

Research Councils' Pension Schemes Accounts 2016-17

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

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Report of the Manager

Statutory Background

- 1 The Research Councils' Pension Schemes' (RCPS) statements have been prepared in accordance with the relevant provisions of the 2016-17 Government Financial Reporting Manual (FReM) (www.financial-reporting.gov.uk) issued by HM Treasury and with regard to the Science & Technology Act 1965.
- 2 The RCPS is an unfunded pension scheme operating by-analogy to the Principal Civil Service Pension Scheme (PCSPS), in which payments from the Schemes are funded by current employees' and employers' pension scheme contributions with the difference between these contributions and the Scheme expenditure financed by Grant-in-Aid provided from the Department for Business, Energy and Industrial Strategy (BEIS).

Description of Pension Schemes

- 3 The Nuvos scheme commenced on 30 July 2007. This is a career average pension scheme, which together with the Partnership Pension Account, forms the pension options open to 'new starters' since 30 July 2007. However, members who have a past history of membership of the Classic, Classic Plus or Premium schemes may be allowed to re-join their former arrangement depending on the time that has lapsed since they left their former employment and the terms that they left under.
- 4 The Nuvos scheme has a pension age of 65 and an accrual rate of 2.3 percent of pensionable earnings for each year in the scheme. The total pension accrued at the end of March is then increased by the Consumer Price Index for the year to the previous September.
- 5 A Partnership Pension Account was made available to new staff from 1 October 2002, based on the portable Stakeholder Pension introduced by the Government in 2001. This is a defined contribution scheme. The employers pay an age related contribution to the employee's private pension provider and an additional 0.8% of pensionable pay to the RCPS to cover death in service and ill health benefits.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the PCSPS. New starters were eligible to join the Premium scheme from 1 October 2002 until 29 July 2007. Premium provides a pension based on 1/60th of salary but without an automatic lump sum. Staff in post as at 1 April 1994 and new starters through to 30 September 2002 were entered in to what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. Some members are in an amalgam of the two schemes known as Classic Plus.
- 7 The employee contribution rates and calculation methods are by analogy with the PCSPS rates. For the period 1 April 2016 to 31 March 2017 the rates and annualised earning brackets were as follows:

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

- 8 The annualised earning brackets change each year to allow for increases in the higher rate tax threshold. The rates for the period 1 April 2017 to 31 March 2018 will be as follows:

Annualised pensionable earnings	Classic % contribution rate before tax relief	Classic Plus; Premium & Nuvos % contribution rate before tax relief
Up to £15,000	4.60	4.60
£15,001 - £21,422	4.60	4.60
£21,423 - £51,005	5.45	5.45
£51,006 - £150,000	7.35	7.35
£150,001 and above	8.05	8.05

- 9 All public sector pension schemes had to increase employee contributions between 2012 and 2014. Increases for Classic scheme members earning less than £15,000 were phased in over a longer period and in April 2017 these became aligned with other scheme members.
- 10 The final salary and career average schemes are operated on a pay-as-you-go basis, and are principally funded by employers' contributions from member Research Councils. The employers' contribution rate has been 26.0% since 1 April 2010. The previous rate of 21.3% was payable from 1 April 2008 until 31 March 2010. Any annual shortfall forecast between cash outgoings and cash contributions received is met by grant-in-aid received through the scheme's responsible authority; the Department for Business, Energy and Industrial Strategy (BEIS).

Eligible Staff

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

Information for Members

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

Auditors

- 13 The accounts of the Research Councils' Pension Schemes are audited by the Comptroller and Auditor General of the National Audit Office in accordance with paragraph 3(3) of Schedule 1 to the Science and Technology Act 1965. The audit fee payable is £41,100 (2015-16: £40,500).
- 14 In so far as the Accounting Officer is aware, there is no relevant audit information of which the Research Councils' Pension Schemes' auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.
- 15 I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.
- 16 No non-audit work was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

Employers

17 During 2016-17 the following employers have had members in the Research Councils' Pension Schemes:

- Arts and Humanities Research Council
- Biotechnology and Biological Sciences Research Council and its strategically funded institutes
- Diamond Light Source
- Economic and Social Research Council
- Engineering and Physical Sciences Research Council
- Innovate UK
- The James Hutton Institute
- Moredun Research Institute
- Natural Environment Research Council and its strategically funded research centres
- UK Shared Business Services Ltd
- Science and Technology Facilities Council
- Scotland's Rural College

Changes during 2016-17

- 18 Formal funding actuarial valuations are used to determine the contribution rates. The last such scheme funding valuation was as at 31 March 2006 and changes implemented in 2008-09. The subsequent scheme valuation as at 31 March 2010 was suspended by HM Treasury whilst public service pensions were being reviewed. The new scheme funding valuation process started in 2014, with a valuation as at 31 March 2012. This valuation will be completed once HM Treasury have agreed the valuation directions for the RCPS and once the reform approach for the scheme has been agreed, which is expected in 2017.
- 19 The Civil Service introduced a new pension scheme in April 2015, called Alpha, which is in addition to the Principal Civil Service Pension Scheme (PCSPS) arrangements comprising the Classic, Classic Plus, Premium and Nuvos scheme sections. The RCPS is by analogy to the PCSPS and therefore not automatically permitted to operate by-analogy to Alpha due to the legislation under which Alpha was created.
- 20 The RCPS was granted permission from the Department of Business, Innovation and Skills (now BEIS), the 'responsible authority' for the scheme at the time, to extend past 1 April 2015 in its current arrangement to enable the pension reform process to continue. In the interim new starters have been and will continue to be automatically enrolled in to the Nuvos scheme with an option to switch to a Partnership pension account.
- 21 The RCPS have been working with the Government since 2015 to develop and agree reforms and the expectation is that all RCPS members, pensioners and preserved members will transfer to the Civil Service pension arrangements. HM Treasury's policy requirement is that these changes should be implemented by April 2018. In March 2017 the Chief Secretary to the Treasury issued an instruction to all public bodies (those required to reform their pension arrangements) to postpone transfers to the Civil Service pension arrangements until April 2018. This is because of employment tribunals concerning the lawfulness of changes introduced in April 2015 specifically for the judiciary and firefighters pension scheme. While the Treasury's delay of transfers until April 2018 does not alter the expected reform date for the RCPS it is possible that the Employment Appeal Tribunal process may impact these reform timescales.
- 22 New legislation from 6 April 2015 introduced a ban on the transfer out of pension benefits from unfunded public sector defined benefit pension scheme to defined contribution pension schemes. This affects the RCPS and has seen transfers out decrease from £6.9m in 2014-15 to £3.4m in 2015-16 down to £2.0m in 2016-17.
- 23 The RCPS employers reached their Auto Enrolment re-staging date on 1 July 2016 following the Auto Enrolment staging of 1 July 2013. 85 eligible members were re-enrolled in to the RCPS to meet the legislative requirements set by The Pension Regulator.
- 24 On 1 October 2016 the Research Councils' Audit and Assurance Services Group (which was hosted by the Biotechnology and Biological Sciences Research Council) were transferred under TUPE terms to the Government Internal Audit Agency (GIAA). This transfer affected 15 members. They will have the opportunity to transfer their accrued RCPS pension benefits to the Civil Service pension arrangements under Bulk Transfer terms. The Government Actuary Department (GAD) is managing the bulk transfer and this is expected to be completed during 2017-18.

