including ongoing waste reduction, introducing solar electricity and water heating, promoting and encouraging a site culture of recycle, reduce and reuse and enhancing the natural environment on site through introducing flora and fauna.

A Green Travel Plan for Polaris House has also been written and endorsed by RCUK's Executive Group to promote sustainable travel and reduce the environmental and social impacts of travel – both commuting and business travel. The plan outlines a number of short, medium and long term objectives, including promoting car share schemes and working with Swindon Borough Council to open park and ride schemes and improve bus facilities.

NERC takes overall responsibility for the environmental policy in Polaris House and a fuller Sustainability Report is given in their Annual Report and Accounts at www.nerc.ac.uk.

Due to its headcount and the floor area it occupies EPSRC is out of scope and has received an exemption from BIS for reporting against the Greening Government and Sustainability requirements.



Professor Philip Nelson, Accounting Officer
12th June 2015

Directors' Report

Directors' Report

Council and Management Board Members

The membership of EPSRC's Council, Audit & Risk Assurance Committee and Strategic Advisory Network are listed on page 13-15. Council members' remuneration is listed in the Remuneration Report (page 14) along with their remuneration for 2014-15. The chairman of EPSRC Council is Dr Paul Golby and the Chief Executive Officer is Professor Philip Nelson.

Conflicts of Interest

The potential conflicts of interest for EPSRC are fully disclosed in note 19 to the accounts on page 57. Full registers of interest for the EPSRC Council, Strategic Advisory Network and Audit and Risk Assurance Committee can be found on the EPSRC website <https://www.epsrc.ac.uk/about/governance/>.

Auditors

The accounts have been audited by the Comptroller and Auditor General, who has been appointed under statute and is responsible to Parliament. The cost of the audit was £70,000. No remuneration was paid to the external auditors in respect of non-audit work in 2014-15.

Internal audit was provided independently by the Research Councils' Audit and Assurance Services Group (AASG). AASG reports annually to the Audit and Risk Assurance Committee. The cost of internal audits and funding assurance undertaken during 2014-15 was £198,502. No remuneration was paid to the internal auditors in respect of non-audit work during 2014-15.

The Accounting Officer has taken all reasonable steps to ensure that he is aware of any relevant audit information and to ensure that the Councils' auditors are aware of that information. As far as the Accounting Officer is aware, there is no relevant audit information of which EPSRC auditors are unaware.

Directors Review

We, as management, have ensured that the National Audit Office team has been given all that they need in order to complete their audit.

Other Directors Report Information

Sickness Absence Data

PSU Human Resources and the Research Council management monitor staff sick absences on an on-going basis with all sickness absences followed up by a return to work interview in line with the harmonised Research Council Sickness Absence Policy. Short-term and long-term absences are managed on a case-by-case basis with appropriate support from an Occupational Health Physician.

	2014-15	2013-14
Average number of staff during year	219	208
Total days lost to sickness	1,534	1,399
Average working days lost	7	7
Days lost to long term absences	465	603

Directors' Report

	2014-15	
Common Cause of absence	Days lost	%
Anxiety/Stress Related	238	16
Cold/Cough/Flu	223	15
Surgery	219	14
Back Problems	105	7
Accident/Injury	76	5
Totals	861	57

Pension Liabilities

The accounting treatment of pension liabilities and details of EPSRC's pension schemes are fully disclosed in the Remuneration Report (page 16), Accounting Policy Note 1r and Note 3b to the accounts.

Personal Data Related Incidents

There were no protected personal data related incidents formally reported to the Information Commissioner's Office in 2014-15.

Summary of other protected personal data related incidents in 2014-15:

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	-
II	Loss of inadequately protected electronic equipment, devices or paper documents	-
III	Insecure disposal of inadequately protected electronic equipment, devices or paper document from outside secured Government premises	-
IV	Unauthorised disclosure	4
V	Other	4

Please note that EPSRC's data security policy and controls is disclosed in the Governance Statement on page 28.

Freedom of Information

Since its formation EPSRC has been subject to the Freedom of Information Act. During 2014-15 EPSRC provided information in response to 29 requests.



Professor Philip Nelson, Accounting Officer
12th June 2015

Council Membership

The following were members of the EPSRC Council in 2014-15

Chairperson

Dr Paul Golby, CBE, FREng	EPSRC
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Chief Executive

Professor Philip Nelson, FREng, Accounting Officer	EPSRC
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Members

Professor Andrew Blake, FRS, FREng	Microsoft Research Ltd
Mr Jack Boyer *	Entrepreneur
Professor Lord Ara Darzi, PC, KBE, FRS, FMedSci, Hon FREng	Imperial College London
Professor Anthony Finkelstein, FREng, FCGI, MAE	University College London
Professor Sir Richard Friends, FRS, FREng	University of Cambridge
Professor Vernon Gibson, FRS	Chief Scientific Advisor, Ministry of Defence
Professor Richard Jones, FRS	University of Sheffield
Professor Dame Julia King, DBE, FREng	Aston University
Dr Helen Neville, RSC	Procter & Gamble
Rt Hon Baroness Pauline Neville-Jones, DCMG, PC	Ridge-Schmidt Cyber
Dr David Watson, FREng	IBM UK Ltd

* re-appointed wef 23rd March 2015

Members of Council who came to the end of their term in 2015 were

Professor Anne Anderson, OBE	University of Glasgow
Professor John Fisher, CBE, FREng, FMedSci, FIMechE, FIPEM, CEng, CSi	University of Leeds
Professor Andrew Hamilton, FRS	University of Oxford
Professor John Perkins, CBE, FREng left 31-01-15	Chief Scientific Advisor, Department for Business, Innovation and Skills
Professor Jeremy Watson, CBE, FREng	BRE Group and UCL

New members appointed to Council in March 2015 were:

Ms Bonnie Dean, OBE	Bristol & Bath Science Park Quatum Property Partnership
Professor Tim Jones	University of Warwick
Professor Matthew Rosseinsky, FRS	University of Liverpool

Council Membership

Audit and Risk Assurance Committee (ARAC) membership 2014-15

Ms Rosie Drinkwater, FCA, CTA	University of Warwick
Professor Anthony Finkelstein, FEng, FCGI, MAE	University of College London
Mr Stephen Hawker, CB, FIET	SHD Consulting Ltd
Professor Richard Jones, FRS	University of Sheffield
Ms Jane Madeley, ACA, MBA	University of Leeds
Dr David Watson, FEng	IBM UK Ltd
Professor Jeremy Watson, CBE, FEng	BRE Group and UCL

In attendance

NAO and AASG

Professor Philip Nelson, FEng, Chief Executive Officer EPSRC

Mr Andrew Lewis, Chief Operating Officer EPSRC

EPSRC Strategic Advisory Network (SAN) membership 2014-15

Professor Paul Beasley	Siemens CT TIP Technology and Concepts
Dr Peter Bonfield, OBE, FEng	BRE Group
Professor David Bull, C.Eng, FIET, FIEEE	University of Bristol
Professor Brian Collins, CB, FEng	University College London
Dr Jenny Cooper	Independent
Professor Rachel Cooper, OBE	Lancaster University
Professor Sir Ian Diamond, FRSE	University of Aberdeen
Professor Alicia El Haj	Keele University
Mr Peter Ellingworth	Association of British Healthcare Industries
Professor Alison Etheridge	University of Oxford
Professor Patrick Grant, FEng	University of Oxford
Mr Tom Hockaday	Isis Innovation Ltd, University of Oxford
Professor Karen Holford, CEng, FIMechE, FICE, CPhys, FInstP, FLSW	Cardiff University
Professor Alan Hughes	University of Cambridge
Dr David Jakubovic	Procter & Gamble Technical Centres Ltd
Professor Cay Kielty, PhD	University of Manchester
Mr Jonathan Legh-Smith	BT Group plc
Professor Steven Ley, FRS, CBE	University of Cambridge
Professor Chris Linton, FIMA	Loughborough University
Professor Allan Matthews, FEng, BSC, PhD, CEng, FIMMM, FIMechE, FIET, FIMF	University of Sheffield

Council Membership

Professor Tom Melham, FRSE	University of Oxford
Professor Kenny Mitchell, BSc (Hons), MSc, PhD	The Walt Disney Company Ltd & Edinburgh Napier University
*Professor Rachel O'Reilly FRSC	University of Warwick
Professor Richard Owen, BSc, PhD	Exeter University
Professor Lydia Plowman, FAcSS	University of Edinburgh
Professor Paul Raithby	University of Bath
Dr Richard Seabrook, PhD, MBA	Wellcome Trust
Mr Philip Sharman	Independent
Professor Sarah Sharples, BSc(Hons) MSc, PhD, PGCAP, FIEHF	University of Nottingham
Professor Mark Smith, PhD, MBA	Lancaster University
Professor Nigel Titchener-Hooker, CEng, FICHEM, FEng	University College London
**Professor Paul Younger, FEng, FICHEM, FICE, FGS, FNEMME, Cgeol, CSci, CEng	University of Glasgow

*Taking 1 year Sabbatical wef 1 September 2014

**Resigned November 2014



Professor Philip Nelson, Accounting Officer
12th June 2015

Remuneration Report

Unaudited Information

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

The performance of EPSRC Directors is assessed annually by the Directors Remuneration Committee chaired by the Chair of Council with the EPSRC Chief Executive and the Chair of EPSRC Audit and Risk Assurance committee serving as members. Assessments are made using EPSRC's Staff Performance Management process taking into the account the following:

- Benchmarking against comparators in other Research Councils;
- Annual increases agreed for other staff pay grades within EPSRC;
- BIS and Government pay policy guidelines and constraints.

There is no separate Remuneration Committee that considers the pay of other senior staff.

All remuneration increases are subject to a satisfactory performance assessment. The amount of any non-consolidated one off bonus payments is determined by the level of performance rating within the year.

The remuneration of EPSRC's Council members and Chairman is reviewed annually by BIS.

Contracts of Employment

Chief Executive

EPSRC's current Chief Executive is on secondment from the University of Southampton on a 4 year fixed-term contract.

Professor Nelson is a Director of The Alan Turing Institute which was incorporated on 30 March 2015. He will not be receiving remuneration for this activity.

Directors

All Directors are employees of the EPSRC. They do not have any specific contractual rights for compensation on termination of their contract.

The Chief Executive and all Directors are subject to a notice period of 3 months and any compensation awarded for early termination is subject to the terms and conditions of the Research Councils' Joint Superannuation Early Severance Scheme.

The Chairman and Council members receive a letter of appointment from BIS and are not employees of the EPSRC although remuneration is made through the EPSRC payroll. The terms of appointment allow for members to resign from office by notice in writing to the Secretary of State. Members may also be removed from office by the Secretary of State on grounds of incapacity or misbehaviour or a failure to observe the terms and conditions of appointment.

