United Kingdom Atomic Energy Authority Pension Schemes

Combined Annual Accounts 2019-20

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(For the year ended 31 March 2020)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 21 July 2020

HC 238

This publication is available at www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at **enquiries@beis.gov.uk**

ISBN 978-1-5286-1832-8

CCS0320329692 07/20

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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Report of the Managers

Introduction

This Combined Accounts for the defined benefit Public Service Pensions Schemes (PSPS) of the United Kingdom Atomic Energy Authority (UKAEA) for the year to 31 March 2020 covers the receipt of contributions from employers and employees, transfer values for members transferring benefits from other schemes, payment of pensions and other benefits to retired members or their dependants, transfer values for members transferring to other schemes and repayments of contributions under UKAEA's Pension Schemes.

The business, its objectives and strategy

UKAEA Pension Schemes are statutory schemes as defined under Section 26(1) of the Finance Act 1970 and are registered schemes under the Finance Act 2004. There are no trustees.

The Schemes were contracted out under the Pension Schemes Act 1993 and subsequent legislation. Under the terms of the Pensions Act 2014, the Schemes ceased to be contracted out from 31 March 2016.

UKAEA's Public Service Pension Schemes comprise: the Combined Pension Scheme (CPS), the Principal Non-Industrial Superannuation Scheme (PNISS) and the Protected Persons Superannuation Scheme (PPSS) (the Schemes). They relate to the employees of UKAEA, National Nuclear Laboratory Limited (NNL), International Nuclear Services Limited (INSL), the Civil Nuclear Constabulary (CNC) and former INSL employees who are now employed by the Nuclear Decommissioning Authority (NDA).

In addition, the Schemes relate to former employees of: British Nuclear Fuels plc (BNFL), the Health Protection Agency (HPA), which later became part of Public Health England (PHE) (in respect of members who prior to 1 April 2005 were employed by the National Radiological Protection Board), together with some employees of the Radiochemical Centre (later known as Amersham International), the United Kingdom Research and Innovation (UKRI) (due to legacy Engineering and Physical Sciences Research Council (EPSRC) and the Science and Technology Facilities Council (STFC)), former employees of the Council for the Central Laboratory of the Research Councils (CCLRC), the Particle Physics and Astronomy Research Council (PPARC) and the Science and Engineering Research Council (SERC), the RCUK Shared Services Centre Limited, former UKAEA employees who transferred to the Ministry of Defence (Atomic Weapons Establishment) and until 31 October 2009, UKAEA Ltd, Dounreay Site Restoration Limited (DSRL) and Research Sites Restoration Limited (RSRL).

The funding of payments from UKAEA's Pension Schemes is based on the published Parliamentary Supply Estimate and is supplied to the Schemes from the Consolidated Fund managed by HM Treasury. It should be noted that any contributions made to the Schemes are used to meet the payment of Schemes' benefits, but any surplus of such contributions over payments is surrendered to the Consolidated Fund. Similarly, any deficit is met by the Parliamentary Supply Estimate with payment from the Consolidated Fund.

UKAEA is a body corporate by virtue of the Atomic Energy Authority Act 1954.

Management of the Schemes, Managers, Advisers and Employers

The Schemes are managed by UKAEA. The administration of the Schemes is carried out by Paymaster (1836) Ltd (a subsidiary of Equiniti Group plc) under contract to UKAEA from 1 April 2018.

The respective responsibilities of UKAEA and BEIS for the Schemes are set out in a Management Framework.

The Schemes are contributory and were established and became operational on 1 August 1954. The Schemes are constituted by Rules determined by UKAEA (the Rules) and amended from time to time as approved by Ministers.

UKAEA is sorry to have to report the death of the UKAEA Head of Pensions, Richard Stoneham, in March 2020. Richard had managed the Schemes since the mid-1990s and was a respected expert in his field. He will be missed by all those who knew and worked with him.

Managers

UK Atomic Energy Authority Responsible Officer	Antonia Jenkinson, Chief Financial Officer and Director of Corporate Affairs, UK Atomic Energy Authority, K2, Culham Science Centre, Abingdon, OX14 3DB
UKAEA Head of Pensions	Andrew Bickley (acting from March 2020)[1], UK Atomic Energy Authority, K2, Culham Science Centre, Abingdon, OX14 3DB
Address for correspondence	UKAEA Pensions PO Box 5130 Lancing BN99 9AP

Advisers

Schemes Actuary	The Government Actuary's Department, Finlaison House, 15-17 Furnival Street, London EC4A 1AB
Principal Bankers	Lloyds Banking Group, City Office PO Box 72, Bailey Drive, Gillingham Business Park, Kent, ME8 OLS
Legal advisers	UK Atomic Energy Authority, Legal Branch, K2, Culham Science Centre, Abingdon, OX14 3DB

Auditors

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

Employers

The following employers participate in the Schemes:

- UK Atomic Energy Authority (UKAEA)
- National Nuclear Laboratory Limited (NNL)
- International Nuclear Services Limited (INSL)
- Civil Nuclear Constabulary (CNC)
- Ministry of Defence (MoD)
- UK Research and Innovation (UKRI)
- UK Shared Business Service (UK SBS)
- Nuclear Decommissioning Authority (NDA)

From 1 April 2018 the activities of the Research Councils participating in the Schemes became the responsibility of UKRI. On 1 April 1994, one of the legacy research councils, EPSRC, took over those employees previously employed by SERC who were members of the PNISS. On 1 April 1995, CCLRC was

[1] This post was held by Richard Stoneham until 24 March 2020.

created out of EPSRC. On 1 April 2007, PPARC and CCLRC merged to form STFC with some employees joining the RCUK Shared Services Centre Limited in subsequent years which was renamed UK SBS in 2013. In these accounts, the acronym SERC is used to refer to the sub-scheme relating to the UKRI.

The CNC was formed on 1 April 2005. Members of the Civil Nuclear Constabulary may continue in membership of the CPS in accordance with the terms of the Energy Act 2004.

Under the Health Protection Agency Act 2004, the National Radiological Protection Board became part of the Health Protection Agency with effect from 1 April 2005. With effect from 1 April 2013, PHE subsumed the responsibilities of the HPA. Members employed by PHE were no longer able to accrue benefits in UKAEA schemes from 1 October 2013.

Due to restructuring of the nuclear estate over recent years, BNFL no longer exists as an entity. Most of the BNFL estate has transferred out of the Schemes, with the exception of two areas which have become the NNL and INS. In these accounts, these two companies are referred to as ‘Ex-BNFL’.

Constitution of the Schemes

The three unfunded UKAEA Public Service Pension Schemes (the CPS, PNISS and the PPSS) are unusual in their constitution. The Government does not maintain a separate fund to provide for the Schemes’ future liabilities and future benefits will be paid out of the Consolidated Fund to the extent that, at the time of payment, benefits exceed contributions and Parliament votes the necessary funds.

There is no fund of investments. Following the introduction of Superannuation Contributions Adjusted for Past Experience (SCAPE) on 1 April 2006, the participating employers pay contributions based on the expected cost of the members’ benefits as they accrue. These contributions are set by the Schemes’ Actuary at each regular valuation of the Schemes, based on the expected demographic and financial experience of the Schemes at the time of the valuation.

During 2016-17, the Government Actuary Department, the Scheme Actuary, completed a revised valuation of the scheme as at 31 March 2012. There have been no revaluations since that date. As such, the contribution rates applicable in respect of active members have remained the same from 1 April 2017:

UKAEA	19.5%
Civil Nuclear Constabulary	19.3%
Ex-BNFL	18.9%
SERC	15.8%
Ministry of Defence	15.8%

Contributions

All contributions have been collected in accordance with the Rules.

Future plans

UKAEA and its advisors have met with BEIS, HM Treasury, Cabinet Office and other scheme employers to discuss the future plans for UKAEA Schemes and the transfer to a career average scheme at a date to be agreed. These changes are required following the publication of the Public Service Pension Act 2013. UKAEA received approval from HM Treasury for members affected by the provisions of the Act to join the Civil Service and Others Pension Scheme (alpha) with effect from 1 April 2017 and preparations were made for this transfer. In March 2017 the Chief Secretary to the Treasury took the view that, in light of an ongoing employment tribunal and appeals, the Government should delay any impending transfer of scheme members staff to the main public service pension schemes that include Transitional Protection provisions, as was proposed in the UKAEA Schemes. UKAEA has therefore paused the transfer to alpha and awaits further information from HM Treasury. The changes will not affect pensioners or deferred members.