- 25 The Cabinet Office changed the Civil Service Compensation Scheme (CSCS) on 9 November 2016 following negotiation and consultation with employees, employers and Trade Unions. RCPS employers that were already using the Civil Service Compensation Scheme for Voluntary Exit, Voluntary Redundancy and Compulsory Redundancy have adopted the new CSCS terms. The new terms brought in changes to the tariff used to calculate compensation payments, changes to the maximum months' pay and raised the minimum pension age for employer funded pension top up payments to age 55. A £95,000 exit payment cap was also introduced and is expected to be enacted in 2017 as part of the Public Sector Exit Payment Regulations.
- 26 The James Hutton Institute implemented new Terms and Conditions for their employees that participate in the RCPS and as a result withdrew their membership to the RCPS on 31 March 2017 with 431 members ceasing to be active in the scheme. Approximately 40 members are within their normal pension age and expected to access their pension benefits shortly after 1 April 2017; the remainder will receive a preserved pension award. This withdrawal is not reflected in the 2016-17 RCPS Membership Numbers because the notification of departure was received on 28 March 2017 and instead will be shown as an adjustment in the 2017-18 Membership Numbers. This will see a decrease in employee and employer contributions it will not see a significant increase in scheme expenditure as c.90% of the members will receive a preserved award; with benefits preserved until their normal scheme pension age.
- 27 The Biotechnology and Biological Sciences Research Council (BBSRC) changed the governance structures with their strategically funded institutes. This has resulted in employees being transferred under TUPE terms from BBSRC to the institute and the institutes joining the RCPS as Admitted Bodies under the 2013 New Fair Deal policy for pensions and staff transfers. The Pirbright Institute became an Admitted Body with the RCPS on 1 January 2017 with Rothamsted Research and The Rothamsted Centre for Research and Enterprise becoming Admitted Bodies on 1 April 2017.

Anticipated changes during 2017-18

- 28 BBSRC will continue with the governance changes (as detailed in 27) with the Babraham Institute, Babraham Bioscience Technologies Ltd, Institute of Food Research, Earlham Institute, John Innes Centre and The Norwich BioScience Institutes expected to become Admitted Bodies to the RCPS in October 2017.
- 29 The reform discussions with HM Treasury and BEIS are expected to conclude in 2017 with reforms being implemented by April 2018 in line with Government policy. It is anticipated the RCPS will transfer to the Civil Service pension arrangements in its entirety with eligible members moving in to the Civil Service Alpha scheme and other members moving to their relevant scheme section in line with the protection that exists within the PCSPS for those that are within 10 years of their scheme pension age as at 1 April 2012, and tapered protection for those between 10 and 13.5 years of their scheme pension age. All pensioner and preserved members would also move in to the Civil Service pension arrangements. This will ultimately see the closure of the scheme administrator; Joint Superannuation Services, whose employees are contractually employed by Biotechnology and Biological Sciences Research Council.
- 30 If the RCPS continues past April 2018 Accounting Officer responsibilities would move from BBSRC to UK Research and Innovation (UKRI). UKRI was borne out of the Higher Education and Research Bill which received Royal Assent on 27 April 2017. Sir Mark Walport was appointed as Chief Executive Designate of UKRI. UKRI will include the seven Research Councils, Innovate UK and the research and knowledge exchange functions of HEFCE.

Review of the financial statements

- 31 For the year year ended 31 March 2017 there was an overall position of net expenditure of £159 million.
- 32 Income was £100 million in 2016-17 compared to £99 million for 2015-16.
- 33 In 2016-17 the pension liability increased by £1,003 million from £4.165 billion to £5.168 billion mainly due to to a significant reduction in net discount rates resulting in an actuarial loss of £901 million due to changes in the financial assumptions, interest on scheme liabilities of £149 million, current service cost of £102 million and payments out for pensions, commutations and lump sum retirements on retirement and death of £147 million. A full breakdown of the movement in pension liability can be found in note 15.11 of the accounts.