Audited Information

Salary and Pension Entitlements

The following sections provide details of the remuneration of the Council Chair, Council Members, Chief Executive and Directors of EPSRC and the pension benefits of the Chief Executive and Directors of EPSRC.

Remuneration Report

Chief Executive & Directors	2014-15				2013-14			
	Salary £000	Bonus ² £000	Pension Benefits* £000	Total £000	Salary £000	Bonus ¹ £000	Pension Benefits* £000	Totals £000
Professor P Nelson ³ Chief Executive	140-145	-	20-25 ⁸	160-165	-	-	-	-
Professor D Delpy Chief Executive ⁷	-	0-5	-	0-5	145-150	0-5	N/A	145-150
Mr A Emecz ⁴ Director	40-45	0-5	50-55	90-95	80-85	0-5	45-50	130-135
Mr A Lewis ⁵ Director	90-95	0-5	35-40	130-135	90-95	0-5	55-60	150-155
Dr L Thompson Director	85-90	0-5	30-35	120-125	80-85	0-5	55-60	140-145
Mrs H Reynolds Executive Director RCUK ⁶	5-10	-	0-5	10-15	-	-	-	-

*The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

¹ Performance bonuses for 2012-13

² Performance bonuses for 2013-2014

³ Prof Nelson is an employee of the University of Southampton and is on secondment to EPSRC. The values shown above are the amounts reimbursed (excl pension & NI contributions) to the University of Southampton. VAT is payable on the total amount invoiced but is not included in the figure above. Prof Nelson can also claim up to £1,200 per month to cover the costs of travel and accommodation costs between Southampton and EPSRC Head Office in Swindon.

⁴ Mr Emecz is on secondment to the University of Surrey with effect from 01-10-14. EPSRC invoices the University of Surrey for all employment costs inc an allowance of not more than £1,200 per month to cover travel expenses and accommodation between EPSRC and the university. These invoices are subject to VAT. The allowance to cover travel expenses is a taxable benefit and EPSRC covers the cost of tax payable.

⁵ Mr Lewis left his role as Deputy Head of the PSU to become Chief Operating Officer of EPSRC. EPSRC has been his employer for both roles.

⁶ Mrs Reynolds has been employed as Executive Director of RCUK with effect from 1 March 2015. Her full year equivalent salary is £120k per annum. The role is funded by EPSRC, who host RCUK.

⁷ Professor Delpy left EPSRC 31-03-14

⁸ The pension benefit disclosure for Prof Nelson is not equivalent to the pension benefit disclosure of the other EPSRC directors, it is the reimbursement of the contributions EPSRC makes to the University of Southampton in respect of Prof Nelson's pension.

Remuneration Report

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The median excludes the pension benefits disclosed above.

	2014-15	2013-14
Band of Highest Paid Director Total Remuneration	140-155	145-150
Median Remuneration of EPSRC's staff	28,975	28,975
Ratio	4.92	5.09

"Salary" includes gross salary, overtime, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

There has been an increase to the average annual earnings (excluding bonuses) for these members of staff of 3.2% between 2013-14 and 2014-15.

There were no benefits in kind paid to any of these members of staff in 2014-15

In 2014-15 no employee received remuneration in excess of the highest paid director (2013-14 0).

Decisions on whether to award non-consolidated performance awards to Directors are made by the CEO in conjunction with the Remuneration Committee. Decisions are strictly performance based and made in accordance with Cabinet Office Guidance 'Senior Civil Service pay 2013-14' document published in March 2013 and Non-Consolidated Performance Related Pay (NCPRP) guidance set out in the Government's announcement in May 2010. Directors were awarded non-consolidated awards based on how well they achieved or exceeded their personal objectives given to them at the beginning of the appraisal period by the CEO and approved by the Remuneration Committee.

PSU was created in the year 2013-14. The Head of the PSU, Mr G Raikes, is the Director responsible to each Research Council for all PSU services provided to that Council and he reports to the CEO of each of the Councils supported by PSU. Mr Raikes' salary is paid by his employing Council (AHRC) and is disclosed in its Annual Report. A proportion of Mr Raikes' salary is recharged across the PSU Councils as part of the agreed charging process. The Remuneration of the Head of PSU is determined by their employing Council's Remuneration Committee. A PSU recharge is necessary to ensure each of the Council's costs fairly reflect the services received.

Mr A Lewis was Deputy Head of the PSU until 31-08-14 and as such part of his salary was recharged across the PSU Councils. As EPSRC has been his employer for the full year, the salary disclosed in this report is the full year equivalent.

Mrs H Reynolds took up the position of Research Councils UK (RCUK) Executive Director on 2nd March 2015. This is a new role in RCUK, with Mrs Reynolds' remit covering all Research Councils and her costs are recharged across the seven councils accordingly. Mrs Reynolds is employed by EPSRC, as the host Council of RCUK, but has no delegated authority that applies to the Council.

Remuneration Report

Pension Benefits (audited information)

Chief Executive & Directors	Accrued pension at pension age as at 31-03-15 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31-03-15 £000	CETV at 31-03-14 £000	Real increase in CETV £000
Professor P Nelson Accounting Officer*	-	-	-	-	-
Mr A Emezc ⁴ Director**	25-30 plus lump sum 80-85	0-10 plus lump sum 0-10	459	418	37
Mr A Lewis ⁵ Director	30-35 plus lump sum 95-100	0-10 plus lump sum 0-10	561	508	25
Dr L Thompson Director	35-40 no lump sum	0-10 no lump sum	700	637	29
Mrs H Reynolds Executive Director RCUK***	0-10 no lump sum	0-10 no lump sum	3	-	2

* On secondment from University of Southampton from 01-04-14

** On secondment to University of Surrey from 01-10-14.

*** Employment commenced 02-03-15.

Pensions

Details of the Research Councils' Pension Scheme (RCPS) is included in Note 3b to the Accounts.

Research Council Pension Scheme (Unaudited Information)

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

Employees may be in one of four defined benefit scheme arrangements; either a 'final salary' scheme (classic, classic plus or premium); or a career average scheme (nuvos). Pensions payable are increased annually in line with changes in the Consumer Prices Index (CPI). The employer contribution rate is agreed by the RCPS Board of Management on the recommendation of the Government Actuary's Department (GAD) and is set at 26.0% of pensionable pay.

All public service pension schemes have been required to deliver savings following a review of public service pensions by Lord Hutton. These savings are equivalent to an average increase of 3.2% in employee contributions paid by most RCPS members. These increases were spread over three years, the first applied in April 2012, the second in April 2013 and the last in April 2014.

Remuneration Report

Annual Pensionable Earnings (full-time equivalent basis)	Classic Scheme	Premium, Classic Plus and nuvos schemes
	Contribution from 1 April 2014 %	Contribution from 1 April 2014 %
Up to £15,000	1.50	3.50
£15,001-£21,000	3.00	5.00
£21,001-£30,000	4.48	6.48
£30,001-£50,000	5.27	7.27
£50,001-£60,000	6.06	8.06
Over £60,000	6.85	8.85

The Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Research Councils' pension arrangements and for which the RCPS has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax that may be due when pension benefits are taken.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Council Members Remuneration

Remuneration rates for Council Chair and Council Members are the same across Research Councils. BIS advise Research Councils of the rates they are required to pay following an annual review.

Council Chair and Council Member appointments are ministerial appointments made by the Secretary of State for BIS. The process for new appointments to the Council Chair and Council Members follows the best practice outlined in the Code of the Commissioner for Public Appointments. This is available at www.publicappointmentscommissioner.independent.gov.uk. In accordance with the Code, vacancies are advertised nationally and a panel, including independent members, oversee the process. The panel reviews all applications, shortlists and interviews then makes a recommendation to the Secretary of State. Once the Secretary of State has made a final decision, an offer of appointment is issued by BIS on his behalf to the successful candidate.

Remuneration Report

Council Chair and Council Members are defined as Office Holders. They are neither employees nor civil servants. Appointments are made for four years initially with the possibility of reappointment for up to a further four years. Appointments are non-pensionable and there is no compensation for loss of office.

As well as an honorarium in recognition of their service to EPSRC, Council members are refunded for reasonable expenses. Members of Council who are civil servants are not entitled to receive an honorarium.

Council Chair and Council Members (audited information)	Period Of Appointment	2014-15 Remuneration £000	2013-14 Remuneration £000
Dr Paul Golby (Chair)	01-04-12 - 31-03-16	15-20	15-20
Professor Anne Anderson	01-04-08 - 31-03-15	5-10	5-10
Professor Andrew Blake	01-04-12 - 31-03-16	5-10	5-10
Jack Boyer	01-04-11 - 31-03-15	5-10	5-10
Professor Lord Ara Darzi	01-11-13 - 31-10-17	5-10	0-5
Professor Anthony Finkelstein	01-04-13 - 31-03-17	5-10	5-10
Professor John Fisher	01-04-11 - 31-03-15	5-10	5-10
Professor Sir Richard Friend	01-04-12 - 31-03-16	5-10	5-10
Professor Vernon Gibson*	01-12-12 - 30-11-16	-	-
Professor Andrew Hamilton	01-04-11 - 31-03-15	5-10	5-10
Professor Richard Jones	01-04-13 - 31-03-17	5-10	5-10
Professor Dame Julia King	01-04-12 - 31-03-16	5-10	5-10
Dr Helen Neville	01-04-13 - 31-03-17	5-10	5-10
Rt Hon Baroness Pauline Neville-Jones	01-11-13 - 31-10-17	5-10	0-5
Professor John Perkins*	01-03-12 - 31-01-15	-	-
Dr David Watson**	01-04-09 - 31-03-16	5-10	5-10
Professor Jeremy Watson	01-04-11 - 31-03-15	5-10	5-10

*Remuneration not payable as member works in the Civil Service

**Chair of EPSRC Audit and Risk Assurance Committee



Professor Philip Nelson, Accounting Officer

12th June 2015

Statement of Responsibilities

STATEMENT OF THE RESPONSIBILITIES OF THE ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL AND OF ITS CHIEF EXECUTIVE WITH RESPECT TO THE FINANCIAL STATEMENTS

Under Paragraph 3 of Schedule 1 to the Science and Technology Act 1965, the Secretary of State for The Department for Business, Innovation and Skills (BIS), with the approval of HM Treasury, has directed EPSRC to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of EPSRC and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by the Secretary of State for BIS 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;
- prepare the financial statements on a going concern basis.

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

Governance Statement

EPSRC GOVERNANCE STATEMENT 2014-15

Headline

This Governance Statement sets out my assessment of EPSRC's potential vulnerabilities and capability to deal with the challenges facing us in our operating environment.

Scope of Responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of governance and internal control, which supports the achievement of EPSRC's policies, aims and objectives. I also safeguard the public funds and EPSRC assets for which I am responsible, ensuring they are properly accounted for and used economically, efficiently and effectively, in accordance with 'Managing Public Money' and the requirements set out in the Management Statement and Financial Memorandum agreed between EPSRC and its sponsoring department, the Department for Business, Innovation and Skills (BIS). I am supported in my role as Accounting Officer by a governance framework which includes the Council, its Committees and Senior Management.