Membership Statistics

Contributing Members	UKAEA[1]	CNC	Ex-BNFL	PHE	MoD	SERC	Total
At 1 April 2019	**974**	**1,589**	**817**	-	-	**14**	**3,394**
Sub Fund Adjustment [2]	(5)	4	1	-	-	-	**-**
New	406	205	9	-	-	2	**622**
Retirements	(23)	(34)	(22)	-	-	(3)	**(82)**
Deaths	(1)	(1)	(2)	-	-	-	**(4)**
Leavers	(104)	(136)	(13)	-	-	(1)	**(254)**
At 31 March 2020	**1,247**	**1,627**	**790**	**-**	**-**	**12**	**3,676**

Deferred Pensioners	UKAEA	CNC	Ex-BNFL	PHE	MoD	SERC	Total
At 1 April 2019	**2,987**	**373**	**5,302**	**228**	**2**	**13**	**8,905**
Sub Fund Adjustment [2]	(3)	(1)	4	-	-	-	**-**
New	63	101	120	-	-	-	**284**
Retirements	(238)	(17)	(419)	(18)	-	(2)	**(694)**
Deaths	(7)	-	(18)	-	-	-	**(25)**
Leavers	(7)	(29)	(6)	-	-	-	**(42)**
At 31 March 2020	**2,795**	**427**	**4,983**	**210**	**2**	**11**	**8,428**

Active deferred [3]	UKAEA	CNC	Ex-BNFL	PHE	MoD	SERC	Total
At 1 April 2019	**718**	**-**	**6,343**	**-**	**-**	**-**	**7,061**
Retirements	(19)	-	(336)	-	-	-	**(355)**
Deaths	(1)	-	(8)	-	-	-	**(9)**
Leavers	(12)	-	(100)	-	-	-	**(112)**
At 31 March 2020	**686**	**-**	**5,899**	**-**	**-**	**-**	**6,585**

Pensioners	UKAEA	CNC	Ex-BNFL	PHE	MoD	SERC	Total
At 1 April 2019	**6,459**	**336**	**9,232**	**232**	**561**	**536**	**17,356**
Opening Adjustment [4]	3	1	7	-	-	-	**11**
New	282	51	779	19	-	5	**1,136**
Deaths	(325)	(3)	(307)	(5)	(53)	(22)	**(715)**
At 31 March 2020	**6,419**	**385**	**9,711**	**246**	**508**	**519**	**17,788**

Dependants' Pensions	UKAEA	CNC	Ex-BNFL	PHE	MoD	SERC	Total
At 1 April 2019	**2,370**	**28**	**2,334**	**37**	**440**	**174**	**5,383**
Sub Fund Adjustment [2]	(2)	-	2	-	-	-	**-**
New	227	11	303	6	35	14	**596**
Deaths	(268)	(5)	(275)	(5)	(57)	(15)	**(625)**
At 31 March 2020	**2,327**	**34**	**2,364**	**38**	**418**	**173**	**5,354**

[1] The UKRI members are included in the Authority figures as they are part of the Authority sub-fund.

[2] Sub Fund Adjustments relate to movements in members that were previously shown under a different category.

[3] The NDA, established with effect from 1 April 2005, set up a new scheme, the Combined Nuclear Pension Plan (CNPP). The CNPP is the vehicle for pension provision for eligible members in the nuclear industry who were active members of the CPS. As eligibility for membership to the CPS ceased, individuals were invited to join the CNPP and had the opportunity to preserve their accrued benefits in the CPS and were not transferred to the CNPP. The preserved CPS benefits for these members are calculated using the same pensionable final earnings as applies to the calculation of the CNPP benefits, hence the “active deferred” category of members.

[4] Opening Adjustments are changes in membership due to identifying new or suspended cases as part of a data migration cleanse.

Schemes records

Records are maintained in separate parts for UKAEA (including CNC and the UKRI), Ex-BNFL (including INSL, NDA and NNL), and MoD to enable the Schemes Actuary to advise on the contributions to be made by the participating employers to the Schemes.

Defined contribution arrangements

In addition to allowing members to pay additional contributions to purchase added years of service within the defined benefit schemes, there exists facilities for additional contributions to be made to two defined contribution schemes (the Additional Voluntary Contribution (AVC) scheme and the Shift Pay Pension Savings Plan (the Plan)). These are fully insured schemes administered by the Prudential Assurance Company Limited to whom contributions are paid. The benefits are paid separately from any Defined Benefit scheme benefits the member has accrued.

The AVC scheme is open to members of the Public Service Pension Schemes who have opted to pay additional voluntary contributions. No employer contributions are made to this scheme. The Plan is open to shift workers who are members of the Public Service Pension Schemes. Contributions to this scheme are directly linked to shift pay earnings with the employers contributing a percentage of pensionable shift pay salary equal to the percentage payable by them to the CPS.

The transactions relating to the AVC scheme and the Plan are presented in Note 4 in these Accounts. The transactions are not reflected in the financial statements as separate accounts are prepared for these defined contribution arrangements.

Rule amendments

The Rules were amended to allow members who meet the conditions for partial retirement to make an application from the normal minimum pension age of 55 (as defined under Section 279 of the Finance Act 2004), rather than the Schemes’ pension age of 60.

Pensions review

Under the Rules, benefits are increased in line with increases in the cost of living to the extent corresponding to and upon like terms and conditions as apply in relation to official pensions in accordance with the Pension Schemes Act 1995. The increase for 2019-20 was 2.4% (2018-19: 3%).

Transfer values paid

Individual transfer values paid have been calculated using either “a cash equivalent method”, in accordance with the Pension Schemes Act 1995 or, for eligible members, a “mixed transfer” method, in accordance with the Rules, where this was more favourable. Where there has been a compulsory transfer of employment, group transfer values paid have been calculated with HM Treasury agreement using a “past service reserve” method. Under these arrangements, which are generally more favourable than “cash equivalent” transfers, account is taken of potential salary increases to Normal Retirement Age rather than price increases over the same period.

Premature retirements

The Rules provide for certain benefits to be paid to members retiring early. These benefits may include a lump sum and annual payments until normal retirement age. The annual payments are not chargeable to the Schemes' Accounts and are fully funded by the appropriate participating employer.

The extent of activity for the Schemes under the above arrangements, for all participating employers, is shown in the following table:

	2019-20	**2018-19**
	£000	**£000**
Amount due to/(from) employers at 1 April	123	(22)
Received from employers during year	9,054	9,842
Paid to members during year	(8,324)	(8,680)
Repaid to employers during year	(691)	(1,017)
Amount due (from)/to employers at 31 March	**162**	**123**

Lump sum compensation payments and other benefit payments that are paid directly by participating employers to members retiring early are excluded from the above figures.

Financial review

Combined Statement of Comprehensive Net Expenditure:
Income:
Income increased by £2.6 million compared to the prior year, from £37.3 million in 2018-19 to £39.9 million in 2019-20. The value of contributions receivable increased by £1.2 million. There was an increase in the number of contributing members, from 3,394 at 31 March 2019 to 3,676 as at 31 March 2020. In addition, the value of transfers in increased by £1.4 million. This is due to the increase in the number of value of transfers in compared to the prior year.

Expenditure:
Overall expenditure for the year was £335.5 million (2018-19: £276.9 million), £58.6 million higher than the prior year. This is due to the increase in service cost of £44.1 million (see explanation below), an increase in the pension financing cost of £13.1 million, which is driven by the increase in the nominal discount rate from 2.55% p.a. as at 31 March 2018 to 2.90% p.a. as at 31 March 2019 and higher levels of transfers in of £1.4 million, due to an increase in the number and value of transfers in compared to the prior year.

The service cost, which equates to the sum of the current service cost and past service cost increased by £44.1 million (table 1.1). The majority of this is due to the current year including a past service cost which arose following the High Court judgement in the Lloyds Banking Group case in October 2018 on the equalisation of Guaranteed Minimum Pension (GMP) which found that pensions must be equalised for the effects of unequal GMP. In addition, a past service cost has been recognised this year in relation to potential costs arising from a claim against a public sector pension scheme relating to survivor benefits. There were no such events that gave rise to a past service cost in 2018-19.