Freestanding Additional Voluntary Contributions

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

RCPS Pension Scheme Membership

	31 March 2017	31 March 2016
	No.	No.
New Schemes		
Current members in Service	7,801	7,895
Pensions in Payment	8,727	8,320
Early Retirements	43	83
Preserved Pensions	8,502	8,403
Total	25,073	24,701
Old Schemes		
Pensions in Payment	4,935	5,031
Preserved Pensions	1,095	1,211
Total	6,030	6,242
GRAND TOTAL	31,103	30,943
	2016-17	2015-16
	No.	No.
Members in Service at 1 April	7,895	8,039
Adjustment resulting from changes notified in current year	66	8
Adjusted figure for 1 April	7,961	8,047
New members in year	745	786
Leavers and retirements in year	(905)	(938)
Members in Service at 31 March	7,801	7,895
	31 March 2017	31 March 2016
	No.	No.
Current members in service by scheme	No.	No.
Classic Scheme	2,141	2,345
Classic Plus Scheme	210	229
Premium Scheme	1,512	1,600
Nuvos Scheme	3,938	3,721
Members in Service at 31 March	7,801	7,895
Holders of Partnership Pension Accounts	123	131

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

Managers, Advisers and Employers

Accounting Officer:

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

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

Manager:

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

The Schemes are administered by Joint Superannuation Service (JSS), a unit within BBSRC. The UK Shared Business Services Ltd (UK SBS) provides payroll, finance and HR services to JSS.

Actuary:

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

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

Bankers:

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

Auditors:

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

Employers:

AHRC, ESRC and EPSRC – Peter Ethelston
BBSRC – Liz Hopkinson
NERC – Nigel Sully
STFC – Jerry Snewin
UK Shared Business Services – John Arnott
Innovate UK – Anne Shaw
Polaris House, North Star Avenue, Swindon, SN2 1UY

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

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

Professor Melanie Welham

Chief Executive and Accounting Officer of BBSRC
Date: 29 June 2017

Statement by the actuary

Introduction

- A.1 This statement has been prepared by the Government Actuary's Department at the request of the Management Board of the Research Councils' Pension Scheme. It summarises the pensions disclosures required for the 2016-17 Annual Report and Accounts of the Research Councils' Pension Schemes (RCPS).
- A.2 RCPS is a defined benefit scheme, with benefits calculated by analogy to the Principal Civil Service Pension Scheme (PCSPS). The PCSPS rules were laid before Parliament under the provisions of section 2(11) of the Superannuation Act 1972. These rules, and subsequent amendments, set out the rules of PCSPS, which RCPS has adopted by analogy. The Public Service (Civil Servants and Others) Pension Regulations 2014, which closed PCSPS and introduced the new civil service pension arrangement from 1 April 2015, do not apply to members of the RCPS, although it is expected that RCPS will be reformed in line with the provisions of the new civil service pension arrangement in due course. RCPS is wholly unfunded.
- A.3 The statement is based on an assessment of the liabilities as at 31 March 2016, with an approximate updating to 31 March 2017 to reflect known changes.

A.4 Membership data

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

Table A – Active members

	31 March 2016 membership data		2016-17 accounts
Number	Total salaries (pa) (£ million)	Total salaries implied by receipts (£ million)	
7,980	282.6	285	

Table B – Deferred members

31 March 2016 membership data	
Number	Total deferred pension* (pa) (£ million)
9,438	32.2

Table C – Pensions in payment

	31 March 2016 membership data	2016-17 accounts
Number	Total pension* (pa) (£ million)	Total pension (pa) (£ million)
13,459	125.6	127

* Pension amounts as at 31 March 2016, but including the pension increase due in April.

Methodology

- A.5 The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2016-17 Annual Report and Accounts. The contribution rate for accruing costs in the year ended 31 March 2017 was determined using the PUCM and the principal financial assumptions applying to the 2015-16 Annual Report and Accounts.
- A.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.

Principal financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2017	31 March 2016
Rate of return (discount rate)	2.80 %	3.60 %
Rate of earnings increases*	4.55 %	4.20 %
Rate of future pension increases	2.55 %	2.20 %
Rate of return in excess of:		
Pension increases (CPI)	0.24 %	1.37 %
Earnings increases	(1.70) %	(0.60) %
Expected return on assets:	n/a	n/a

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

- A.8 The pension increase assumptions up to and including 31 March 2017 are based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

A.9 Table E summarises the demographic 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 known as the 'S1 tables' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Normal health	
Males	Current: 87 % of S1NMA mortality Future: 77 % of S1NMA mortality
Females	Current: 98 % of S1NFA mortality Future: 85 % of S1NFA mortality
Current ill-health pensioners	
Males	100 % of S1IMA mortality
Females	100 % of S1IFA mortality
Future ill-health pensioners	
Males	100 % of S1IMA mortality
Females	100 % of S1IFA mortality
Dependants	
Males	100 % of S1NMA mortality
Females	104 % of S1DFA mortality

A.10 These assumptions are the same as those adopted for the 2015-16 Annual Report and Accounts. Mortality improvements are in accordance with those incorporated in the 2014-based principal population projections for the United Kingdom. This assumption is in line with the latest ONS projections.

A.11 The contribution rate used to determine the accruing cost in 2016-17 was based on the demographic and financial assumptions applicable at the start of the year, that is, those adopted for the 2015-16 Annual Report and Accounts.

Liabilities

A.12 Table F summarises the assessed value as at 31 March 2017 of benefits accrued under the scheme prior to 31 March 2017 based on the data, methodology and assumptions described in paragraphs 5 to 11. The corresponding figures for the previous four year ends are also included in the table.

Table F – Statement of Financial Position

£ Million	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	5,168	4,162	4,360	3,864	3,539
Surplus/(Deficit)	(5,168)	(4,162)	(4,360)	(3,864)	(3,539)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

A.13 The cost of benefits accrued in the year ended 31 March 2017 (the Current Service Cost) is based on a standard contribution rate of 35.8%. Members contributed between 3.8% and 8.1% of pensionable pay, depending on the level of their pay. Table G shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members of 6.5%. The corresponding figures for 2015-16 are also included in the table.