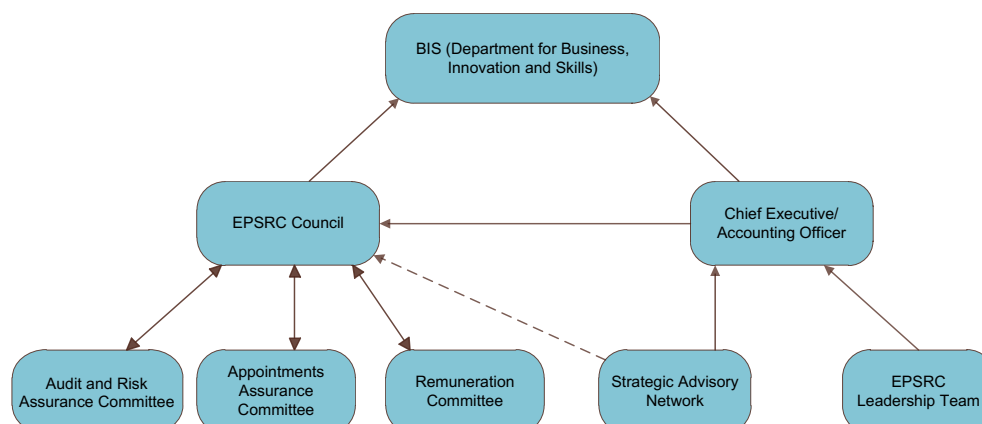
In forming my assessment I have examined the following sources of information:

- All Council and committee meeting minutes;
- The work of internal audit, including work undertaken to evaluate funding assurance in UK universities;
- The assessments of my individual directors as covered in their stewardship reports.

Governance Framework

EPSRC is governed by its Council, which establishes and agrees the overall corporate strategy, key strategic objectives and deliverables of EPSRC, as set out in its Strategic and Delivery Plans. The responsibility for implementing the decisions of Council is delegated to me as the Chief Executive and Accounting Officer. The Council also reviews regular financial reports on the management and performance of EPSRC ensuring that appropriate action is taken to address any concerns identified, thus ensuring the good financial management of EPSRC. The Council also monitors the overall EPSRC risk profile as well as individual risks carrying a high degree of threat.

In carrying out this work the Council is advised by the Audit and Risk Assurance Committee and Appointments Assurance Committee. The Council sets the vision and strategic direction for EPSRC. The responsibility for carrying out key strategy is delegated to me as the Chief Executive. A diagram of the EPSRC's governance structure follows.



Governance Statement

In 2014-15 the council met five times and discussion, among other matters, included:

- EPSRC's Strategic Plan;
- Bids for additional funding;
- Preparation for government's 2015 Spending Review;
- The Alan Turing Institute;
- Review of peer review;
- Diversity Issues;
- Doctoral Training Partnerships.

Council members are recruited through advertisement in the national press, with oversight provided by the Office of the Commissioner for Public Appointments (OCPA), and final appointments are subject to Ministerial approval. Members of Council and EPSRC's committees are listed on pages 13-15.

An independent review of Council effectiveness was undertaken in 2013-14. The report concluded that Council is working well and stands comparison with analogous bodies, nationally and internationally. However, as a consequence, a number of improvements have been made to improve members' clarity of their respective roles and how they can best contribute, to ensure the right blend of skills and experience amongst the membership, as well as some detailed aspects of governance and operation and how Council communicates its business to its stakeholders. Council continues to monitor and refine these aspects as part of an on-going and incremental process of self-improvement.

The Audit and Risk Assurance Committee, which includes independent members in addition to Council members, normally meets five times a year. Members are appointed by Council.

The Committee provides assurance to Council and to me, as Accounting Officer, by reviewing the adequacy and effectiveness of EPSRC's framework of governance, risk management and controls; reviewing the annual accounts and accounting policies, on behalf of Council and overseeing the outcomes of work by the internal and external auditors.

The Committee supports discussion at Council through updates and briefings from the Committee Chair who is also a Council member.

In accordance with NAO and HM Treasury best practice, an effectiveness review of the Audit and Risk Assurance Committee was undertaken in 2014-15. Whilst the review concluded that the Committee was broadly operating in accordance with best practice it highlighted some improvement in how it conducts its business that would allow it to operate more efficiently. These changes have been introduced with immediate effect.

The attendance of members at Council and the Audit and Risk Assurance Committee, for which they were eligible to attend, can be found in the following table with 2013-14 comparative figures for the total shown in brackets.

Governance Statement

Name	Attendance at Council	Attendance at Audit and Risk Assurance Committee
Professor Anne Anderson	4 out of 5	
Professor Andrew Blake	4 out of 5	
Mr Jack Boyer	5 out of 5	
Professor Lord Ara Darzi	5 out of 5	
Rosie Drinkwater		5 out of 5
Professor Anthony Finkelstein	5 out of 5	4 out of 5
Professor John Fisher	3 out of 5	
Professor Sir Richard Friend	3 out of 5	
Professor Vernon Gibson	0 out of 5	
Dr Paul Golby	5 out of 5	
Professor Andrew Hamilton	3 out of 5	
Mr Stephen Hawker		5 out of 5
Professor Richard Jones	5 out of 5	4 out of 5
Professor Dame Julia King	5 out of 5	
Ms Jane Madeley		5 out of 5
Professor Philip Nelson	5 out of 5	4 out of 5
Dr Helen Neville	4 out of 5	
Rt Hon Baroness Pauline Neville-Jones	5 out of 5	
Professor John Perkins	3 out of 4	
Dr David Watson	4 out of 5	5 out of 5
Professor Jeremy Watson	4 out of 5	4 out of 5
Total 2014-15	(81%)	(90%)
Total 2013-14	(89%)	(66%)

EPSRC Leadership Team (ELT), comprises myself as Chief Executive, Directors and Associate Directors and is the executive body for EPSRC. It meets regularly and is responsible for managing EPSRC operations and finances in line with EPSRC's 2011-15 delivery plan, as well as monitoring associated risks.

The Remuneration Committee is responsible for advising the Council on matters relating to the remuneration of Directors and other pay-related matters for senior staff. BIS determine the salary for my role as Chief Executive Officer.

The Appointments Assurance Committee is a sub-committee of council formed in January 2014. The Committee comprises three Council members, one of whom is the chair of the Audit and Risk Assurance Committee, the others being the Chair of Council and EPSRC's Chief Executive Officer. It normally meets three times a year. It is responsible for reviewing the adequacy and robustness of the nomination and selection processes and confirming new appointments to the Audit and Risk Assurance Committee and to EPSRC's strategic advisory bodies Strategic Advisory Network (SAN), and Strategic Advisory Teams (SAT's). In addition,

Governance Statement

this sub-committee will also provide advice to Council on its own composition and assist with the development of recruitment specifications for Council vacancies.

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

The SAN is made up of around thirty prominent and highly regarded individuals who have an established record of achievement and bring a broad strategic view to bear. Members bring expertise from their own background, but are required to advise across the breadth of EPSRC's portfolio.

In 2012-13, the Audit and Assurance Services Group (AASG) undertook a review of EPSRC's compliance with the policies set out in the Cabinet Office 'Principles of Good Corporate Governance in Executive Non-Departmental Public Bodies', and received Substantial Assurance. EPSRC continues to comply with the principles identified by the Cabinet Office with due recognition of the recommendations made within the report.

Professional Support Unit (PSU)

The PSU which is hosted by AHRC, came into being on 2 April 2013 and is responsible for providing the following professional services to AHRC, EPSRC and ESRC (the three Councils):

- Finance;
- Human Resources;
- Information Technology (also hosts services on behalf of non-PSU Councils);
- Project Management;
- Reprographics.

In addition to providing a professional service in the above areas, the purpose of the PSU is to deliver economies of scale, reduce costs and harmonise policies and processes on behalf of the three Councils.

Also, with the creation of the UK Shared Business Service Ltd (UK SBS) the small number of retained staff in Finance and HR within the three Councils left them vulnerable to single points of failure. The creation of the PSU has led to the establishment of a critical mass of professional support to the three councils as well as helping to create meaningful professional career paths and opportunities.

The Head of PSU acts as the Director responsible for service provision to each of the three Councils. During 2014-15, reports were presented by the Head of PSU to the Audit and Risk Assurance Committee, which discussed governance issues and provided the opportunity for the Committee to raise issues and ask questions. Delegation letters were issued to the PSU Senior Management Team (SMT) in 2014-15.

The professional services provided by PSU in 2014-15 were managed by the PSU Senior Management Team with the level and scope of support covered in the PSU Service Agreement.

In 2014-15, the PSU was overseen by a Management Board comprising the Chief Executive Officers of the three PSU Research Councils and they met three times in the year. A Risk Register for the PSU is in place which is maintained by the PSU SMT and reviewed regularly by the PSU's SMT and the Management Board. The Head of PSU submits quarterly reports and updates to the Management Board to provide assurance on the level of service being delivered, the financial position and the risks being managed. The headline issues

Governance Statement

discussed by the Board during 2014-15 were:

- An initial and a follow-up internal audit report reviewing the PSU's Governance and management's responses;
- PSU Management Board Terms of Reference with additions, as necessary, resulting from the internal audit reports;
- PSU Business Plan for 2014-16 including budget and other financial matters;
- PSU Service Delivery for all functions and clients, both historic and future, including the harmonisation of policies and processes and the delivery of greater efficiencies such as risk, information management and non-consolidated pay awards;
- Areas for possible expansions in terms of clients and services.

Reports of PSU activity and risks are also presented to each meeting of Audit and Risk Assurance Committee.

During 2014-15, AASG produced a PSU Governance follow up report which found the governance arrangements to be basically sound. The three recommendations made have been accepted by PSU and will be implemented during 2015-16. None of the recommendations made were given a high implementation priority.

The Head of PSU has produced an Annual Assurance Statement covering 2014-15 which provides assurance to the EPSRC Chief Executive that the PSU has in place appropriate systems and controls to support the services delivered to EPSRC.

During 2014-15, the PSU has provided a high level of professional support to the three Councils and work will continue in 2015-16 to ensure that the high standard of professional support continues and that the PSU fully engages with the three Councils to develop further the partnership arrangement and to explore and maximise the available benefits.

Risk Management

EPSRC's Risk Management Framework, in place for 2014-15, is based on the guiding principles of managing risk within the public sector but takes into account EPSRC's structure, processes and culture. EPSRC operates in a low risk environment in terms of its day to day operations with an internal control framework appropriate for a public sector organisation. EPSRC has established a risk register which is reviewed regularly against the level of risk that EPSRC is prepared to accept, having regard to its aims and objectives. Risks considered to be at the highest level are escalated to Council for consideration.