In addition, during the year to 31 March 2020, the current service cost has increased by £1.1 million (table 1.1). The contributing factors to the increase are a higher pensionable payroll than last year (the pensionable payroll estimate is based on employer contributions and outturn for employer contributions has been higher than in the previous year) and an increase in the discount rate net of CPI inflation from 0.10% to 0.29% between 31 March 2018 and 31 March 2019.

Table 1.1 – Pension Cost

	2019-20 £m	2018-19 £m	Change +/- £m
Pension cost	117.3	73.2	44.1
made up of:			
Current service cost	74.3	73.2	1.1
Past service cost	43.0	-	43.0

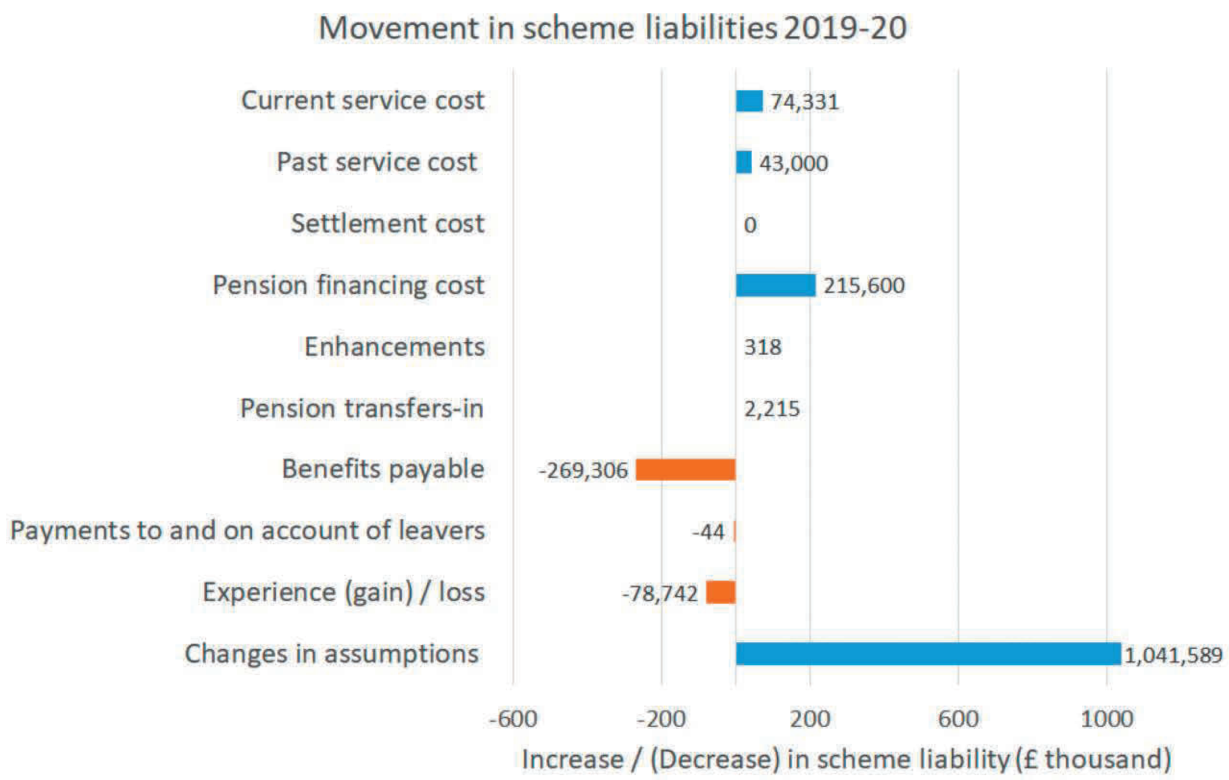
The value of benefits payable increased by £10.6 million compared to 2018-19 (table 1.2), mainly due to the annual increase in the value of benefits, and to changes in the profile of the pensioners. The number of pensioners and dependents increased during the year by 403 to 23,142 as at 31 March 2020.

Table 1.2 – Value of benefits payable

	2019-20 £m	2018-19 £m	Change +/- £m
Benefits payable	269.3	258.7	10.6

<u>Combined Statement of Financial Position:</u>
The overall Schemes' liability in 2019-20 was £8,559 million; an increase of £1,029 million from 2018-19. The main factor underlying the increase in the actuarial liability is the changes to the financial assumptions (which are largely prescribed by HM Treasury).

The graph below analyses the movement in the scheme liability over 2019-20:



Statement of Parliamentary Supply:
The Outturn shows a £5.5 million saving compared with the Parliamentary Supply Estimate. This is primarily due to the past service cost for the impact of the High Court judgement in the Lloyds Banking Group case in October 2018 on the equalisation of GMP being lower than the Parliamentary Supply Estimate. This is partially offset by transfers in, current service cost and potential costs due to a claim against a public sector pension scheme being higher than the Parliamentary Supply Estimate.

On the Net Cash Requirement, Outturn compared with the Estimate shows a £21.0 million saving. This is the result of the forecast including a prudent estimate of both the level of interest due on the liabilities of the Schemes and lump sum expenditure. In addition, the accrual of new pension benefits, the estimated interest cost and the past service cost were lower than allowed for in the Parliamentary Supply Estimate.

The financial statements and accompanying notes on pages 27 to 41 provide further details of the Schemes' income and expenditure.

GMP Reconciliation and Equalisation

UKAEA has adopted a three phased approach for reconciling GMP data with HM Revenue and Customs (HMRC) data. The stages are:

- Stage 1: Initial report
- Stage 2: Reconciliation of Schemes' records against HMRC records
- Stage 3: Implement agreed changes

Stages 1 and 2 have been completed. UKAEA is currently working with the administrator to implement the agreed changes and is expected to complete this in 2020-21. Following this, UKAEA will commence work with the administrator on implementing GMP equalisation.

Actuarial position, actuary's valuation and statement

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 *Government Financial Reporting Manual* (*FReM*) requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years".

The last formal valuation of the scheme was as at 31 March 2012. A valuation as at 31 March 2016 was deferred due to the ongoing discussions regarding the transfer of active members to the alpha scheme. UKAEA is currently consulting with BEIS, the Government Actuary Department and HM Treasury on a proposal to carry out a more up-to-date valuation.

Employer contribution rates have been set based on actuarial valuation calculations using data as at 31 March 2012. However, the amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2016, such as would have been provided for a formal actuarial valuation and updating this to 31 March 2020 to reflect known changes. Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. In undertaking this valuation, the methodology prescribed in IAS19, relevant *FReM* interpretations and the discount rate prescribed by HM Treasury have also been used.

The Government Actuary's Department's report on the 2019-20 Accounts, based on the position as at 31 March 2020, confirmed that the Schemes' liabilities were £8,559 million discounted at a real rate of (0.50%) under the Rules at the date of the valuation. The actuarial report is reproduced on pages 10-15.

Auditors

These Financial Statements have been audited by the Comptroller and Auditor General (C&AG) whose opinion is expressed on pages 24-26. The notional cost of the audit for 2019-20 is £40,000. The audit fee is classified as an administration cost (rather than programme) and is therefore borne on the BEIS Vote.

COVID-19

A novel coronavirus, COVID-19, has had a significant impact on the business operations of the Schemes. Further information is detailed in the Governance Statement on pages 17-20 and Note 12.

Disclosure of Audit Information

As far as I am aware, there is no other relevant audit information of which the Schemes' auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Schemes' auditors are aware of that information.

I confirm that the Combined Annual Accounts as a whole are fair, balanced and understandable. I take personal responsibility for the Combined Annual Accounts and the judgments required for determining that they are fair, balanced and understandable.

Sam Beckett
Acting Permanent Secretary and Principal Accounting Officer

15 July 2020

Report of the Actuary

United Kingdom Atomic Energy Authority ("UKAEA")

- **Combined Pension Scheme**
- **Principal Non-Industrial Superannuation Scheme**
- **Protected Persons Superannuation Scheme**

Accounts for the year ended 31 March 2020

Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the UK Atomic Energy Authority (UKAEA). It provides a summary of GAD's assessment of the scheme liability in respect of the UKAEA Pension Schemes as at 31 March 2020, and the movement in the scheme liability over the year 2019-20, prepared in accordance with the requirements of Chapter 9 of the 2019-20 version of the Financial Reporting Manual.