Table G – Contribution rate

	Percentage of pensionable pay	
	2016-17	2015-16
Standard contribution rate	35.8%	39.6%
Members' estimated average contribution rate	6.5%	6.5%
Employers' estimated share of standard contribution rate	29.3%	33.1%

A.14 For the avoidance of doubt, the actual rate of contributions payable by employers, 26.0% of pensionable pay for 2016-17, is not the same as the employers' share of the standard contribution rate as above (29.3% for 2016-17). This is because the actual employer contribution rate was determined as part of a funding valuation using different assumptions. The key difference between the assumptions used for funding valuations and Annual Report and Accounts is the discount rate. The discount rate for Annual Report and Accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

A.15 The pensionable payroll for the financial year 2016-17 was £285 million (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2016-17 (at 35.8% of pay) is assessed to be £102 million.

A.16 There have been no past service costs in the year 2016-17.

A.17 I am not aware of any events that have led to a material settlement or curtailment gain over 2016-17.

Sensitivity analysis

- A.18 The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2017 of changes to the most significant actuarial assumptions.
- A.19 The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.
- A.20 As is significant uncertainty associated with how members will retire in future, both for those remaining in the current scheme where recent patterns of retirement have been materially different to historic patterns, and as a result of the scheme reform for those members who will move across to the new scheme. Assumed patterns of age retirement after normal pension age can have a significant impact on liabilities in final salary scheme sections and so I have included an indication of the approximate effect (on the total past service liability) of non-nuvos active members retiring (on average) 1 year later.
- A.21 Table H shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½ %).

Table H - Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability*	
Financial assumptions		
(i) discount rate*:	+½ % a year	-9.5 % -£505 million
(ii) (long term) earnings increase*:	+½ % a year	+1.0 % £40 million
(iii) pension increases*:	+½ % a year	+9.5 % £490 million
Demographic assumptions		
(iv) additional one year increase to life expectancy at retirement		+3.0 % £160 million
(v) Non-nuvos active members retiring (on average) 1 year later		-0.5 % -£20 million

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

Sandra Bell
Government Actuary's Department
12 June 2017

Statement of Accounting Officer's Responsibilities

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

The combined financial statements must give a true and fair view of the state of affairs at 31 March 2017 and of the net resource outturn, changes in taxpayers' equity and cash flows for the financial year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. The financial statements must be prepared so as to ensure that the contributions payable to the Schemes during the year have been paid in accordance with the Schemes rules and recommendations of the Actuary.

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

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

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

Governance Statement by Accounting Officer

1. SCOPE OF RESPONSIBILITY

As the Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the RCPS' policies, aims and objectives, while safeguarding the public funds and the RCPS' assets for which I am personally responsible, in accordance with the responsibilities assigned to me and disclosed in 'Managing Public Money'.

The Department for Business, Energy and Industrial Strategy (BEIS) Accounting Officer has designated me as the Accounting Officer of RCPS, responsible for the effective, safe and efficient operation of the RCPS in accordance with the Management Statement and Financial Memorandum agreed between the RCPS and its sponsor department, BEIS.

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

2. THE PURPOSE OF THE GOVERNANCE STATEMENT

The Governance statement, for which I take personal responsibility, gives a clear understanding of the dynamics of the RCPS and its control structure. It records the stewardship of the RCPS, and provides a sense of the scheme's performance during the year and how successfully it has coped with the challenges it faced. The statement explains how the RCPS has complied with the principles of good governance, reviews the effectiveness of these arrangements, and complies fully with the corporate governance code.

3. GOVERNANCE FRAMEWORK

In my role as Accounting Officer for BBSRC and the RCPS, I am supported by BBSRC's Council, its Boards and Audit Committee, and the Executive team within BBSRC and the RCPS Management Board. Further information about BBSRC's governance framework can be found in the BBSRC Annual Report and Accounts 2016-17 (www.bbsrc.ac.uk/annualreport) and on the BBSRC website (www.bbsrc.ac.uk).

3.1 RCPS Management Board

The RCPS Management Board act as managers of the Scheme, are responsible for ensuring the Scheme rules are adhered to, ensure that the Scheme is operated according to legislation, have oversight of reform planning and implementation, and ensuring the scheme is administered efficiently and effectively. The RCPS Management Board is chaired by the BBSRC People and Development Group Executive Director.

The RCPS Management Board met four times during 2016-17. Board members and their attendance at those meetings were:

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

3.2 Audit Committee

Audit Committee meets four times a year and is responsible for; reviewing the annual statutory accounts of BBSRC and the RCPS, monitoring the adequacy and effectiveness of BBSRC's risk and internal control framework, reviewing the scope of the internal audit plan for the coming year, and overseeing the outcomes of the work undertaken by both the internal and external auditors. Meetings are attended by representatives from the National Audit Office (NAO) and Government Internal Audit Agency (GIAA) who provide the Research Councils' internal audit service.

In line with good governance principles, each year BBSRC carries out a formal appraisal of the performance of Audit Committee, the results of which are presented to the Committee and Council for an open discussion on issues of significant note.

3.3 Joint Superannuation Services

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

4. THE RISK AND INTERNAL CONTROL FRAMEWORK

The system of internal control is designed to manage risk to a tolerable level rather than eliminate all risk of failure to achieve policies, aims and objectives.

The system based on an ongoing process which identifies and prioritises the risks to the achievement of BBSRC's and the RCPS' policies, aims and objectives, evaluates the likelihood of those risks being realised and the impact should they be realised, and manages them efficiently, effectively and economically.

The system of internal control has been in place in respect of the RCPS for the year ended 31 March 2017 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

4.1 Risk Assessment

Overall responsibility for risk management for the RCPS rests with me as Accounting Officer. The task of implementing and maintaining BBSRC's overall risk management policy and strategy is delegated to the BBSRC Executive Director, Finance and Campus Operations who fulfils the role of the Director responsible for risk.

The task of reviewing the RCPS risk management framework is delegated to the Chair of the RCPS Management Board and Head of JSS. The Head of JSS undertakes a review of the Risk Management Framework three or four times per year with the Chair of the RCPS Management Board. The RCPS Management Board formally considers and agrees the Risk Management Framework documents.

The internal audit group, part of the Government Internal Audit Agency (GIAA) review the key risks to the RCPS and JSS on an annual basis as part of their Cross-Client Assurance programme for 2016-17. The scope of the audit is agreed with the Chair of the RCPS Management Board and Head of JSS. The GIAA also undertakes a programme of internal audits for BBSRC and UK SBS clients.