Our role is to support independent, high quality research and postgraduate training, as well as the impact that engineering and physical sciences research can have in the business, public and third sectors. At any one time we support a significant number of researchers and postgraduate students in academic institutions and independent research institutes. Whilst the research we fund can, by its pioneering and innovative nature, have significant risk, we have a very low risk appetite in terms of the way we conduct our business. We work only with eligible research institutions and make investment decisions using a transparent peer review process, details of which can be found at: <http://www.rcuk.ac.uk/funding/peerreview>.

EPSRC's risk management process is designed to manage risk and not eliminate it. The quarterly review process allows risk owners to comment on mitigation actions and provide assurance that risks are being managed.

Strategic risks are identified through the ELT and regularly reviewed by the Audit and Risk Assurance Committee and Council, who pay particular attention to those highlighted as significant high-level risks. It is

Governance Statement

through this review process that EPSRC is able to manage the key headline risks that impact on the delivery of EPSRC's programmes and operations and enables mitigating actions to be agreed and implemented.

Risk reports have been regularly reviewed by Council and the Audit and Risk Assurance Committee who have been broadly satisfied with the management of EPSRC risk during 2014-15 recognising that systems are in place for identifying and managing risk but which are subject to and capable of continuous improvement. In addition during 2014-15, both Council and the Audit and Risk Assurance Committee received specific reports on a number of EPSRC business critical projects that have enabled strategic discussions about progress and future direction. Operationally, the most significant risks for EPSRC are grouped around the challenges to EPSRC's operations and the ability to achieve the organisation's aims and objectives. The pressures on EPSRC's resources require careful management to ensure that key deliverables continue to be achieved. The ability of UK SBS to deliver an effective and efficient service is key to EPSRC's ability to work effectively. Also, the allocation of flat cash to programme budgets creates additional delivery pressures.

With limited spare capacity and reducing administrative budget, EPSRC will find it very difficult to continue with its business of funding world leading research if these risks are not carefully managed. EPSRC closely monitors developments in these areas with strong representation on the appropriate governance groups. Developments are regularly reported to the Audit and Risk Assurance Committee and Council in detail.

In 2015-16 a new risk management process will be introduced. This will be a harmonised policy across the three Councils that represents best risk practice whilst being proportionate to the level of risk exposure and risk appetite within the three Councils.

Overall, I am satisfied that, with effective input from the Audit and Risk Assurance Committee and Council, risk is being managed effectively within EPSRC.

Other Key Governance Activities

Pay Remit

Pay setting arrangements throughout the Civil Service are set out in guidance issued by HM Treasury. I can confirm that EPSRC was compliant with the requirements.

Data Security

EPSRC is committed to safeguarding information and personal data. During 2014-15, two personal data related incidents were reported to BIS but were deemed by the BIS Data Controller not to fall within the criteria for report to the Information Commissioner's Office.

EPSRC has in place a system of control for information risk with exceptions and areas of concern being noted in our annual return to BIS. EPSRC is compliant with the relevant requirements set out in the Security Health Check that feeds into the Government Security Policy Framework. The return properly reflects an assessment of specific information assurance risk areas that are consistent with EPSRC's risk appetite as recorded in the Council's Risk Register.

All review processes and outcomes have been validated by the AASG.

During 2014-15 eLearning covering information assurance has been rolled out to all EPSRC staff.

Other than the personal data related incidents referred to above there are no further security issues to report in respect of data security.

Governance Statement

Health and Safety

PSU has produced a health and safety report for 2014-15 that contains no issues that need to be reported in this statement.

Transparency

EPSRC is committed to the transparency agenda introduced by the Government to allow visibility of how public funds are used and managed. I can confirm compliance with all the disclosure requirements which are made on our website and which are referenced on the data.gov.uk website. The transparency disclosure made by EPSRC covers:

- EPSRC organisation structure;
- Staff salaries and senior posts;
- Government Procurement Card transactions;
- All expenditure.

Ministerial Directions

There were no Ministerial directions given in 2014-15.

Tax Arrangements of Public Sector Appointees

The Alexander Review, published in May 2012, made a number of recommendations to ensure that the highest standards of integrity could be demonstrated in the tax arrangements of senior public appointees. I can confirm that all of EPSRC's senior staff are paid through a formal payroll facility and that arrangements are in place through retained HR to provide assurance that appropriate tax arrangements are in place to cover any other appointees covered by the report.

In 2014-15 EPSRC identified eight contractors who fell within the Alexander Review criteria. EPSRC has sought and gained assurance that the appropriate tax arrangements are in place for the contractors identified.

Council members are 'office holders' as defined within Her Majesty's Revenue and Customs guidance, and their remuneration is subject to Pay as you Earn (PAYE) with income tax and employee National Insurance Contributions (NICs) deducted at source through the payroll.

As such, EPSRC is in compliance with the recommendations in the HM Treasury 'Review of the tax arrangements of public sector appointees' published in May 2012.

MacPherson Review

The review of quality assurance of government analytical models undertaken by Sir Nicholas MacPherson and published by HM Treasury in March 2013 made a number of recommendations for government departments and their Arm's Length Bodies. To comply with the review and the requirements set out in Howard Orme's letter dated 15 May 2013, EPSRC has reviewed their use of analytical modelling in 2014-15 and has not identified any that were considered to be business critical. This was communicated to BIS through the RCUK office on behalf of all Research Councils.

Austerity Measures

EPSRC has robust control processes, checks and reporting arrangements in place to review and manage expenditure in keeping with the austerity measures introduced by government in May 2010.

Governance Statement

Efficiency

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

In the spring of 2011 RCUK published *Efficiency 2011-15: Ensuring Excellence with Impact* describing how the Research Councils would implement the recommendations in Sir William Wakeham's report *Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institution*. The efficiency savings are being applied to both research grants and fellowships awarded via competitive routes to research organisations and also to research council institutes. The combined savings across all Research Councils for the first three years of the programme (2011-12, 2012-13 and 2013-14) has exceeded the planned £251.2m target with details provided in the programme's annual report at

http://www.rcuk.ac.uk/RCUK-prod/assets/documents/documents/RCUK_Efficiency_Savings_Report_2013-14.pdf

The programme continues to be on target to meet the overall five year target of £427.8m across all Research Councils. Additionally, the Efficiency Programme will be extended by an extra year to include 2015-16.

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

Regularity and Propriety

EPSRC 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. It is important that we are able to withstand both internal and external scrutiny and key components in this regard are the Council's existing policies on:

- Counter Fraud;
- Whistle-Blowing;
- Conflicts of Interest;
- Gifts and Hospitality.

EPSRC requires all staff, including Council and groups within the governance structure to act honestly and with integrity and to safeguard the public resources for which they are responsible.

In 2014-15, a harmonised cross Council Fraud & Bribery policy was developed and made available to all EPSRC staff thus ensuring that there is an awareness of staff responsibilities to report fraud and the process by which to do so. The Civil Service E-Learning awareness training covering counter fraud and bribery is undertaken by all staff annually.

The PSU Head of Risk and Assurance also attends the BIS Counter Fraud Working Group where best practice is shared and current fraud issues discussed.

I can confirm that for 2014-15:

- Neither I 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;

Governance Statement

- There were no novel, contentious or repercussive transactions that required BIS or Treasury approval;
- There were no instances of fraud identified within EPSRC or within UK SBS that impacted on EPSRC.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of governance, risk management and other internal controls at the EPSRC to ensure a sound system of internal control is being maintained. In 2014-15 this review has been informed by the work of the EPSRC's Directors, the Audit and Risk Assurance Committee, the internal audit service provided by AASG, comments from the external auditors and cross-Council assurance programmes.

EPSRC Directors

EPSRC Directors produce an annual statement on the internal control framework within their areas of responsibility. The statements are then consolidated into a single report which provides me with a level of assurance on the internal control framework. . Whilst some issues have been raised in respect of UK SBS, which will be addressed during 2015-16 and covered later in this statment, I am content that the 2014-15 report provides me with reasonable assurance that a sound internal control framework is in place.

Audit and Risk Assurance Committee

I have examined the reports of the Audit and Risk Assurance Committee meetings including their review of internal controls, governance and risk management processes. I also attend Audit and Risk Assurance Committee meetings and other than the UK SBS issues, which are covered below and were reported back to the committee, any other issues that have been raised with me have been addressed and reported back to the committee.

Internal Audit

Internal Audit is provided by AASG. The Director of AASG is required to provide me with an opinion on the overall adequacy and effectiveness of EPSRC's framework of governance, risk management and internal control. This opinion is informed by the internal audit work completed during the year, in line with the internal audit plan agreed by management and the Audit Risk and Risk Assurance Committee. The work of AASG provides assurance in two areas: core EPSRC activities and cross-Council activities with an EPSRC involvement.

In 2014-15 AASG was able to provide EPSRC with an overall Moderate Level of assurance on the adequacy and effectiveness of EPSRC's controls and governance processes. The assurance categories used by AASG changed for 2014-15 and a moderate rating can be broadly aligned to the previous substantial rating. The definition is:

- Some improvements are required to enhance the adequacy and effectiveness of the framework of Governance, Risk Management and Control.

The level of realised assurance in 2014-15 was 87% compared to 77% the previous year. Realised assurance is the number of audits that receive either a substantial or moderate level of assurance.

During the year a number of audits and assurance work were undertaken within the two blocks of activity. The implementation of recommendations that relate specifically to EPSRC are monitored by PSU on behalf of EPSRC with progress reports presented to each Audit and Risk Assurance Committee meeting.

Governance Statement

Block 1 - Core EPSRC Audits

The Core audits undertaken in 2014-15 were:

- Capital Planning;
- Holmes Hines Memorial Trust;
- Corporate Governance & Delegation;
- Follow up of 2013-14 Recommendations;
- UK CCS Centre Advisory Review;
- The Alan Turing Institute – Project Review.

All recommendations in relation to the above audits have been accepted with implementation plans in place.

Block 2 - Cross-Council Audits

In 2014-15 AASG carried out 20 cross Council activities that were relevant to EPSRC. Whilst two of the audits received Limited Assurance it is the view of AASG that none of these represented significant control weaknesses requiring disclosure within the Governance Statement. Where recommendations relate specifically to EPSRC their implementation is closely monitored by the PSU. The recommendations of a cross-Council nature are monitored through the cross council Risk & Assurance Network or through the appropriate functional governance group within the Councils.

Cross Research Council Funding Assurance Programme

Funding assurance activities, which are part of the AASG's remit, focus on the regularity of expenditure for research grants. These activities focus on substantive testing of the control environment within research organisations and its effectiveness in ensuring compliance with the Research Councils' terms and conditions that accompany funding streams. In 2014-15, 27 assurance assignments were undertaken, comprising of 7 visits, 3 enhanced desk based reviews and 17 desk based reviews. This programme is an important element in the risk management framework for EPSRC and findings for the year indicate that a satisfactory level of assurance can be reported based on the work undertaken.