2. The UKAEA Pension Schemes is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

3. The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2020.

Membership data

4. Tables A to D summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number	Total pensionable pay* (p.a.) as at 31 March 2016 £ million
Total	3,081	120.3

* Pensionable pay is the full-time equivalent figure.

Table B – Active deferred members

	Number	Total pensionable pay* (p.a.) as at 31 March 2016 £ million
Total	8,201	374.9

* Pensionable pay is the full-time equivalent figure.

Table C – Deferred members

	Number	Total deferred pension* (p.a.) as at 31 March 2016 £ million
Total	9,988	44.9

* Pension amounts include the pension increase granted in April 2016.

Table D – Pensions in payment

	Number	Annual pension* (p.a.) as at 31 March 2016 £ million
Total	22,122	208.1

* Pension amounts include the pension increase granted in April 2016.

Methodology

5. The present value of the liabilities as at 31 March 2020 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2020. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2020 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2019 in the 2018-19 accounts.

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

Financial assumptions

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

Table E – Principal financial assumptions

Assumption	31 March 2020 p.a.	31 March 2019 p.a.
Nominal discount rate	1.80%	2.90%
Rate of pension increases	2.35%	2.60%
Rate of general pay increases	4.10%	4.10%
Rate of short-term general pay increase	2.50% (BNFL) 2.00%* (Non-BNFL)	2.50% (BNFL) 1.50% (Non-BNFL)
Real discount rate in excess of:		
• Pension increases	(0.50%)	0.29%
• Long–term pay increases	(2.20%)	(1.15%)
Expected return on assets	n/a	n/a

* Active-deferred members are assumed to have received a short-term general pay increase of 2.5%

8. The assessment of the liabilities allows for the known pension increases up to and including April 2020.

Demographic assumptions

9. Table F summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' with the percentage adjustments to those tables derived from scheme experience.

Table F – Post-retirement mortality assumptions

Baseline mortality	Standard table[2]	Adjustment
Normal Health		
BNFL Males	S2NMA	101%
Non-BNFL Males	S2NMA	92%
Females	S2NFA	99%
Current ill health pensioners		
Males	S2IMA	100%
Females	S2IFA	100%
Future ill-health pensioners		
Males	S2IMA	100%
Females	S2IFA	100%
Partners		
Males	S2NMA	100%
Females	S2DFA	110%

10. For the 2018-19 accounts, future improvements in mortality were assumed to be in line with the 2016-based principal population projections published by the Office for National Statistics (ONS). Mortality improvements are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies.

Liabilities

11. Table G summarises the assessed value as at 31 March 2020 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 10. The corresponding figures for the previous year are shown for comparison.

[2] From the 'S2' series of standard tables published by the CMI and based on the experience of self-administered pension schemes. Separate tables are available based on experience of members retiring in normal and ill-health and for dependants.

Table G – Statement of Financial Position

	31 March 2020 £ thousand	31 March 2019 £ thousand
Total market value of assets	nil	nil
Value of liabilities	8,559,015	7,530,054
Surplus/(Deficit)	(8,559,015)	(7,530,054)
of which recoverable by employers	n/a	n/a

Accruing costs

12. The cost of benefits accrued in the year ended 31 March 2020 (the current service cost) is assessed as 54.5% of pensionable pay.

13. For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members contributed between 8.2% and 10.7% of pensionable pay, depending on the level of their pay. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table H shows the employer and employee contributions during the year 2019-20 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2019-20 accounts.

Table H – Contribution rate

	2019-20 % of pay	2018-19 % of pay
Employer contributions (excluding expenses)	19.2%	19.2%
Employee contributions (average)	8.2%	8.2%
Total contributions	**27.4%**	**27.4%**
Current service cost (expressed as a % of pay)	**54.5%**	**55.6%**

14. The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

15. The pensionable payroll for the financial year 2019-20 was £136,387 thousand (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2019-20 (at 54.5% of pay) is assessed to be £74,331 thousand.

16. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost has been determined in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021. A past service cost has also been determined in respect of a legal challenge regarding survivor benefits provided in public service schemes.

17. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2019-20.

Sensitivity analysis

18. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2020 of changes to the most significant actuarial assumptions.

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

20. Table I shows the indicative effects on the total liability as at 31 March 2020 of changes to these assumptions (rounded to the nearest 0.5%).

Table I – Sensitivity to significant assumptions

Change in assumption		**Approximate effect on total liability**	
Financial assumptions			
(i) discount rate*:	+0.5% p.a.	- 9.5%	- £813.1 million
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 1.5%	+ £128.4 million
(iii) pension increases*:	+0.5% p.a.	+ 7.0%	+ £599.1 million
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.0%	+ £342.4 million

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

COVID-19 Implications

21. The 2019-20 Resource Accounts are being produced at a time when the UK is in the midst of dealing with the COVID-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.

22. The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2019) 11 Revised, dated 6 December 2019, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.

23. The long-term salary assumption is set by UKAEA, having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The increase in the amount of Government debt being taken on to pay for its response to the COVID-19 pandemic is likely to affect salary growth. However, at this stage, it is too early to speculate on the potential impacts for the long-term salary growth. Therefore I do not believe there is any information to justify changing the salary assumption.

24. The current population mortality projections make no specific allowance for the impact of COVID-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether COVID-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from COVID-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year’s accounts.

Louise Fletcher FIA
Actuary
Government Actuary’s Department

25 June 2020

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Business, Energy and Industrial Strategy (BEIS) to prepare for each financial year a statement of accounts for the United Kingdom Atomic Energy Authority Pension Schemes in the form and on the basis set out in the Accounts Direction.

With the exception of certain transactions (which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the financial year end), the combined accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the United Kingdom Atomic Energy Authority Pension Schemes and of its income and expenditure, Combined Statement of Financial Position and cash flows for the financial year.

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

- Observe the Accounts Direction issued by HM Treasury 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; and
- Confirm that the Annual Report and Accounts, as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Permanent Secretary of BEIS as Accounting Officer of the United Kingdom Atomic Energy Authority Pension Schemes. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the United Kingdom Atomic Energy Authority Pension Schemes' assets, are set out in *Managing Public Money* published by HM Treasury.

As Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the United Kingdom Atomic Energy Authority Pension Schemes auditors are aware of this information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Governance Statement for the United Kingdom Atomic Energy Authority Pension Schemes 2019-20

Scope of responsibility

As Accounting Officer for the United Kingdom Atomic Energy Authority ("UKAEA", "the Authority") Pension Schemes ("the Schemes") I have responsibility for maintaining a sound system of governance, risk management and internal control that supports the achievement of the Schemes' policies, aims, and objectives and for safeguarding the public funds and departmental assets for which, as the Accounting Officer and Permanent Secretary for Department for Business, Energy and Industrial Strategy ("the Department", "BEIS"), I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The Chief Executive and Accounting Officer of UKAEA (a partner organisation of the Department) is responsible for the management and administration of the Schemes on my behalf under the terms of a Management Framework between UKAEA and the Department, and for the maintenance and operation of the Governance Framework in that body.

The administration of the Schemes has been carried out by Paymaster (1836) Ltd, a subsidiary of Equiniti Group plc under contract to UKAEA from 1 April 2018.

UKAEA disburses pensions and other payments and collects pension contributions and other income with the approval of the Department, which in turn ensures that funds are provided to meet the net cash outflow on pensions. The Department prepares this account which combines the financial information for the Schemes. Thus, the governance framework over the schemes in operation in UKAEA and the Department is relevant to this account.

The Governance Framework

UKAEA

The UKAEA Board and Audit Committee maintain oversight of the Schemes and provide me with assurance on the quality of the combined accounts, governance, risk management and internal control arrangements as they affect the Schemes.

More details on UKAEA's governance framework can be found in UKAEA's Annual Report and Accounts.

The Department

The Departmental Board provides collective strategic leadership of the Department with responsibility for performance, risk and delivery including appropriate oversight of partner organisations, including UKAEA.

More details on the Department's governance framework can be found in the Department's Annual Report.

The Schemes

A Management Framework between the Department and UKAEA sets out the responsibilities that each have in respect of the funding, management and administration of the Schemes and incorporates a framework for the management of risks and maintaining a sound system of internal control. The Management Framework was reviewed during the course of 2019-20. It sets out Governance responsibilities.