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

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

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

4.2 Regularity and Propriety

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

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

A mandatory e-Learning awareness training package covering fraud and bribery was rolled out and completed by all staff in 2014-15 and has been completed by all new starters in 2016-17.

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

I confirm that for 2016-17:

- Neither I, my predecessor, nor my staff authorised a course of action, the financial impact of which is that transactions infringe the regulatory requirements as set out in Managing Public Money;
- There were no instances of fraud identified within the RCPS or BBSRC or within UK SBS which impacted on BBSRC;
- There were no cases of whistleblowing and that the arrangements which we have in place for whistleblowing are effective;
- We obtained HM Treasury approval for a retention allowance proposed to be paid to JSS staff in March 2018 which BEIS deemed to be 'novel and contentious'.

4.3 Information security and assurance

Working closely with Government Security Agencies and its delivery partners, BBSRC continues to implement and embed security best practices within its operations, operating a system of continual improvement in response to the changing environment. The controls are tested through a programme of audits and an independently assessed annual health check submitted to BEIS. BBSRC has consistently maintained or improved its performance responding promptly to the findings of annual penetration tests, regular vulnerability scans, audits, and lessons learnt from security incidents to improve our security controls.

All BBSRC staff undertake mandatory security, information assurance and data protection training, with regular reminders delivered through various internal communications channels.

BBSRC experienced a small number of security incidents and near misses in 2016-17, none of which required the notification of the Information Commissioner's Office.

BBSRC remains committed to assessing our cyber security controls against the Cyber Security Essentials scheme and the Cyber Security 10 Steps to identify any improvements that are required. In addition BBSRC aims to achieve external accreditation in 2017-18.

5. REVIEW OF EFFECTIVENESS

As Accounting Officer it is my responsibility to ensure a sound system of governance and internal control is being maintained. In 2016-17 this review is informed by the work of BBSRC Audit Committee, BBSRC Executive Directors, the RCPS Management Board, the assurance opinion provided by the Accounting Officer of UK SBS and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The principal elements of support for the Accounting Officer's assurance statement are the work of the Audit Committee, the BBSRC Executive, the RCPS Management Board, including the review of business critical programmes, the annual report from the Director of AASG, BBSRC and the RCPS' Executive Directors' stewardship statements, the risk management frameworks developed by BBSRC and the RCPS, and responses to external management letters which identify if control gaps exist.

5.1 Internal Audit

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

In 2016-17 sufficient internal work has been undertaken to allow the DIA to provide a positively stated (evidence-based) and reasonable (not absolute) assurance opinion on the overall adequacy and effectiveness of BBSRC's system of internal control.

The overall opinion is Moderate assurance the definition of which is; some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. This opinion is informed through the work of internal audit completed during the year and provides assurance in two areas: BBSRC core activities and cross-client activities with a BBSRC involvement.

Of the 10 assurances provided through the core assurance work, one reflected limited assurance; the Business Continuity Planning internal audit. BBSRC's Business Continuity Plan is currently under review and all of the recommendations made by internal audit have been accepted and will be implemented during 2017-18.

Of the 24 cross-client audits carried out relevant to BBSRC, 4 reflected limited assurance; Change Management: RCUK Change Programme; Change Management: RCUK Communication and Public Engagement; Open Access Block Grant; and Procurement. Progress on the implementation of core audit recommendations is closely monitored within BBSRC and regularly reviewed by the Audit Committee. Cross-client audit recommendations are monitored through the cross Council Risk and Assurance Network.

In accordance with the Internal Audit Plan approved by the Audit Committee, AASG also conducted an audit of the RCPS administrator; Joint Superannuation Service (JSS). This audit covered the period 27 September to 14 November 2016. Based on the work undertaken, the classification of assurance that was provided in respect of JSS was Moderate assurance. The recommendations made by GIAA were accepted by JSS.

5.2 UK Shared Business Services Ltd (UK SBS Ltd) assurance

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

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

To provide additional assurance BBSRC has been operating a number of supplementary controls. GIAA has examined the additional controls, the outcomes of which were:

- Payroll – Moderate Assurance
- Human Resources – Moderate Assurance
- GPC and iExpenses – Moderate Assurance
- Order and payment processing – Moderate Assurance
- Procurement – Limited Assurance

The accepted audit recommendations in these areas will be taken forward in 2017-18. The recommendations in respect of the procurement audit are being taken forward at a cross Council level and will form part of the Change Programme to ensure that an appropriate level of procurement capacity exists within UK Research and Innovation.

5.3 External Audit

The BBSRC Annual Accounts are audited by the National Audit Office who produces an Audit Completion Report.

6 RISKS AND ISSUES

6.1 Risk Assessment

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

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

As at April 2017, the register had 11 risks which had been agreed and were being monitored with relevant controls and mitigations in place. Of the 11 risks, five were rated with a red risk score. The 5 red risks relate to:

- The closure of the RCPS and transfer of the scheme to the Civil Service giving; a potential risk of changing pension costs, and impacting the ability of the future pension administrator to deliver services to meet employers needs.
- The potential resource impact on JSS resulting from multiple institute and research centre governance changes at the same time as pension reform activities.
- The loss of key staff and impact on employee engagement which could affect service during a significant change period.
- The impact of the potential deterioration of payroll services provided by UK SBS.
- The impact of potential loss of or decline in service and support provision for the JSS pension system databases.

Other risks relate to: new legislation or policies and the impact on core processes or resource; fraud or misappropriation of pension; JSS not being advised of new starters or leavers leading to inaccuracies in the JSS database and potential reputational impact.

At 31 March 2017, the BBSRC Risk Register had 43 risks all of which had assigned controls in order to mitigate them to an acceptable level within BBSRC's risk appetite.