UK SBS Ltd Assurance

The UK SBS provides processing services in human resources, procurement, payroll, finance, grants and IT to all seven Research Councils. Last year my Annual Governance Statement noted that ownership and control of UK SBS passed from the Research Councils to BIS.

In 2014-2015 there has been significant changes in the UK SBS assurance provision. The Government Internal Audit Agency (GIAA) now has the responsibility for the UK SBS audit programme. The GIAA reports provide input to a UK SBS CEO's Quarterly Assurance Letter that provide the cornerstone of the assurance I receive regarding UK SBS.

Through the quarterly UK SBS Chief Executive Assurance letters and the outcomes of the GIAA audits I note a limited assurance opinion for the effectiveness of internal controls within the Company as a whole. In addition I note moderate assurance opinion for the effectiveness of internal controls relating to customer processes.

Governance Statement

As a result of the assurance provided by the UK SBS Chief Executive. I note that UK SBS has continued to deliver in a number of areas and improvements have been noted in some areas. I do however highlight the following as key areas of risk:

- UK SBS continues to operate in a challenging environment with often changing and sometimes conflicting priorities. During the year this has included and continues to include:
 - o uncertainty relating to future staff reductions;
 - o the planned transfer of some transactional services to Shared Services Connected Limited (SSCL), although a decision has now been made to discontinue on this path;
 - o the upgrade of the Oracle 12.0.6 Platform for old customers including UK SBS themselves;
 - o Uncertainty around the resilience of the 12.0.6 platform for existing customers and it's ability to provide the necessary levels of support, even allowing for the on-going support arrangements that have been negotiated with Oracle;
 - o the transfer of the Peer Review Process back to the Research Councils;
 - o uncertainty about the future of UK SBS pending the outcome of the BIS 2020 Review.
- Whilst some progress has been made in improving the control framework in UK SBS over the last 12 months the controls have yet to become sufficiently embedded in the organisation. The scope and scale of improvements required across parts of the framework for the Company are significant particularly in relation to
 - o IT Governance and Management;
 - o Procurement;
 - o Payroll;
 - o Disaster recovery, planning and capability.

I particularly highlight that procurement received an unsatisfactory assurance level from GIAA.

In addition to the assurance provided by UK SBS, I have been informed by a wider review with cross-Council customer governance groups and other cross-Council groups. These reviews highlight:

- Some improvements in performance and control but also highlights a challenging and changing business environment and the loss of experienced staff. This is coupled with a decline in the pace at which change and improvements are being delivered;
- The need to revisit the continued relevance of the Master Service Agreement (MSA) and Critical Performance Indicators (CPIs) across all services. Action is in hand to review CPIs relating to HR/Payroll, Procurement and ISS system bandwidth;
- Shortfalls on a significant number of existing CPIs across all services, with a caveat, that performance within Finance Service Delivery and Grants Service Delivery have, overall, been fairly steady with some exceptions;
- Across service areas councils continue to work with UK SBS and seek improvements in relation to:
 - o Procurement;
 - o iRecruitment;
 - o Debt management;
 - o The Fixed Asset module;
 - o Service Requests;
 - o Business Continuity and Disaster Recovery.

Governance Statement

I accept the general picture provided by the UK SBS Chief Executive in that the organisation has undergone significant change and reorganisation in 2014-15, I note that UK SBS has clearly recognised that problems and issues exist and have been transparent and open in reporting these in the most recent assurance letter. Even so, the current assurance picture clearly highlights the need for continued improvement. This may be indicative of resource issues, the impact of which we have yet to fully feel as personnel continue to leave.

There is no room for complacency and I will expect a significant improvement in the assurance levels, the active management of the key areas of risk and the level of service through 2015-16. EPSRC, in concert with the other Research Councils, will support UK SBS going forward and continue to monitor ongoing performance both by UK SBS and within Research Councils' operations.

I note that plans for the future of UK SBS are currently under discussion.

External Audit

The EPSRC Annual Accounts are audited by the NAO who produce an Audit Completion Report.

Conclusion

The conclusion of my review is that EPSRC's overall governance, risk management and internal control structures are sound and ensure that public money is properly accounted for and used economically, efficiently and effectively. I can provide assurance that the governance and control structures in place support the achievement of EPSRC's policies, aims and objectives and that effective plans for continuous improvement are in place.



Professor Philip Nelson, Accounting Officer

12th June 2015

ACCOUNTS

Certificate and Report of the Comptroller and Auditor General

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statement of Engineering and Physical Sciences Research Council for the year ended 31 March 2015 under the Science and Technology Act 1965. The financial statements comprise; the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flow, Changes in Taxpayers' Equity; and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Council, Accounting Officer and auditor

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

Scope of the audit and financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Engineering and Physical Sciences Research Council circumstances; and circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Engineering and Physical Sciences Research Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently 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 recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of Engineering and Physical Sciences Research Council's affairs as at 31 March 2015 and of the net expenditure for the year then ended; and

Certificate and Report of the Comptroller and Auditor General

- The financial statements have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- The part of the Remuneration report to be audited has been properly prepared in accordance with Secretary of State directions made under the Science and Technology Act 1965; and
- The information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- Adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- The financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all 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
17th June 2015

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

Statements of Account

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2015

Expenditure	Note	2014-15 £000	2013-14 £000
Administration			
Staff Costs	3	6,128	7,261
Other Expenditure	5	7,979	6,934
Notional Service Charge	5	3,516	3,516
Operating Income	7	(3,258)	(3,605)
		14,365	14,106
Programme			
Staff Costs	3	4,947	4,413
Research	4	690,124	639,365
Postgraduate Awards	4	177,679	172,053
Energy Technologies Institute LLP	4	10,523	13,565
UK Research Facilities	4	13,811	15,938
International Subscriptions	4	549	596
Research Fellowships	4	47,940	54,137
Other Expenditure	4	10,856	18,294
Operating Income	7	(22,425)	(25,218)
		934,004	893,143
Total Net Expenditure for the year		948,369	907,249
Other Comprehensive Expenditure			
Net (Gain) on Revaluation of Property Plant and Equipment	8	(267)	(158)
Total Comprehensive Net Expenditure		948,102	907,091

The notes on pages 41 to 61 form part of these accounts.

Statements of Account

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF FINANCIAL POSITION

As At 31 March 2015

	Note	31 March 2015 £000	31 March 2014 £000
Non-Current Assets			
Property, Plant and Equipment	8	30,292	27,731
Intangible Assets	9	294	379
Total Non-Current Assets		30,586	28,110
Current Assets			
Trade and Other Receivables	12	26,124	38,445
Cash and Cash Equivalents	13	14,001	13,920
Total Current Assets		40,125	52,365
Total Assets		70,711	80,475
Current Liabilities			
Trade and Other Payables	14	(50,311)	(67,579)
Total Current Liabilities		(50,311)	(67,579)
Assets less Liabilities		20,400	12,896
Revaluation Reserve		1,767	1,500
General Reserve		18,633	11,896
Total Taxpayer's Equity		20,400	12,896

The notes on page 41-61 form part of these accounts.



Professor Philip Nelson, Accounting Officer
12th June 2015

Statements of Account

ENGINEERING AND PHYSICAL SCIENCES RESEARCH COUNCIL STATEMENT OF CASH FLOWS

For the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Cash Flows from Operating Activities			
Net Expenditure		(948,369)	(907,249)
Adjustments for Non-Cash Transactions			
Depreciation	8	7,489	15,617
Amortisation	9	92	30
Impairment	8	(131)	22
Loss on Disposal		-	(15)
Decrease in Trade and Other Receivables	12	12,296	(15,661)
Decrease in Trade and Other Payables	14	(17,243)	(11,212)
Net Cash Outflow from Operating Activities		(945,866)	(918,468)
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	8	(9,659)	(23,117)
Purchase of Intangibles	9	-	(226)
Disposal of Property, Plant and Equipment	8	-	28
Net Cash Flow (Outflow) from Investing Activities		(9,659)	(23,315)
Cash Flows from Financing Activities			
Grant-in-Aid received from BIS – Revenue		802,690	757,647
Grant-in-Aid from BIS (Capital)		144,400	150,620
Funding received from BIS (non DEL)		5,000	30,000
Notional Service Charges		3,516	3,516
Net Cash Flows from Financing Activities		955,606	941,783
Net Increase in Cash and Cash Equivalents in the period			
		81	(-)
Cash and Cash Equivalents at the beginning of the period	13	13,920	13,920
Cash and Cash Equivalents at the end of the period	13	14,001	13,920

The notes on pages 41 to 61 form part of these accounts.

Statements of Account

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

For the year ended 31 March 2015

	Revaluation Reserve £000	General Reserve £000	Total Reserves £ 000
Balance at 1 April 2013	3,331	(25,126)	(21,795)
Changes in Taxpayers Equity 2013-14			
Grant-in-Aid received from BIS - Revenue	-	757,647	757,647
Funding received from BIS - Capital	-	150,620	150,620
Funding Received from BIS (Non-DEL)	-	30,000	30,000
Notional Service Charge	-	3,516	3,516
Transfer between Reserves	(1,989)	1,988	(1)
Revaluation of PPE and Intangibles	158	-	158
Net Expenditure	-	(907,249)	(907,249)
Balance at 31 March 2014	1,500	11,396	12,896
Balance at 1 April 2014	1,500	11,396	12,896
Grant-in-Aid received from BIS - Revenue	-	802,690	802,690
Funding received from BIS - Capital	-	144,400	144,400
Funding received from BIS (non-DEL)	-	5,000	5,000
Notional Service Charge	-	3,516	3,516
Revaluation of PPE and Intangibles	267	-	267
Net Expenditure	-	(948,369)	(948,369)
Balance at 31 March 2015	1,767	18,633	20,400

The notes on pages 41 to 61 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

a. Basis of Accounting and Accounting Convention

The Accounts have been prepared in accordance with a direction given by the Secretary of State with the approval of HM Treasury in pursuance of Section 2 (2) of the Science and Technology Act 1965.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and meet the accounting and disclosure requirements of the Companies Act 2006 and the accounting and financial reporting standards issued or adopted by the International Accounting Standards Board as interpreted for government use by the Financial Reporting Manual (FReM) and in so far as these requirements are appropriate. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the EPSRC for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Council are described below. They have been applied consistently in dealing with items that are considered material to the accounts. There was no material departure from IFRS or FReM in preparation of these statements.

As required by section 393 (1) of the Companies Act 2006 the Accounting Officer has provided assurance that these statements give a true and fair view of the assets, liabilities, financial position and the comprehensive net expenditure of EPSRC.

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets, where material.

The financial statements are presented in £ sterling and all values are rounded to the nearest thousand, except where indicated otherwise.