In addition to the oversight function described above, UKAEA is responsible for managing and administering the Schemes properly and efficiently within the terms of the Rules and relevant legislation, handling Schemes' finances with propriety, consistent with the requirements of Government Accounting, accounting to BEIS each month for the application of cash used and operating an effective system of internal controls and risk management in respect of these responsibilities. These include regular internal audit reviews.

In addition to the strategic responsibility described above, BEIS is responsible for reporting to Parliament on the resource and cash requirements for the Schemes, preparing the annual Resource Account for the Schemes, and arranging for external audit of the combined accounts, ensuring that the resource and cash requirement for each year is consistent with the relevant Parliamentary Supply Estimate, operating an effective system of internal controls and risk management in respect of these responsibilities.

The Department / UKAEA Pension Schemes “Finance Meeting” meets on a quarterly basis. The objectives of these meetings are:

- To ensure that those representatives responsible for the management and reporting of financial data for UKAEA Pension Schemes have a good understanding of all the financial aspects of the Schemes;
- To ensure that future changes to the Pension Schemes are identified and the implications understood and communicated to each of the representative areas;
- To ensure that changes in personnel are managed in such a way that there is no loss of understanding and that there is continuity of financial management; and
- To manage the risks to the effective financial control of UKAEA Pension Schemes.

Participants at the “Finance Meeting” include representatives from the Department’s Group Finance / Sponsor Team, Corporate Finance (Financial Reporting Team), Budgeting and Estimates team, the Government Actuary Department (GAD) and UKAEA. The NAO attends as observers.

The Department / Authority Pension Schemes “Finance Meeting” met on the following dates: 24 July 2019, 9 October 2019 and 24 January 2020. During the year, the “Finance Meeting” considered the following issues:

- Valuation of the Schemes;
- Review of the process maps and responsibilities of the various parties to the Schemes;
- Pension Scheme Reform arising from the Public Services Pensions Act 2013.

A formal record of the minutes of each Finance Meeting is maintained, summarising the work of, and reflecting discussions held between, the members. These minutes are shared with all the members and require their approval, which is sought in the following Finance Meeting. This approach is functioning well as it provides a continuous update on the agreed actions, and significantly improving the understanding across all the parties involved.

Paymaster (1836) Ltd

Administration of the Schemes is carried out by Paymaster (1836) Ltd under contract to UKAEA from 1 April 2018. This contract sets out the various requirements and service levels expected. UKAEA receives monthly snapshots and quarterly stewardship reports from the administrators and holds monthly meetings with the administrator to discuss ongoing operational issues and agree priorities for work. In addition, two meetings were held between UKAEA and the administrator during 2019-20 to discuss various aspects of the administration service contract. The administrators have completed actions arising from these meetings to UKAEA’s satisfaction.

Risk Management

The risk management process for the Schemes operates through the initial identification of risks against the Schemes’ objectives. These risks are then evaluated in terms of impact and probability to determine the key risks inherent to the Schemes. Consideration is then given to the controls in place to manage each risk and how effective they are in mitigating the risk. This establishes the level of residual risk and enables management to determine what further action is required to manage the risk. Ownership for each risk is then assigned to named individuals who will report on progress in managing the risk when the risk register is reviewed. Assurance is obtained through regular management reviews and periodic Internal Audits of the Schemes. There were no significant lapses of data security during this financial year to report.

A risk register for the Schemes operated throughout the year and contains both the key strategic and operational risks. Each of the teams involved in operating the Schemes also maintain their own local risk register. Key strategic risks relate to:

- Engaging effectively with HM Treasury over the unique issues around the Schemes in helping to develop optimum arrangements for the future;
- Implementing appropriate governance arrangements for existing schemes that reflect best practice;
- Ensuring bulk transfers of members have sufficient funding provision, authorised through Parliamentary Supply Estimates, before being finalised;
- Next valuation of the Schemes and its potential impact on funding and the contribution rate for employers;
- Ensuring employers recognise their ownership of existing liabilities where no active members remain in their organisation; and
- Entry to the Civil Service and Others Pension Scheme (alpha) is delivered in accordance with Ministerial approval. There is uncertainty of the date of entry as the process has been paused under instruction from HM Treasury.
- Ensuring that the Schemes' employers provide data to the administrator on a timely basis to ensure accurate benefit calculation and provision of the services provided.

Mitigating actions have been put in place to manage the above risks and progress on these will be monitored during the course of 2020-21.

UKAEA and BEIS are holding discussions with HM Treasury regarding the legacy liabilities for the Schemes. This is a key issue regarding where and how potential deficits must be provided.

Reporting of Personal Data Related Incidents

UKAEA reported no incidents of the loss of any “Protected Personal Data” to the Information Commissioners Office in 2019-20 (or prior years). There were no reportable “Other Protected Personal Data” incidents in 2019-20 (or prior years) such as the loss of inadequately protected or insecure disposal of electronic equipment, devices or paper documents from secured Government premises, or any other unauthorised disclosure.

UKAEA continues to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Internal Audit

In 2019-20, UKAEA Internal Audit carried out a review of the administrator of the UKAEA Public Service Pension Schemes, focussing on the banking and payment processes, non-scheme charges, administration of member records and balance sheet control accounts. The audit provided limited assurance and made seven recommendations, two high priority (regarding payment processes and non-scheme charges) and five medium priority recommendations (relating to areas where the administrative processes can be improved), all of which were accepted. One recommendation has been fully completed and agreed with UKAEA Internal Audit as complete, and two are proposed as completed subject to UKAEA Internal Audit review. UKAEA has agreed actions with the administrator to implement the remaining four during 2020-21.

COVID-19

As noted in the Report of the Managers on page 9 and Note 12, the COVID-19 pandemic had a significant impact on the day to day management of the schemes due to the fact that the majority of the administration staff had to work from home. As the pandemic progressed though various stages, new working practices were agreed, whilst maintaining the safety of staff. Paymaster (1836) Ltd has implemented contingency measures to ensure it can continue to provide the key elements of the pension administration service, specifically pay pension benefits to pensioners and other benefit recipients. Priority will be given to ensuring payments continue and changes affecting benefit entitlements are actioned efficiently and effectively. Paymaster (1836) Ltd are following guidance issued by The Pension Regulator and The Pensions Administration Standards Association in relation to COVID-19 and pension administration. Some activities have been paused, for example individual transfer requests and members are being communicated with accordingly. The annual pension increase was applied in April 2020 and confirmation letters sent to pensioners and deferred members. UKAEA receives regular (weekly) updates from the administrator on the actions being taken, and has approved specific priority work areas and pausing of lower priority work.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of governance, risk management and internal control. My review of the effectiveness is informed by the work of the internal auditors and the executive managers within the Department and UKAEA who have responsibility for the development and maintenance of the risk management and internal control framework for the Schemes; and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the UKAEA Audit Committee and mechanisms are in place to ensure continuous improvement of the system is in place. The effectiveness of the governance frameworks in operation more generally in UKAEA and the Department are reflected in the respective Governance Statements of these organisations.

My review has provided me with assurance that the system of governance risk management and internal control in operation for the Schemes has operated satisfactorily during 2019-20.

Sam Beckett
Acting Permanent Secretary and Principal Accounting Officer

15 July 2020

Statement of Parliamentary Supply *(this section is subject to audit)*

In addition to the primary statements prepared under the International Financial Reporting Standards (IFRS), the *Government Financial Reporting Manual* (*FReM*) requires the UKAEA Pension Schemes to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following:

- Outturn by Estimate line, providing a more detailed breakdown (SoPS1)
- A reconciliation of Outturn to net cash requirement (SoPS2)

Summary tables – mirrors part 1 of the Estimates

Type of spend	SoPS Note	2019-20 Outturn			2019-20 Estimate			2019-20 Outturn vs Estimate, saving/(excess)		2018-19 Outturn
		Voted	Non-voted	Total	Voted	Non-voted	Total	Voted	Total	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Annually Managed Expenditure (AME)										
Resource	SOPS1	295,655	-	295,655	301,122	-	301,122	5,467	5,467	239,631
Capital		-	-	-	-	-	-	-	-	-
Total AME budget		**295,655**	**-**	**295,655**	**301,122**	**-**	**301,122**	**5,467**	**5,467**	**239,631**
Total Budget and Non budget		**295,655**	**-**	**295,655**	**301,122**	**-**	**301,122**	**5,467**	**5,467**	**239,631**

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimate guidance manual, available on gov.uk, for details on the control limits voted by Parliament.