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

- **RCUK Change Programme**
There is a risk regarding the programme effectively managing change. Actions being taken to mitigate the probability of this risk occurring include; BBSRC providing resource to the programme to assist in delivering effective change; proactive planning for the future; and clear two way communications between both BBSRC and its employees and BBSRC and its community.
- **Loss of Key Staff**
There is a risk regarding the difficulty in recruiting and retaining staff in the current period of change and uncertainty. Actions being taken to mitigate the impact of this risk include; promoting the existing reward mechanisms, staff benefits, and training and professional development opportunities; talent management and succession planning framework; addressing key issues raised in the Civil Service People Survey; and the Appraisal and Performance Development Review process being used to identify any skills gaps.

6.2 UK Shared Business Services Ltd (UK SBS) - Future Operations

The BEIS strategy for shared services, including the provision of services for UKRI, is still evolving. It has been agreed that the planned transfer of services from UK SBS to other bodies by April 2018 is now not achievable or necessarily desirable and that UK SBS is likely to be delivering a number of services in some form until 2019-20.

The Security and Resilience programme for Oracle 12.0.6 saw the successful update and transfer of databases and applications to a new environment at the end of 2016, notable benefits are to the security and resilience with the security assessment undertaken after the transfer indicating that the systems were well within the best practise threshold. Planning for the proposed Oracle upgrade from 12.0.6 to 12.1.3 is underway. Once completed, this will mean that both the platform and full application stack will be back into full support until 2021, opening the door for further improvements and upgrades if required and providing significant contingency for ongoing service provision for the Research Councils and UK Research and Innovation pending a decision on future direction.

UK SBS highlights its key risks as continued resilience and capacity and capability. UK SBS' ability to maintain service delivery, prepare for and transfer services over the next 2-3 years will be highly dependent on capacity and capability.

7. CONCLUSION

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

Professor Melanie Welham
Interim Chief Executive and Accounting Officer
Date: 29 June 2017

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

I certify that I have audited the financial statements of the Research Councils' Pension Schemes for the year ended 31 March 2017 under the Science & Technology Act 1965. These comprise the Combined Statements of Comprehensive Net Expenditure, Financial Position, Changes in Taxpayer's Equity, Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Research Councils' Pension schemes' affairs as at 31 March 2017, and of their total combined net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Secretary of State for Business, Innovation and Skills directions issued under the Science and Technology Act 1965.

Opinion on other matters

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

Matters for which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
Date: 4 July 2017

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

Combined Statement of Comprehensive Net Expenditure for the period ended 31 March 2017

	Notes	2016-17		2015-16
		£'000	£'000	£'000
Principal Arrangements - Research Councils' Pension Schemes				
Income				
Contributions receivable	3		94,164	92,462
Transfers in: individuals	4		4,571	4,345
Transfers in: bulk	4		-	1,296
Other pension income	7		138	154
Recoveries			1,528	1,125
			100,401	99,382
Expenditure				
Service cost	5	102,000		113,000
Transfers in	4	4,571		5,641
Enhancements	6	3,000		4,000
Pension financing cost	10	149,000		154,000
Administration costs	9	919		1,033
			(259,490)	(277,674)
Combined Net (Expenditure) for the year			(159,089)	(178,292)
Other Comprehensive Net Expenditure				
Actuarial (losses)/gains	15.15		(897,000)	326,000
Total Comprehensive Net Income/(Expenditure) for the period ended 31 March 2017			(1,056,089)	147,708

All activities are regarded as continuing.

The notes on pages 25 to 35 form an integral part of these accounts.

Combined Statement of Financial Position as at 31 March 2017

	Notes	31 March 2017 £'000	31 March 2016 £'000
Current assets			
Receivables	12	8,832	4,768
Cash and cash equivalents	13	25,164	14,621
Total current assets		33,996	19,389
Current liabilities			
Payables (amounts falling due within one year)	14	(2,521)	(2,512)
Net current assets, excluding pension liability		31,475	16,877
Pension liability	15.11	(5,168,006)	(4,164,819)
Net liabilities, including pension liabilities		(5,136,531)	(4,147,942)
Taxpayers' equity			
General fund		(5,136,531)	(4,147,942)

Professor Melanie Welham,
Chief Executive BBSRC,
Accounting Officer

Date: 29 June 2017

The notes on pages 25 to 35 form an integral part of these accounts.

Combined Statement of Changes in Taxpayers' Equity for the period ended 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
Balance at 1 April		(4,147,942)	(4,350,650)
Adjustment to start of year liability		3,000	
Grant in Aid: drawn down	17	64,500	55,000
Combined net outgoings		(159,089)	(178,292)
Actuarial (losses)/gains	15.15	(897,000)	326,000
Recalculation of closing provision		-	-
Balance at 31 March		<u>(5,136,531)</u>	<u>(4,147,942)</u>

The notes on pages 25 to 35 form an integral part of these accounts.

Combined Statement of Cash Flows for the period ended 31 March 2017

	Notes	2016-17 £'000	2015-16 £'000
Cash flows from operating activities			
Combined net (expenditure)/income for the year		(159,089)	(178,292)
(Increase) in receivables - principal arrangements		(4,064)	(2,595)
Increase in payables		9	48
Decrease in provision for non cash transactions			
Current service cost	5	102,000	113,000
Past service cost	5	-	-
Interest cost	10	149,000	154,000
Enhancements and transfers in	15.11	7,571	9,641
Increase in pension provision for use of pension liabilities			
Benefit payments	15.13	(146,647)	(141,581)
Payments to or on account of leavers	15.14	(2,737)	(4,219)
Net cash outflow from operating activities		(53,957)	(49,998)
Cash flows from financing activities			
Grant in Aid	17	64,500	55,000
(Decrease)/increase in cash and cash equivalents		10,543	5,002
Cash and cash equivalents at the beginning of the period	13	14,621	9,619
Cash and cash equivalents at the end of the period	13	25,164	14,621
(Decrease)/increase in cash		10,543	5,002

The notes on pages 25 to 35 form an integral part of these accounts.