Going Concern

These Financial Statements have been prepared on the basis of a Going Concern. Any deficit shown on the Income and Expenditure Reserve will be extinguished over time, having regard to the resource and capital budgets to which EPSRC can be expected to have access.

2014-15 is the final year of the current Comprehensive Spending Review period. When the financial allocations were issued for 2014-15, the Programme allocations for 2015-16 were also published alongside. An indicative Administration allocation for 2015-16 was received in October 2014. Future years' allocations have not yet been confirmed. However, EPSRC has no reason to believe that future funding from BIS will not be forthcoming.

The Triennial Review of the Research Councils was published by BIS in April 2014. The review has confirmed that the current number and structure of the seven Research Councils is right and Government is likely to continue with this structure. Therefore, the accounts are produced on a going-concern basis.

Adoption of Standards and Changes in Policy

All International Financial Reporting Standards (IFRS), Interpretations and Amendments to published standards, effective at 31 March 2015, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included in the FReM.

IFRS8 Operating Segments - (effective for periods on or after 1 July 2014). The amendment requires entities to disclose the judgements made by management in applying the aggregation criteria to operating segments.

IFRS11 Joint Arrangements - This standard outlines the accounting for entities that jointly control an arrangement and explains the criteria for the type of joint arrangement by assessing the rights and obligations of an entity.

Notes to the Accounts continued

IFRS 12 This is a consolidated disclosure standard requiring a wide range of disclosures about an entity's subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.

IFRS 13 Fair value Measurement (effective for periods on or after 1 January 2013) – IFRS 13 has been issued to provide a single source of guidance for fair value measurement. The standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another standard requires it.

IAS16 Property, Plant and Equipment – (effective for periods on or after 1 July 2014). Restatement of accumulated depreciation for revalued assets. It states that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

IAS38 Intangible Assets - (effective for periods on or after 1 July 2014). Restatement of accumulated depreciation for revalued assets. It States that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

IAS31 has been replaced by new standards IFRS11 and IFRS12 (listed above).

Effective for Future Financial Years

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

IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2015) – IFRS 9 is a replacement for IAS 39 and introduced new requirements for the classification and measurement of financial assets. EPSRC will undertake an assessment of the impact of IFRS 9 once the full requirements are known.

EPSRC is not expecting any significant impact to future financial statements from the accounting standards that are newly issued and are not yet effective.

b. Financing and Income

The FRoM requires Non-Departmental Public Bodies to account for Grant-in-Aid as financing. In the EPSRC's case this includes Grant-in-Aid from the Department for Business, Innovation and Skills.

Monies from other Research Councils for co-financing of various Grant programmes are recognised as income when goods or services are delivered and title has passed, and charged to the Statement of Comprehensive Net Expenditure in the accounting period in which the goods or services are rendered.

The Council receives funding for collaborative projects to support EPSRC's research. The majority of this funding is received from the UK Public Sector. Some of the funding may involve payment for the collaboration a number of years in advance of the accounting period to which it relates. Where there is a variance between work done in the accounting period and received funding, income will be deferred where the contract or agreement allows.

c. Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition set by the Consolidated Budgeting Guidance. Administration budgets cover the costs of all central government administration other than the costs of direct frontline service provision. Activities that are directly associated with frontline service delivery are considered to be programme. In practice Administration budgets include activities such as provision of policy advice, business support services,

Notes to the Accounts continued

back-office administration, advice on and administration of grant programmes, technical or scientific support, and the work of the Government's Regional Offices.

d. Property, Plant and Equipment (PPE)

Capital expenditure in PPE includes the purchase of IT equipment, office equipment, fixtures and fittings, construction and service projects, equipment and land and buildings valued at £10,000 or more.

PPE is included at cost or valuation. The basis of valuation is Open Market Value for existing use where this can be established, otherwise Current Depreciated Replacement Cost. A full month's depreciation is charged in the month of acquisition and none in the month of disposal.

Depreciation is not charged on assets under construction until the asset is brought fully into use and transferred to the appropriate asset category. They are then depreciated at the same rate as the other assets in that category.

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

Freehold Land	Not depreciated
Freehold Buildings	62 years
Specialist Scientific Equipment	3-15 years
IT equipment	3 years
Archer Supercomputer	4 years
Fixtures and Fittings	5 years
Transport	4 years

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

e. Intangible Assets

Capital expenditure in intangible assets includes the purchase of software, software licences, data sets and website development valued at £10,000 or more.

Amortisation of intangible assets is provided at rates calculated to write off the cost of each asset in equal instalments over its expected useful life as follows:

Software	3-5 years
Licences	Over length of licence
Websites	5 years

Notes to the Accounts continued

A full month's amortisation is charged in the month of acquisition and none in the month of disposal. Amortisation is not charged on assets under construction until the asset is brought fully into use and transferred to the appropriate asset category. They are then depreciated at the same rate as the other assets in that category.

f. Equipment Located Elsewhere

EPSRC owns assets that are located elsewhere but are included in the Statement of Financial Position.

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

g. Impairment of Non-Current Assets

Impairment losses not resulting from a loss of economic value or service potential are taken to the Revaluation Reserve to the extent that there is a credit in that reserve for that asset or portfolio of assets. Impairment losses that arise from a clear consumption of economic benefit are charged to the Statement of Comprehensive Net Expenditure. Increases in value arising on revaluation are taken to the Revaluation Reserve except when they reverse an impairment for the same asset previously recognised in expenditure, in which case they are credited to the extent of the decrease previously charged there.

h. Subsidiaries and Joint Arrangements

A subsidiary is an entity over which the EPSRC has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the EPSRC controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the EPSRC. They are de-consolidated from the date on which control ceases. Accounting policies of the subsidiary will be written to ensure consistency with the policies adopted by EPSRC. EPSRC currently has one subsidiary, The Alan Turing Institute. EPSRC owns 100% of the share capital, a £1 guarantee class share. It is considered immaterial to the accounts and therefore not separately disclosed.

i. Operating Segments

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

j. Ownership of Equipment or Facilities Purchased with Council Grants

Equipment purchased by an organisation with research grant funds supplied by the EPSRC belongs to the organisation and is not included in the EPSRC's property, plant and equipment. Through the Conditions of Grant applied to funded organisations, the EPSRC must be informed if, during the life of the research grant, the need for the equipment diminishes substantially or it is not used for the purpose for which it was funded. The EPSRC reserves the right to determine the disposal of such equipment and to claim the proceeds of any sale.

Notes to the Accounts continued

k. Grants

Subject to the terms and conditions under which Research Grants are awarded, the EPSRC makes payments for grants on the basis of pre-determined quarterly profiles. Profiles are arranged, in overall terms, to reflect the rate and incidence of expenditure at the grant holding organisation. Payments are normally made in the period to which they relate, although EPSRC retains some latitude in timing. Grant expenditure is accounted for on an accruals basis to reflect the usage of grant funds on work carried out. Future commitments at the Statement of Financial Position date are disclosed in Note 17.

EPSRC's policy is to accrue for the costs of work undertaken at Higher Education Institutions which remain unpaid by EPSRC at the end of the reporting period. Prepayments are also recognised when they occur.

The EPSRC provides funding in three main areas, these being Research Grants, Training Grants and Fellowships.

l. Financial Instruments

Due to the non-trading nature of its activities and the way in which the EPSRC is financed, the EPSRC is not exposed to the degree of financial risk faced by non-public sector entities. Moreover, financial instruments play a much more limited role in creating or changing risk that would be typical of the listed companies to which IAS 32, 39 and IFRS 7 mainly apply. The EPSRC has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the EPSRC in undertaking its activities.

Trade receivables are not interest bearing and are carried at original invoice amount. Provision for impairment is established when there is objective evidence that the EPSRC will not be able to collect all amounts due according to the original terms of the receivable. The amount of provision is the difference between the carrying amount and recoverable amount and is recognised in the Statement of Comprehensive Net Expenditure.

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

m. Key Accounting Judgements

The preparation of financial statements requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates and judgements. These estimates and judgements are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount of the obligation can be reliably estimated.

Notes to the Accounts continued

n. Contingent Liabilities

Where the time value of money is material, contingent liabilities are stated at discounted amounts and the amount separately noted. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported.

o. Operating Leases

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

p. Foreign Currencies

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

q. Value Added Tax (VAT)

The EPSRC is a member of a VAT Group along with the other Research Councils. By registering as a group there is a single VAT registration covering all of the members. All supplies made by or to group members are deemed to be made by or to the representative member. Supplies made between group members are disregarded for VAT. There is, therefore, no VAT payable on supplies made between group members, representing a saving in administration costs.

From the 1st February 2013, UK SBS Ltd is acting as a Cost Sharing Group. This allows UK SBS to provide services to the VAT group members exempt of VAT. Members of this group comprise the seven Research Councils, BIS, Higher Education Funding Council for England and Innovate UK.

r. Pension Costs

Retirement benefits to employees of the Council are provided by the Research Councils' Pension Scheme (RCPS), and the Prudential and Scottish Widows Pension Scheme. The expected costs of providing pensions are charged to the Statement of Comprehensive Net Expenditure so as to spread the cost over the service lives of employees in the schemes operated, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll. More details on pensions can be found in Note 3b.

s. Employee Benefits

Employees are entitled to 30 days annual leave per year. The annual leave year for the EPSRC runs from 1 January to 31 December. The cost of untaken employee leave at 31 March 2015 has been accrued for.

t. Early Departure Costs

The costs of early retirement or severance are charged to the Statement of Comprehensive Net Expenditure when the early departures are agreed. These costs are net of the lump sums recoverable from the pension schemes when the individual reaches normal retirement age.

u. Notional SBS Charge

Ownership of UK SBS transferred from the Research Councils to BIS on 6th March 2013. The SBS monthly service charge to EPSRC is now deducted from EPSRC's funding from BIS. In order to accurately reflect the

Notes to the Accounts continued

cost of using UK SBS's services in the annual accounts the charge has been included as a notional cost on the Statement of Comprehensive Expenditure and it has then been written back to the Income and Expenditure Reserve.

v. Insurance

In line with Government policy, EPSRC carries its own risks in respect of employment of staff, buildings, equipment etc, except where there exists a statutory requirement to insure or where commercial insurance represents better value for money. Insurance premiums are charged to the Statement of Comprehensive Net Expenditure.

w. Cash and Cash Equivalents

Cash and cash equivalents comprise of cash at bank and in hand.

Notes to the Accounts continued

2. Statement of Operating Costs by Operating Segment

The EPSRC's primary operating segments are Research Grants and Postgraduate Awards. Information concerning these segments is disclosed in Note 1(i) and expenditure is detailed in the Statement of Comprehensive Net Expenditure and broken down further in Notes 4, 5, 6 and 7.