Net cash requirement 2019-20

Item	SoPS Note	2019-20 Outturn	2019-20 Estimate	2019-20 Outturn vs Estimate, saving/(excess)	2018-19 Outturn
		£'000	£'000	£'000	£'000
Net Cash Requirement	SOPS2	228,465	249,425	**20,960**	219,884

Notes to the Statement of Parliamentary Supply *(this section is subject to audit)*

SoPS1. Outturn detail, by Estimate Line

Type of spend (Resource)	2019-20 Resource Outturn Programme Gross	Income	Net	Total	2019-20 Estimate Total	Virements	Total inc. virements	2019-20 Outturn vs Estimate, saving/ (excess)	2018-19 Outturn Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Spending in Annually Managed Expenditure (AME)									
Voted expenditure									
Pensions, transfer values, repayment of contributions	335,539	(39,884)	295,655	295,655	301,122	-	301,122	5,467	239,631
Total voted AME	**335,539**	**(39,884)**	**295,655**	**295,655**	**301,122**	**-**	**301,122**	**5,467**	**239,631**
Total resource	**335,539**	**(39,884)**	**295,655**	**295,655**	**301,122**	**-**	**301,122**	**5,467**	**239,631**

There are no virements in the total Estimate columns. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on gov.uk. The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

SoPS2. Reconciliation of net resource outturn to net cash requirement

Item	Reference	Outturn Total £'000	Estimate £'000	Outturn vs Estimate, saving/ (excess) £'000
Resource outturn	**SOPS 1**	**295,655**	**301,122**	**5,467**
Adjustments to remove non-cash items:				
New pensions and adjustments to previous pensions		(335,464)	(340,127)	(4,663)
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	5	969	-	(969)
(Increase)/decrease in payables	7	(2,045)	10,000	12,045
Use of provisions	8.4	269,350	278,430	9,080
Total:		**(67,190)**	**(51,697)**	**15,493**
Net cash requirement		**228,465**	**249,425**	**20,960**

As noted in the introduction to the SoPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Parliamentary Accountability Disclosures *(this section is subject to audit)*

Losses and special payments

There are no losses or special payments, individually or in aggregate in excess of £300,000 which would require separate disclosure during the year to 31 March 2020 (2018-19: nil), or that have been recognised since that date.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of the United Kingdom Atomic Energy Authority Pension Schemes for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2020 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded; and
- 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), Practice Note 15 (revised) 'The Audit of Occupational Pension Schemes in the United Kingdom' and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the United Kingdom Atomic Energy Authority Pension Schemes in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the United Kingdom Atomic Energy Authority Pension Schemes' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the United Kingdom Atomic Energy Authority Pension Schemes have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the United Kingdom Atomic Energy Authority Pension Schemes' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the United Kingdom Atomic Energy Authority Pension Schemes' internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the United Kingdom Atomic Energy Authority Pension Schemes' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the United Kingdom Atomic Energy Authority Pension Schemes' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the United Kingdom Atomic Energy Authority Pension Schemes to cease to continue as a going concern.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the United Kingdom Atomic Energy Authority Pension Schemes and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

17 July 2020

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2020

	Note	2019-20	2018-19
		£'000	**£'000**
Principal Arrangements - UKAEA Pension Schemes			
Income			
Contributions receivable	2	(37,650)	(36,414)
Transfers in		(2,215)	(856)
Other income		(19)	(6)
		(39,884)	(37,276)
Expenditure			
Service Cost	3	117,331	73,231
Enhancements		318	343
Transfers in		2,215	856
Pension financing cost		215,600	202,465
Other expenses		75	12
		335,539	276,907
Net Expenditure		**295,655**	**239,631**
Other Comprehensive Net Expenditure			
Pension re-measurements:			
- Actuarial loss/(gain)	8.7	962,847	(519,166)
Total Comprehensive Net Expenditure for the year ended		**1,258,502**	**(279,535)**

Notes 1 to 12 form part of these Accounts.

Combined Statement of Financial Position as at 31 March 2020

	Note	31 March 2020	31 March 2019
	Note	£'000	£'000
Principal Arrangements - UKAEA Pension Schemes			
Current assets			
Receivables	5	3,466	2,497
Cash and cash equivalents	6	8,525	7,456
Total current assets		**11,991**	**9,953**
Current liabilities			
Payables	7	(16,477)	(13,363)
Total current liabilities		**(16,477)**	**(13,363)**
Net current assets/(liabilities), excluding pension liability		**(4,486)**	**(3,410)**
Pension liability	8.4	(8,559,015)	(7,530,054)
Net liabilities, including pension liabilities		**(8,563,501)**	**(7,533,464)**
Taxpayers' equity			
General fund		(8,563,501)	(7,533,464)
Total taxpayers' equity		**(8,563,501)**	**(7,533,464)**

Notes 1 to 12 form part of these Accounts.

Sam Beckett
Acting Permanent Secretary and Principal Accounting Officer

15 July 2020

Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2020

		31 March 2020	31 March 2019
	Note	£'000	£'000
Balance at 1 April		(7,533,464)	(8,032,883)
Net Parliamentary Funding - drawn down		229,534	216,500
Net Parliamentary Funding - deemed		7,456	10,840
Supply (payable) adjustment - current year		(8,525)	(7,456)
Net Expenditure for the Year		(295,655)	(239,631)
Actuarial (loss)/gain	8.7	(962,847)	519,166
Balance at 31 March		**(8,563,501)**	**(7,533,464)**

Notes 1 to 12 form part of these Accounts.

Combined Statement of Flows for the year ended 31 March 2020

		2019-20	2018-19
	Note	**£'000**	**£'000**
Cash flows from operating activities			
Net expenditure for the year		(295,655)	(239,631)
Adjustments for non-cash transactions			
(Increase)/Decrease in receivables		(969)	665
Increase/(Decrease) in payables: pensions		3,114	(1,833)
less movements in payables relating to items not passing through the Combined Statement of Comprehensive Net Expenditure		(1,069)	3,384
Movement in pension liability - service and finance costs	8.4	332,931	275,696
Movement in pension liability - enhancements and transfers in	8.4	2,533	1,199
Movement in pension liability - benefits paid	8.5	(268,779)	(258,261)
Movement in pension liability - refunds and transfers	8.6	(44)	(686)
Movement in pension liability - death in service	8.5	(527)	(417)
Net cash flows from operating activities		**(228,465)**	**(219,884)**
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		229,534	216,500
Adjustments for payments and receipts not related to Supply		-	-
Net Financing		**229,534**	**216,500**
Net increase/(decrease) in cash and cash equivalents in the period		**1,069**	**(3,384)**
Cash and cash equivalents at the beginning of the period	6	7,456	10,840
Cash and cash equivalents at the end of the period	**6**	**8,525**	**7,456**

Notes 1 to 12 form part of these Accounts.

Notes to the Schemes Statements

Note 1 Statement of accounting policies

The accounting policies contained in the *Government Financial Reporting Manual (FReM)* issued by HM Treasury follow International Financial Reporting Standards (IFRS) to the extent that they are meaningful and appropriate in the public sector context.

Where the *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Schemes for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

1.1. Basis of preparation of the Schemes financial statements

The financial statements of the Combined Schemes have been prepared in accordance with the relevant provisions of the 2019-20 *FReM* issued by HM Treasury. The accounting policies contained in the *FReM* apply IFRS as adapted or interpreted for the public sector. IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plans* are of particular relevance to these statements.

In addition to the primary statements prepared under IFRS, the *FReM* also requires the Schemes to prepare an additional statement – *a Statement of Parliamentary Supply*. This statement, and its supporting notes, show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Parliamentary Supply and its supporting notes are shown on pages 21-22.

1.1.1. **New accounting standards adopted in the year**

The Schemes have not adopted any new accounting standards this year.

1.2. UKAEA Pension Schemes

The UKAEA Pension Schemes are an unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the United Kingdom Atomic Energy Authority Pension Schemes on behalf of the members who satisfy the membership criteria.

Contributions to the Schemes by employers and employees are set at rates determined by the Schemes' Actuary and approved by the governing body. The contributions partially fund payments made by the Schemes, the balance of funding being provided by Parliament through the annual Supply Estimates process. The administrative expenses associated with the operation of the Schemes are borne by UKAEA and are reported in UKAEA's financial statements.