Notes to the Schemes' Statements

1. Basis of preparation of the Schemes' statements

The Schemes' statements have been prepared in accordance with the relevant provisions of the 2016-17 Government International IFRS Financial Reporting Manual (FReM) www.financial-reporting.gov.uk/ issued by HM Treasury, which reflect the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Retirement Benefit Plans. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

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

a) Research Councils' Pension Schemes – principal arrangements

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

b) Early Retirement Lump Sums - agency arrangements

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

c) Adoption of new or amended standards effective in 2016-17

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

2. Accounting Policies

a) Contributions Receivable

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

b) Other Pension Income

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

c) Pension Cost and Interest on Scheme Liabilities

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

d) Transfers Out

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

e) Transfers In

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

f) Bulk Transfers

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

g) Administration Costs

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

h) Agency Arrangements - Early Retirement Lump Sums

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

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

i) Pension Liability

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

Accrued payments by the Schemes are shown as reductions in the pension liability.

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

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

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

j) General Fund

Grant-in-Aid is provided from Department for Business, Energy and Industrial Strategy (BEIS) Request for Resources to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the Schemes' finances. The cash received is not treated as income but credited to the Statement of Tax Payers' Equity in accordance with the FReM.

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

k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances.

l) Pension Benefits Payable

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

m) Lump Sums Payable on Death in Service

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

n) Additional Voluntary Contributions

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

3. Contributions receivable

	2016-17	2015-16
	£'000	£'000
Employers' contributions	73,350	72,693
Employees' contributions: purchase of added years and added pension	-	-
Employees' contributions: normal	19,061	18,265
Employees' contributions: purchase of added years and added pension	1,753	1,504
	94,164	92,462

In 2017-18, £68 million employers contributions, £15 million employees contributions and £1.5 million added years contributions are forecasted.

4. Transfers in

	2016-17	2015-16
	£'000	£'000
Individual Transfers in from other schemes	4,571	4,345
Group Transfers in from other schemes	-	1,296
	4,571	5,641

5. Service cost

	Notes	2016-17	2015-16
		£'000	£'000
Current service cost	15	102,000	111,000
Past service cost	15	-	2,000
		102,000	113,000

6. Enhancements

	2016-17	2015-16
	£'000	£'000
Enhancements	3,000	4,000
	3,000	4,000

7. Other pension income

	2016-17	2015-16
	£'000	£'000
Amounts receivable in respect of :		
Other (outgoings)/income	138	154
Bank interest receivable	-	-
	138	154

8. Additional Voluntary Contributions

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

9. Administration costs

	2016-17	2015-16
	£'000	£'000
Total running costs	671	656
Pensioner payroll agency fees	18	18
Auditors' remuneration	41	41
Actuarial charges	186	313
Bank Charges	3	5
	919	1,033

10. Pension financing cost

	2016-17	2015-16
	£'000	£'000
Interest charge for the year	149,000	154,000

11. Compensation benefits payable

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

12. Receivables - contributions due in respect of pensions

	31 March 2017	31 March 2016
	£'000	£'000
12a Analysis by receipt type		
Prepaid lump sums	1,412	38
Pension contributions due from employers and employees	869	1,098
Other receivables	6,551	3,632
	8,832	4,768

There are no Intra Government Balances falling due after more than one year for 2016-17 or 2015-16.

13. Cash and cash equivalents

	31 March 2017	31 March 2016
	£'000	£'000
Balance at 1 April	14,621	9,619
Net change in cash balances	10,543	5,002
Balance at 31 March	<u>25,164</u>	<u>14,621</u>

The following balances at 31 March were held at:

Government Banking Service	<u>25,164</u>	<u>14,621</u>
Balance at 31 March	<u>25,164</u>	<u>14,621</u>

14. Payables - in respect of pensions

	31 March 2017	31 March 2016
	£'000	£'000
14a Analysis by expenditure type		
Payables to other Research Councils	686	-
Other payables (including administration expenses)	1,794	2,471
Audit fee payable	41	41
	<u>2,521</u>	<u>2,512</u>

15. Pension liabilities

15.1 Assumptions underpinning the pension liability

The Research Councils' Pension Schemes are unfunded defined benefit schemes. The Report of the Actuary on pages 8 to 11 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2017 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014
Inflation	2.55%	2.20%	2.20%	2.50%
Earnings increase	4.55%	4.20%	4.20%	4.50%
Notional discount rate used to discount the Schemes' liabilities	2.80%	3.60%	3.55%	4.35%
Discount rate net of inflation	0.25%	1.40%	1.35%	1.85%
Rate of return in excess of pension increases CPI	0.24%	1.37%	1.30%	1.80%

The life expectancy of normal health current pensioners at age 60 for men is 29.6 (2015-16: 29.5) and women is 30.6 (2015-16: 30.5). The life expectancy of normal health future pensioners at age 60 for men is 32.4 (2015-16: 32.3) and women is 33.5 (2015-16: 33.4)

The life expectancy of normal health current pensioners at age 65 for men is 24.6 (2015-16: 24.5) and women is 25.6 (2015-16: 25.5). The life expectancy of normal health future pensioners at age 65 for men is 27.8 (2015-16: 27.7) and women is 29 (2015-16: 28.9)

15.2

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

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

15.3

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

15.4

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

15.5

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on high quality corporate bonds. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

15.6

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

15.7

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

15.8

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

15.9

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years". An actuarial valuation of the scheme for IAS19 has been carried out as at 31 March 2017 using the data provided as at 31 March 2016 for the purpose of the IAS 19 valuation. Sufficient additional data has been supplied to GAD to enable the IAS19 liability as at 31 March 2017 to be approximately assessed based on the calculated IAS19 liability as at 31 March 2016.