	Research £000	Postgraduate £000	Programmes £000	Administration £000	Total 2014-15 £000
Staff Costs	-	-	4,947	6,128	11,075
Programme	714,458	225,619	549	-	940,626
Depreciation, Amortisation and Impairment	-	-	7,119	331	7,450
Other Costs	-	-	3,737	7,648	11,385
Notional Costs*	-	-	-	3,516	3,516
Income	(17,162)	(375)	(4,888)	(3,258)	(25,683)
Net Expenditure	697,296	225,244	11,464	14,365	948,369

	Research £000	Postgraduate £000	Programmes £000	Administration £000	Total 2013-14 £000
Staff Costs	-	-	4,413	7,261	11,674
Programme	668,868	226,190	596	-	895,654
Depreciation, Amortisation and Impairment	-	-	15,486	184	15,670
Other Costs	-	-	2,808	6,750	9,558
Notional Costs*	-	-	-	3,516	3,516
Income	(16,327)	(625)	(8,266)	(3,605)	(28,823)
Net Expenditure	652,541	225,565	15,037	14,106	907,249

*The UK SBS charge is now deducted from EPSRC's allocation from BIS.

3. Staff Numbers And Related Costs

Joint Services Unit (JSUs)

EPSRC hosts Research Councils UK (RCUK) on behalf of all the Research Councils. The costs of this JSU is recharged to all of the Research Councils, including EPSRC.

The figures in the tables show EPSRC core staff and staff from JSUs hosted by EPSRC. In EPSRC, staff and other administrative costs are reported at a gross level (i.e. including JSU costs) throughout the Annual Report. The total EPSRC headcount includes 26 FTE of RCUK staff (2013-14 23 FTE).

The Arts and Humanities Research Council (AHRC) hosts the Professional Support Unit (PSU) on behalf of EPSRC, the Economic and Social Research Council and AHRC themselves, providing the following services to the three Councils: Human Resources, Finance, Programme Office, Information Services, and Joint Reprographics Service (JRS). A cost recharge across the functions relating to the support provided was applied in the year.

Notes to the Accounts continued

All new staff appointments across these functions are recruited to AHRC. The total EPSRC headcount includes 27 FTE of PSU staff (2013-14 36 FTE).

a. Staff Costs

	Permanently Employed Staff FTE		2014-15 £000	2013-14 £000
	£000	Others FTE £000		
Wages and Salaries	7,312	1,482	8,794	9,359
Social Security Costs	498	-	498	549
Other Pension Costs	1,782	-	1,782	1,766
Total Net Costs	9,592	1,482	11,074	11,674

b. Pension Schemes

Staff members of EPSRC belong to one of two multi-employer defined benefit pension schemes. The assets of all schemes are held separately from those of EPSRC in independently administered funds. It is not possible to identify the EPSRC's share of the underlying assets and liabilities of any of the pension schemes and therefore contributions to the scheme are accounted for as if they were defined contribution schemes. The pension cost charge represents contributions payable by EPSRC to the funds.

The Research Councils' Pension Scheme (RCPS)

The employees of EPSRC are offered membership to the Research Councils' Pension Scheme (RCPS) which is an unfunded defined benefit scheme paid for by employee contributions and employer contributions with additional annual Grant-In-Aid on a pay-as-you-go basis. RCPS is 'by-analogy' to the Principal Civil Service Pension Scheme. RCPS scheme provides retirement and related benefits based on final or average emoluments. Redundancy and injury benefits are administered and funded by the Council. The scheme is administered by the Research Councils' Joint Superannuation Service with the associated Grant-In-Aid managed by BBSRC.

Employees may be in one of four defined benefit scheme arrangements; either a final salary scheme (classic, classic plus or premium); or a career average scheme (nuvos). Pensions payable are increased annually in line with changes in the Consumer Prices Index (CPI). The employer contribution rate is agreed by the RCPS Board of Management on the recommendation of the Government Actuary's Department (GAD) and is currently set at 26% of pensionable pay. During 2014-15 the employee contribution rates ranged between 1.5% and 8.85% depending on scheme and pensionable earnings. The employee contribution rates changed on 1 April 2015 in line with changes to the PCSPS employee contribution rates.

As an alternative to RCPS, a Partnership Pension Account was made available to new recruits from 1 October 2002. It is based on the portable Stakeholder Pension introduced by the Government in 2001. This is a defined contribution scheme. The employers pay the RCPS 0.08% of pensionable pay to cover death in service and ill health benefits. The employers pay an age related contribution to the employee's private pension provider. The employer contribution for 2014-15 was £720.08 (2013-14 £1,109.24).

On 1 April 2015 PCSPS launched a new pension scheme called Alpha. This scheme is similar to the Nuvos career average scheme but with the retirement age aligned to the state pension age RCPS cannot at present create a by analogy Alpha scheme as the legislation does not currently permit this. Reform options are currently being discussed with HM Treasury and BIS have given permission for RCPS to continue 'as is' beyond 1 April 2015.

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

Notes to the Accounts continued

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

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

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years.

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. An actuarial valuation as at 31 March 2010 was initiated but not completed due to HM Treasury suspending all public sector pension scheme valuations whilst reform policies were being developed. HM Treasury has since concluded their reform policy which enabled the Government Actuary Department to start the process of completing a revised scheme valuation. This valuation will be at 31 March 2012 in accordance with HM Treasury revised scheme valuation directions. The conclusion of the scheme valuation is directly linked to the reform outcomes of the RCPS. It is likely that the reform process will be complete by June 2015 and any resulting changes to contribution rates likely to be effective from April 2016.

For 2014-15, employer's contributions of £1,771k were payable to RCPS (2013-14 £1,765k) at 26% of pensionable pay for all the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and reflect past experience of the scheme.

c. Staff Numbers

	Permanently Employed Staff		Total 2014-15 FTE	Total 2013-14 FTE
	FTE	Others FTE		
Directly Employed	205	9	214	208
Other	4	-	4	16
Total	209	9	218	224

d. Compensation Schemes and Exit Packages

The following table sets out the number of voluntary redundancy packages agreed in 2014-15

Exit package cost band	2014-15	2013-14	Total package 2014-15 £000	Total package 2013-14 £000
<£10,000	-	-	-	-
£10,000 to £25,000	-	-	-	-
£25,000 to £50,000	-	1	-	47
£50,000 to £100,000	-	1	-	74
£100,000 to £150,000	-	-	-	-
Total Exit Packages Agreed	-	2	-	121

Notes to the Accounts continued

4. Programme Expenditure

a. Research

	2014-15 £000	2013-14 £000
Digital Economy	22,202	26,984
Energy	120,740	110,700
Global Uncertainties	8,363	7,666
Healthcare	55,571	46,775
Living with Environmental Change	5,310	4,033
Public Engagement Programme	3,180	3,981
Manufacturing	66,644	53,488
National Capability Engineering	71,842	62,212
National Capability ICT	67,210	69,914
National Capability Infrastructure	140,728	134,553
National Capability Mathematics	23,784	22,788
National Capability Physical Sciences	92,938	96,271
Quantum Technology	9,329	-
Newton Fund and Other	2,283	-
Total Expenditure on Research	690,124	639,365

b. Postgraduate Awards

	2014-15 £000	2013-14 £000
Collaborative Training Accounts	13,725	16,128
Doctoral Training Grants	80,952	80,222
Dorothy Hodgkin Postgraduate Awards	339	824
International Doctoral Scholarships	-	(57)
Centres for Doctoral Training	81,921	73,781
Other Awards	742	1,155
Total Expenditure on Postgraduate Awards	177,679	172,053

c. Energy Technologies Institute LLP

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

ETI LLP has been established with the aim of accelerating the development, demonstration and eventual commercial deployment of a focused portfolio of energy technologies which will increase energy efficiency, reduce greenhouse gas emissions and help EPSRC and Innovate UK (formerly Technology Strategy Board) represent the public sector's 50% interest in the partnership. The Secretary of State for BIS is a designated member of the ETI LLP but EPSRC and Innovate UK are responsible for providing the member's contributions on behalf of BIS.

Notes to the Accounts continued

EPSRC has made payments of £10,523k (2013-14 £13,565k) to ETI LLP that have been expensed as EPSRC itself does not have an investment in ETI LLP.

d. UK Research Facilities

	2014-15 £000	2013-14 £000
University of Edinburgh (HECToR)	5	7,376
University of Edinburgh (ARCHER)	6,056	2,473
Total High Performance Computing	6,061	9,849
Science and Technology Facilities Council facilities	2,399	2,699
Other Expenditure on Research Facilities	5,351	3,390
Total Expenditure on UK Research Facilities	13,811	15,938

e. International Subscriptions

	2014-15 £000	2013-14 £000
European Science Foundation (ESF)	156	220
International Fusion Research (ITER)	233	216
Institute des Hautes Etudes Scientifiques (IHES)	160	160
Total Expenditure on International Subscriptions	549	596

f. Research Fellowships

	2014-15 £000	2013-14 £000
EPSRC Fellowships:		
Early Career Fellowships	12,709	5,823
Post Doctoral Fellowships	1,574	684
Established Fellowships	9,530	5,823
Legacy Schemes:		
Academic	733	340
Advanced	-	1,055
Post-Doctoral	1,054	3,709
Senior	-	162
Career Acceleration Fellowships	12,017	20,010
Leadership Fellowships	9,307	15,751
Other Fellowships	1,016	780
Total Expenditure on Research Fellowships	47,940	54,137

Notes to the Accounts continued

g. Other Programme Expenditure

	2014-15 £000	2013-14 £000
Operating Expenses	2,257	1,903
Accommodation Costs	4	(15)
IT Costs	-	22
Professional Fees	354	70
Consultancy	373	254
Marketing and Advertising	308	210
Travel and Subsistence	441	364
Depreciation	7,216	15,486
Amortisation	34	-
Impairment	(131)	-
Total Expenditure on Other Programme Costs	10,856	18,294

5. Administration Expenditure and Notional Costs

	2014-15 £000	2013-14 £000
Operating Expenses	3,500	2,505
Accommodation Costs	1,266	2,399
IT Costs	1,113	150
Professional Fees	823	1,070
Consultancy	19	(28)
Marketing and Advertising	602	387
External Auditors Fees	70	70
Travel and Subsistence	255	198
Depreciation	273	153
Amortisation	58	30
Sub-Total	7,979	6,934
SBS Notional Service Charge	3,516	3,516
Total Expenditure on Other Administrative Costs	11,495	10,450

6. Losses

During the year UK SBS undertook an exercise on behalf of all the Research Councils to collate any bad debts and present them to BIS for approval to write off. As a result of the exercise EPSRC has received permission to write off a total of £45,994 representing three invoices. All the invoices concerned had formerly been provided for.