The financial statements of the Schemes show the financial position of the UKAEA Pension Schemes at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Schemes; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the interest on the Schemes' liability. Further information about the actuarial position of the Schemes is dealt with in the Report of the Actuary, and the Schemes financial statements should be read in conjunction with that Report.

1.3. Pension contributions receivable

1.3.1. Employers' normal pension contributions are accounted for on an accruals basis.

1.3.2. Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid.

1.3.3. Employees' pension contributions are accounted for on an accruals basis.

1.3.4. Employees' contributions include amounts paid in respect of the purchase of added years but exclude contributions to the Additional Voluntary Contribution scheme (AVC) and the Shift Pay Pension Plan scheme (SPPP). The transactions relating to the AVC scheme and the SPPP are not reflected in these Combined Accounts as separate accounts are prepared for these defined contribution arrangements.

1.4. Transfers in and out

1.4.1. Transfers in are normally accounted for as income and expenditure (representing the associated increase in the Schemes' liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the Schemes have formally accepted or transferred a liability. Transfers out are normally accounted for as use of provision.

1.5. Income received in respect of enhancements

1.5.1. Amounts receivable in respect of bringing forward the payment of accrued pension lump sums, and in respect of the capitalised costs of pension enhancement either at departure or at retirement, are accounted for as income and expenditure (representing the associated increase in the Schemes' liability) on a cash basis.

1.6. Gain or loss on settlements or curtailments

1.6.1. A gain or loss on settlement or curtailment is recognised when there has been a significant reduction in the number of Schemes' members or when there is an amendment to the terms of the Schemes so that a significant element of future service by members will no longer qualify for benefits or will only qualify for reduced benefits. Gains or losses are recognised when they occur.

1.7. Other income

1.7.1. Other income, including refunds of gratuities, and overpayments recovered other than by deduction from future benefits, are accounted for on an accruals basis. To the extent that this income also represents an increase in the Schemes' liability, it is also reflected in expenditure.

1.8. Current service cost

1.8.1. The current service cost is the increase in the present value of the Schemes' liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a discount rate at the start of the year of 0.29% real (i.e. 2.90% including CPI inflation).

1.9. Past service costs

1.9.1. Past service costs are increases in the present value of the Schemes' liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

1.9.2. Past service costs are recognised in the Combined Statement of Comprehensive Net Expenditure on a straight line basis over the period in which increase in benefits vest.

1.10. Interest on Schemes' liabilities

1.10.1. The interest cost is the increase during the period in the present value of the Schemes' liabilities because the benefits are one period closer to settlement and is recognised in the Combined Statement of Comprehensive Net Expenditure. The interest cost is based on a discount rate (including inflation) at start of the year, i.e. 2.90%.

1.11. Other payments

1.11.1. Other payments are accounted for on an accruals basis.

1.12. Schemes' liability

1.12.1. Provision is made for liabilities to pay pensions and other benefits in the future. The Schemes' liability is measured on an actuarial basis using the projected unit method and is discounted at (0.50%) real, i.e. 1.80% including inflation (2018-19: 0.29% real, i.e. 2.90% including inflation).

1.12.2. Full actuarial valuations by a professionally qualified actuary are usually obtained for accounting purposes at intervals not exceeding four years. The effective date of the full accounting calculation underlying these accounts is 31 March 2016. These calculations have been updated to 31 March 2020 to reflect known changes.

1.13. Pension benefits payable

1.13.1. Pension benefits payable are accounted for as a decrease in the Schemes' liability on an accruals basis.

1.14. Pension payments to those retiring at their normal retirement age

1.14.1. Where a retiring member of the Schemes has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the Schemes' liability on an accruals basis.

1.14.2. Where retiring members of the Schemes have a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the Schemes' liability on a cash basis.

1.15. Pension payments to and on account of leavers before their normal retirement age

1.15.1. Where members of the Schemes are entitled only to a refund of contributions, the transaction is accounted for as a decrease in the Schemes' liability on an accruals basis.

1.15.2. Where members of the Schemes have the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the Schemes' liability on a cash basis.

1.16. Lump sums payable on death in service

1.16.1. Lump sum payments payable on death in service are accounted for on an accruals basis. They are a direct charge to the Schemes as they are not funded through the normal pension contributions.

1.17. Actuarial gains / losses

1.17.1. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Statement of Financial Position date are recognised in the Combined Statement of Other Comprehensive Net Expenditure.

1.18. Additional Voluntary Contributions

1.18.1. Additional Voluntary Contributions (AVCs) are deducted from employees' salaries and are paid over directly by the employer to the approved AVC providers.

1.19. Financial instruments

1.19.1. IFRS 9 *Financial Instruments* was adopted by the public sector from 1 April 2018. A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Financial assets and liabilities are initially measured at fair value plus or minus transaction costs. Subsequently, financial assets and liabilities are classified and measured at fair value through profit or loss, fair value through other comprehensive income or amortised cost. Subsequent measurement of financial assets depends on the nature of the particular financial asset as either debt or equity and the business model used to manage the financial asset. Where a financial asset is subsequently measured and classified at amortised cost, the financial asset is assessed for impairment using a forward-looking expected credit loss impairment model. All Scheme financial assets and liabilities are measured and classified at amortised cost. As financial assets are primarily contributions due from employers or employees which are received in April of the next financial year, expected credit loss on financial assets are deemed to be £nil.

1.20. Significant estimates and judgements

1.20.1. The key estimates and judgements relate to the valuation of the pensions liability and these have been documented in full in the report of the Actuary and Note 8.

1.21. Administration costs

1.21.1. The administration costs are paid by the UKAEA and recovered from the participating employers in proportion to their scheme membership.

1.22. Taxation where lifetime or annual allowance exceeded

1.22.1. Taxation arising on benefits paid or payable in respect of members whose benefits have exceeded the lifetime or annual allowance.

1.23. Accounting standards issued but not yet adopted and *FReM* changes for future years

1.23.1. IFRS 16 *Leases*
IFRS 16 *Leases* will replace IAS17 *Leases* and will be adopted by the public sector in 2021-22. IFRS 16 amends the accounting for lessees, removing the distinction between operating leases and finance leases. IFRS 16 requires all leases, with terms over 12 months, to be recognised as similar to finance leases under IAS 17 *Leases*. This will result in the recognition of a right-to-use asset, measured at the present value of future lease payments, and a matching lease liability in the Statement of Financial Position. IFRS 16 will not affect the accounts because the Schemes have not entered into any lease contracts.

1.23.2. IFRS 17 *Insurance Contracts*
IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts* and is expected to be effective for accounting periods beginning on or after 1 January 2023, following a decision by the International Accounting Standards Board to defer the effective date by one year. The planned timetable for implementation of IFRS 17 in the public sector is the 2023-24 financial year. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk using a discount rate that reflects current interest rates. IFRS 17 will not affect the accounts because the Schemes have not entered into any insurance contracts.

Note 2 Pension contributions receivable

	2019-20	**2018-19**
	£'000	**£'000**
Employers:		
Normal	(26,186)	(25,288)
Employees:		
Normal	(11,146)	(10,783)
Purchase of added years	(318)	(343)
	(37,650)	**(36,414)**

Note 3 Service Cost

	2019-20	2018-19
	£'000	**£'000**
Current service cost	74,331	73,231
Past service cost	43,000	-
	117,331	**73,231**

Note 4 Additional Voluntary Contributions

Note 4.1

The Schemes provide for employees to make AVCs to increase their pension entitlements or to increase life assurance cover. Employees may arrange to have agreed sums deducted from their salaries for onward payment to one of the approved providers or may choose to make their own arrangements by making periodic payments to an insurance company or scheme institution. The responsibilities of the Managers of the Schemes extend only to ensuring that member contributions are paid to the Schemes' approved provider. These AVCs are not brought to account in these combined accounts. Members participating in this arrangement receive an annual statement from the approved provider confirming the amounts held on their account and the movements in the year.

Note 4.2

The aggregate amounts of AVC investments are included as follows below:

	2019-20	2018-19
	£'000	**£'000**
Movements in the year		
Balance at 1 April	41,232	44,122
Adjustment to balances as at 1 April	-	(10)
New investments	281	302
Sales of investments to provide pension benefits	(6,927)	(6,651)
Changes in market value of investments	2,554	3,469
Balance at 31 March	**37,140**	**41,232**

In the unlikely event of a default by the approved AVC provider, BEIS has no liability to guarantee pension payments. Under UKAEA's arrangement with Prudential Assurance Company Ltd, the Schemes are classified as "insured" for the proposed of the Policyholders Protection Act 1975, which requires 90% of the value of the policy to be payable to the policy holders as determined by the Insurance Companies (Winding-Up) Rules 1985.