15. 10 Analysis of the provision for pension liability

	2016-17	2015-16	2014-15	2013-14
	£ million	£ million	£ million	£ million
RCPS				
Active members	1,886	1,542	1,538	1,332
Deferred members	934	710	805	694
Current pensioners	1,931	1,415	1,487	1,358
Total	4,751	3,667	3,830	3,384
Closed schemes				
	£ million	£ million	£ million	£ million
Deferred members	54	72	80	71
Current pensioners	363	425	450	409
Total	417	497	530	480
Total provision for pension	5,168	4,164	4,360	3,864

Sensitivity analysis

The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty, IAS19 requires that the approximate effects on the actuarial liability as at 31 March 2017 of changes to the significant actuarial assumptions.

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

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

The table that follows shows the indicative effects on the total liability as at 31 March 2017 of changes to these assumptions (rounded to the nearest ½ %).

Change in assumption	Approximate effect on total liability*	
Rate of return		
(i) discount rate: +½ % a year	-9.50 %	-£505 million
(ii) earnings increases: +½ % a year	1.00 %	+£40 million
(iii) pension increases: +½ % a year	9.50 %	+£490 million
Pensioner mortality		
(iv) additional one year increase to life expectancy at retirement:	3.00 %	+£160 million
Age Retirement		
(v) all non-Nuvos actives retiring (on average) 1 year later	-0.50 %	- £20 million

15.11 Analysis of movements in the Schemes' liability

	Notes	2016-17 £'000	2015-16 £'000
Schemes' liability at 1 April		4,164,819	4,359,978
Adjustment to start of year liability		(3,000)	
Current service cost		102,000	111,000
Past service cost		-	2,000
Pension financing cost	10	149,000	154,000
Enhancements	6	3,000	4,000
Pension transfers-in		4,571	5,641
Benefits payable		(146,647)	(141,581)
Pension payments to and on account of leavers		(2,737)	(4,219)
Analysis of actuarial losses/(gains) on the Schemes' liabilities		897,000	(326,000)
		1,003,187	(195,159)
Schemes' liability at 31 March		5,168,006	4,164,819

15.12

During the year ended 31 March 2017, employers and employees contributions represented an average of 35.8 percent of pensionable salaries (2015-16: 39.6 percent). The employers pension rate for 2017-18 and future years until further notice will be 26.0 percent.

15.13 Analysis of benefits paid

	2016-17 £'000	2015-16 £'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	(128,590)	(125,162)
Commutations and lump sum benefits on retirement or death	(18,057)	(16,419)
As per Combined Statement of Cash Flows	(146,647)	(141,581)

15.14 Analysis of payments to or on account of leavers

	2016-17 £'000	2015-16 £'000
Refunds to members leaving service	(732)	(858)
Individual transfers other schemes	(2,005)	(3,361)
As per Combined Statement of Cash Flows	(2,737)	(4,219)

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

	2016-17 £'000	2015-16 £'000
Experience gains arising on the Schemes' liabilities	(4,000)	(66,000)
Change in assumptions underlying the present value of Schemes' liabilities	901,000	(260,000)
Per Statement of Recognised gains and losses	897,000	(326,000)

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

	Experience gains/(losses)	Percentage of the Schemes' liabilities at 31 March
	£'000	
2016-17	4,000	0.0%
2015-16	66,000	1.6%
2014-15	103,000	2.4%
2013-14	19,000	0.5%
2012-13	24,000	0.7%
2011-12	(1,000)	0.0%
2010-11	65,000	2.1%
2009-10	(34,000)	-1.0%
2008-09	47,000	1.6%
2007-08	3,000	0.1%

16. Annual compensation payments pre-funded by employers

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

	2016-17	2015-16
	£'000	£'000
Balance at 1 April	3,201	4,519
Amount paid in year to the Pension Schemes	(1,255)	(1,234)
Addition in year	-	0
Release in year	(24)	(84)
Balance at 31 March	<u>1,922</u>	<u>3,201</u>
To be used in the next 12 months	1,039	1,298
To be used after more than 12 months	883	1,903

17. Grant-in-Aid

Grant-in-Aid is provided from the Department for Business, Energy and Industrial Strategy (BEIS) Request for Resources to the Biotechnology and Biological Sciences Research Council (BBSRC), as the Council with responsibility for administering the Schemes' finances. The allocation for 2016-17 was £64.5 million (2015-16 was £55 million) all of which was drawn down by the Pension Schemes.

18. Related Party Transactions

The Research Councils are Non-Departmental Public Bodies sponsored by the Department for Business, Energy and Industrial Strategy (BEIS).

The BEIS is regarded as a related party. During the period 1 April 2016 to 31 March 2017 the Research Councils' Pension Schemes had various material transactions with BEIS and with other entities for which BEIS is regarded as the parent Department. These were the Biotechnology and Biological Sciences Research Council (BBSRC), the Engineering and Physical Sciences Research Council (EPSRC), the Economic and Social Research Council (ESRC), the Natural Environment Research Council (NERC), the Science and Technology Facilities Council (STFC), Innovate UK (previously TSB), and the Arts & Humanities Research Council (AHRC).

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

Related Party Transactions

	Pension Contributions		Receivables		Payables	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£'000	£'000	£'000	£'000	£'000	£'000
Transactions with Research Councils						
BBSRC	2,563	2,516	6,523	3,534	(686)	(673)
EPSRC	2,122	1,895	-	-	-	-
ESRC	1,119	1,095	-	11	-	-
NERC	19,894	20,146	18	25	-	-
STFC	18,849	16,747	21	36	-	-
Innovate UK	3,306	3,523	-	391	-	-
AHRC	886	801	1	1	-	-
Transactions with other employers						
Scottish Employers	6,689	6,937	488	256	-	-
UKSBS Ltd	3,454	3,601	3	3	-	-
Other	14,468	15,432	1,778	511	(1,835)	(1,839)
Total	73,350	72,693	8,832	4,768	(2,521)	(2,512)

19. Losses and Special Payments

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

20. Events after the reporting period

There were no reportable events after the Reporting Period between the year end and the Comptroller and Auditor General certified the accounts, the date when the accounts were authorised for issue. The financial statements do not reflect events after this date.

21. Financial Instruments

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

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