Notes to the Accounts continued

7. Operating Revenue

	2014-15 £000	2013-14 £000
RCUK Income	(2,461)	(5,566)
Income from Other Research Councils	(14,877)	(10,600)
Income from Central Government	(5,206)	(8,263)
Income from Other Bodies	(3,139)	(4,394)
Total Income	(25,683)	(28,823)
Co-Funding Grant Income	(17,118)	(17,374)
Income for Services Provided	(8,536)	(10,967)
EU Income	(29)	(482)
Total Income	(25,683)	(28,823)

8. Plant, Property & Equipment

	Land £000	Buildings £000	IT £000	Plant & machinery £000	Furniture & Fittings £000	Payments on Account & AUC £000	Total £000
Cost or Valuation							
At 1 April 2014	1,765	3,560	22,809	6,026	1,326	-	35,486
Additions	-	-	9,610	-	49	-	9,659
Reclassifications	-	-	89	-	-	-	89
Disposal	-	-	-	-	(56)	-	(56)
Impairments	-	-	129	2	-	-	131
Revaluations	59	120	70	127	26	-	402
At 31 March 2015	1,824	3,680	32,707	6,155	1,345	-	45,711
Depreciation							
At 1 April 2014	-	468	1,959	4,207	1,121	-	7,755
Charge in the year	-	116	6,820	485	157	-	7,578
Disposal	-	-	-	-	(56)	-	(56)
Revaluations	-	19	12	89	22	-	142
At 31 March 2015	-	603	8,791	4,781	1,244	-	15,419
Net Book Value at 31 March 2015	1,824	3,077	23,916	1,374	101	-	30,292

Note: The reclassification of £89k is a write off of an old unidentified pre-Oracle credit balance and this was posted to depreciation in SCNE. Therefore, the depreciation in the primary statements will be £89k lower than the depreciation charge in this note.

Notes to the Accounts continued

	Land £000	Buildings £000	IT £000	Plant & machinery £000	Furniture & Fittings £000	Payments on Account & AUC £000	Total £000
Cost or Valuation							
At 1 April 2013	1,639	3,305	65,162	5,850	1,331	-	77,287
Additions	-	-	-	66	-	23,051	23,117
Disposal	-	-	(64,789)	(28)	-	-	(64,817)
Impairments	-	171	(209)	17	(1)	-	(22)
Revaluations	126	84	(406)	121	(4)	-	(79)
Transfer	-	-	23,051	-	-	(23,051)	-
At 31 March 2014	1,765	3,560	22,809	6,026	1,326	-	35,486
Depreciation							
At 1 April 2013	-	328	52,342	3,601	908	-	57,179
Charge for year	-	108	14,758	535	216	-	15,617
Disposal	-	-	(64,789)	(15)	-	-	(64,804)
Revaluations	-	32	(352)	86	(3)	-	(237)
At 31 March 2014	-	468	1,959	4,207	1,121	-	7,755
Net Book Value at 31 March 2014	1,765	3,092	20,850	1,819	205	-	27,731

9. Intangible Assets

	Website £000	Software £000	Licenses £000	Assets Under Construction £000	Total £000
Cost or Valuation					
At 1 April 2014	409	49	37	-	495
Impairments	-	-	-	-	-
Revaluations	8	-	-	-	8
Transfer	-	-	-	-	-
At 31 March 2015	417	49	37	-	503
Amortisation					
At 1 April 2014	30	49	37	-	116
Charge for year	92	-	-	-	92
Revaluations	1	-	-	-	1
At 31 March 2015	123	49	37	-	209
Net Book Value	294	-	-	-	294

Notes to the Accounts continued

	Website £000	Software £000	Licenses £000	Assets Under Construction £000	Total £000
Cost or Valuation					
At 1 April 2013	-	50	37	183	270
Additions	-	-	-	226	226
Revaluations	-	(1)	-	-	(1)
Transfer	409	-	-	(409)	-
At 31 March 2014	409	49	37	-	495
Amortisation					
At 1 April 2013	-	50	37	-	87
Charge in the year	30	-	-	-	30
Revaluations	-	(1)	-	-	(1)
At 31 March 2014	30	49	37	-	116
Net Book Value at 31 March 2014	379	-	-	-	379

10. Investment in UK SBS Ltd

EPSRC holds one Non-Government Department (NGD) share (nominal value £1) in UK SBS Ltd, as do eight other NGD shareholders. These NGD shares together carry 49% of the votes in UK SBS Ltd. BIS (already defined in note 1) holds one Government Department (GD) share (nominal value £1) carrying 51% of the votes. BIS also owns 100% of the non-voting shares in UK SBS Ltd with a nominal value of £62,016,358 that entitles it to 100% of the profits of that company.

11. Financial Instruments

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

Notes to the Accounts continued

12. Trade Receivables and Other Current Assets

a. Current Receivables

	31 March 2015 £000	31 March 2014 £000
Amounts falling due within 1 year:		
Trade Receivables	12,827	15,254
Other Receivables	11	13
Prepayments	8,067	18,228
Accrued Income	5,219	4,925
Total	26,124	38,420

	31 March 2015 £000	31 March 2014 £000
Analysis by Provider		
Department for Business, Innovation and Skills	3,960	13,172
Other Central Government Bodies	2,922	2,718
Bodies External to Government	19,242	22,530
Total	26,124	38,420

13. Cash and Cash Equivalents

	31 March 2015 £000	31 March 2014 £000
Balance at 1 April	13,920	13,920
Net change in cash and cash equivalents balance	81	0
Balance at 31 March	14,001	13,920

The following balances at 31 March were held at:

Government Banking Service and Commercial Loans	13,998	13,898
Bodies External to Government	3	22
Total	14,001	13,920

Notes to the Accounts continued

14. Trade Payables and Other Current Liabilities

Amounts falling due within 1 year:	31 March 2015	31 March 2014
	£000	£000
VAT	(56)	25
Trade Payables	(1,078)	(14,357)
Other Payables	(183)	(193)
Accruals	(45,906)	(49,909)
Deferred Income	(3,088)	(3,120)
Total	(50,311)	(67,554)

Analysis by Provider	31 March 2015	31 March 2014
	£000	£000
Department for Business, Innovation and Skills	(3,087)	(4,977)
Other Central Government Bodies	(240)	(2,007)
Public Corporations and Trading Funds	-	(7)
Bodies External to Government	(46,984)	(60,563)
Total	(50,311)	(67,554)

15. Commitments under Leases

Obligations under operating leases comprise:

	2014-15	2013-2014
	£000	£000
Buildings:		
Not later than one year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Total	-	-
Other:		
Not later than one year	32	70
Later than one year and not later than five years	142	45
Later than five years	-	-
Total	174	115

EPSRC's leases comprise eight contracts for the lease of items of printing and reprographics equipment.

Notes to the Accounts continued

16. Other Financial Commitments

	31 March 2015	31 March 2014
	£000	£000
Not later than one year	817,770	780,377
Later than one year not later than five years	1,373,120	1,228,629
Later than five years	82,533	146,121
Total	2,273,423	2,155,127

EPSRC estimates that the future costs of research and training grants at 31st March 2015 are £2,273 million. The payments to which EPSRC is committed during 2014-15, analysed by the period in which the commitment expires is shown above.

17. Contingent Liabilities

The EPSRC has no contingent liabilities as at 31 March 2015.

18. Related Party

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

For the purpose of IAS 24, BIS and its partner organisations are regarded as related parties. During the year, EPSRC has had various material transactions with BIS and with other entities for which BIS is regarded as their parent department, as follows: Arts and Humanities Research Council; Biotechnology and Biological Sciences Research Council; Department for Business Innovation and Skills, Economic and Social Research Council; Higher Education Funding Council for England; Medical Research Council; Natural Environment Research Council; Science and Technology Research Council; Innovate UK Ltd; UK Space Agency; UKAEA. In addition EPSRC has had various material transactions with the UK SBS Ltd.

These Accounts provide disclosure of all material financial transactions with senior executive staff and all Council members.

During the year, EPSRC did not enter into any transactions with any senior executive staff. However, it did enter into a number of material transactions with Institutions employing Council member who had a direct interest in the award concerned, the values shown are the total awarded values.(Table A). None of the Council Members were involved in the recommendation of awards to the Institution where they are a senior member of staff or member of the Governing body.

Information is disclosed on material financial transactions with any related party of these senior staff or Council members (Table B).

In addition, EPSRC made a number of payments in respect of EPSRC funded awards to Institutions where Council members are also members of staff or members of Governing bodies. None of the disclosed Council members were involved in the recommendation of the awards to the Institution where they are a member of staff or member of the Governing body (Table C). The figures stated are for Research and Awards.

Notes to the Accounts continued

Table A

Council members	Institution	Number of awards	total award value £000
Professor Anthony Finkelstein	University College London	1	4,981
Professor Lord Ara Darzi	Imperial College London	1	270
Professor John Fisher	University of Leeds	5	20,644
Professor Matthew Rosseinsky	University of Liverpool	4	8,259
Professor Sir Richard Friend	University of Cambridge	3	6,822
Professor Richard Jones	University of Sheffield	4	12,242
Professor Timothy Jones	University of Warwick	3	12,383

Table B

Family members awards	Related Party	No of Awards	Amount £000
Nil return			

Table C

Council Member	Institution	total value of all awards paid in year £000
Professor Anne Anderson	University of Glasgow	13,578
Professor Lord Ara Darzi	Imperial College London	70,288
Professor Anthony Finkelstein	University College London	54,992
Professor John Fisher	University of Leeds	18,944
Professor Sir Richard Friend	University of Cambridge	39,938
Professor Andrew Hamilton	University of Oxford	39,537
Professor Richard Jones	University of Sheffield	24,143
Professor Tim Jones	University of Warwick	22,256
Professor Dame Julia King	Aston University	1,156
Professor Matthew Rosseinsky	University of Liverpool	8,345
Professor Jeremy Watson	University College London	54,992

Professor Philip Nelson took up the position of Chief Executive Officer of EPSRC on 1 April 2014. He is on secondment from the University of Southampton, on a fixed-term four year contract. He will absent himself from all EPSRC and RCUK discussions and meetings that relate to decisions on new or continued funding involving University of Southampton, during his secondment.

Dr Neil Bowering was seconded full-time to EPSRC from the University of Glasgow on 26th January 2015, on a fixed-term two-year contract. He will absent himself from all EPSRC and RCUK discussions and meetings that relate to decisions on new or continued funding involving the University of Glasgow, for the duration of his contract.

Notes to the Accounts continued

Mr Atti Emecz went on full-time secondment to the University of Surrey, with effect from 01-10-2014.

Full registers of interest for EPSRC Council, Strategic Advisory Network and Audit and Risk Assurance Committee can be found here <https://www.epsrc.ac.uk/about/governance/> on the EPSRC website.

19. Events after the Reporting Period

In accordance with the requirements of IAS10 'Events after the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue, this is interpreted as the same date as the date of the Certificate of the Comptroller and Auditor General. There are no post Statement Financial Position events between the Balance Sheet date and this date.

Feedback

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

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