Note 5 Receivables - contributions due in respect of pensions

	2019-20	2018-19
	£'000	**£'000**
Amounts falling due within one year		
Pension contributions due from employers	2,352	1,700
Employees' normal contributions	1,015	701
Interest receivable	96	96
Other receivables	3	-
Balance at 31 March	**3,466**	**2,497**

Note 6 Cash and cash equivalents

	2019-20	2018-19
	£'000	**£'000**
Balance at 1 April	7,456	10,840
Net change in cash balances	1,069	(3,384)
Balance at 31 March	**8,525**	**7,456**

The following balances at 31 March were held:		
Government Banking Service	5,034	5,000
Commercial banks and cash in hand	3,491	2,456
Balance at 31 March	**8,525**	**7,456**

Note 7 Payables

	2019-20	2018-19
	£'000	**£'000**
Amounts falling due within one year		
Pensions	(2,042)	(1,108)
Lump sums	(2,972)	(2,239)
HMRC and voluntary contributions	(2,756)	(2,526)
Overpaid contributions: employers	(169)	(22)
Other payables	(13)	(12)
Amounts issued from the Consolidated Fund for supply but not spent at year end	(8,525)	(7,456)
Balance at 31 March	**(16,477)**	**(13,363)**

Note 8 Pension liabilities

Note 8.1 Provision for pension liability

The United Kingdom Atomic Energy Authority Pension Schemes are a combination of three unfunded defined benefit public service pension schemes. Employer contribution rates have been set from 1 April 2017 onwards based on actuarial valuation calculations using data as at 31 March 2012. The amounts recognised in these financial statements have been prepared using full membership data as at 31 March 2016, such as would have been provided for a formal (funding) valuation and updating this to 31 March 2020 to reflect known changes. GAD carried out an assessment of the liabilities of the Schemes as at 31 March 2020. The Report of the Actuary on page 10-15 sets out the scope, methodology and results of the work the actuary has carried out.

The Schemes' managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Schemes' managers should make available to the actuary in order to meet the expected requirements of the Schemes' auditor. This information includes, but is not limited to, details of:

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

The major assumptions used by the actuary were:

	At 31 March 2020	At 31 March 2019	At 31 March 2018	At 31 March 2017	At 31 March 2016
	%	%	%	%	%
Rate of increase in salaries	4.1	4.1	4.0	4.6	4.2
Rate of increase in pensions in payment and deferred pensions	2.4	2.6	2.5	2.6	2.2
Discount rate net of price inflation[3]	(0.5)	0.3	0.1	0.2	1.4
Nominal Discount rate	1.8	2.9	2.6	2.8	3.6

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the *FReM*, and as required by IAS 19 *Employee Benefits*, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the CPI used

[3] Most pension benefits under the Schemes are increased in line with inflation. The Government continues to set pension increases based on the Consumer Price Index (CPI) measure of inflation. In accordance with the *FReM,* the liability at 31 March 2020 has been discounted at a real rate of (0.50%). The assumption data in the table are disclosed for comparative purposes and are rounded to one decimal place.

in HM Treasury forecasting. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 *Employee Benefits*, the Scheme Managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

Note 8.2 Analysis of pension liability

Assumption	31 March 2020	31 March 2019
Rate of return (discount rate)	1.80%	2.90%
Rate of earnings increases*	4.10%	4.10%
Rate of future pension increases	2.35%	2.60%
Rate of return in excess of:		
Pension increases (CPI)	(0.50%)	0.29%
Earnings increases	(2.20%)	(1.15%)
Expected return on assets:	n/a	n/a

* Short-term adjustments were made to this assumption for the period to 2020
Active-deferred members are assumed to have received a short term pay increase of 2.5%

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

The value of the Schemes liability on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rates of inflation or increases in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in Note 8.7. The note also discloses "experience" gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

Note 8.3 Sensitivity analysis
A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is shown in the Report of the Actuary on page 10-15.

The liability is very sensitive to the assumed discount rate but this is primarily because changing the discount rate in isolation also changes the rate net of pension increases and earnings. If pension increases and earnings assumption were increased at the same time, then the impact on the liability would be small.

Higher pension increases have a substantial effect because this has an impact on all categories of members. Pensioner mortality is also significant: if longevity at retirement were assumed to be 1 year longer, then this would increase the total actuarial liability by about 4.0%.

Changing the assumed timing of retirement has different effects on members in different circumstances. Members retiring later will result in reduced costs to the scheme, whereas members retiring earlier may result in additional costs.

The sensitivities show the change in assumption in isolation. In practice such assumptions rarely change in isolation and given the interdependencies between the assumptions the impacts may offset to some extent.

Note 8.4 Analysis of movements in the Schemes' liability

		2019-20	2018-19
	Note	**£'000**	**£'000**
Schemes' liability at 1 April		(7,530,054)	(8,031,689)
Current and past service cost	3	(117,331)	(73,231)
Pension financing cost		(215,600)	(202,465)
Enhancements		(318)	(343)
Pension transfers in		(2,215)	(856)
Benefits payable	8.5	269,306	258,678
Pension payments to and on account of leavers	8.6	44	686
Actuarial gain/(loss)	8.7	(962,847)	519,166
Schemes' liability at 31 March		**(8,559,015)**	**(7,530,054)**

Note 8.5 Analysis of benefits paid

	2019-20	2018-19
	£'000	**£'000**
Pensions or annuities to retired employees and dependants (net of recoveries or overpayments)	220,298	215,615
Commutations and lump sum benefits on retirement	48,481	42,551
Death in service benefits	527	417
Tax on benefit	-	95
Per Statement of Cash Flows	**269,306**	**258,678**

Note 8.6 Analysis of payments to and on account of leavers

	2019-20	2018-19
	£'000	**£'000**
Refunds to members leaving service	44	331
Individual transfers to other schemes	-	355
Per Statement of Cash Flows	**44**	**686**

Note 8.7 Analysis of actuarial gain/(loss)

	2019-20	2018-19
	£'000	**£'000**
Experience gains / (losses) arising on the Schemes' liabilities	78,742	73,082
Changes in assumptions underlying the present value of Schemes' liabilities	(1,041,589)	446,084
Per Statement of Changes in Taxpayers Equity	**(962,847)**	**519,166**

Note 8.8 History of Experience gains/(losses)

	2019-20	2018-19	2017-18	2016-17	2015-16
Experience gains / (losses) on Schemes' liabilities:					
Amount (£000)	78,742	73,082	(22,100)	(23,579)	144,479
Percentage of the present value of the Schemes' liabilities	(0.92%)	(0.97%)	0.28%	0.28%	2.10%
Total amount recognised in Statement of Changes in Taxpayers Equity:					
Amount (£000)	(962,847)	519,166	320,597	(1,512,203)	123,351
Percentage of the present value of the Schemes' liabilities	11.25%	(6.89%)	(3.99%)	18.25%	1.80%

Note 9 Financial Instruments

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

Note 10 Contingent liabilities disclosed under IAS 37

There were no contingent liabilities at 31 March 2020 (31 March 2019: nil).

Note 11 Related-party transactions

BEIS is regarded as a related party with which the Schemes had various material transactions during the year.

In addition, the Schemes had material transactions with other central government bodies whose employees are members of the Schemes.

None of the Managers of the Schemes, key managerial staff or other related parties have undertaken any material transactions with the Schemes during the year.

Note 12 Events after the reporting period

Subsequent events were evaluated between the end of the reporting period and the date that the financial statements were authorised for issue.

From 1 April 2020, business operations of the Schemes have experienced significant impact due to the spread of the novel coronavirus, COVID-19. The outbreak of COVID-19 has resulted in office closure and changes to business operations including an indefinite work from home policy. There has however been limited impact on operations of the Scheme obligation to pay benefits.

The Schemes have evaluated all subsequent events or transactions for potential recognition or disclosure through to the date that the financial statements were authorised for issue and has determined that there were no additional subsequent events requiring adjustment to or disclosure in the Scheme financial statements.

The Accounting Officer of the Department has authorised the Combined Account to be issued on the date that the Comptroller and Auditor General certified the Account.

CCS0320329692
ISBN 978-1-5286-1832-8