

Department of Trade and Industry

Combined Resource Accounts 2005-06 for the United Kingdom Atomic Energy Authority Pension Schemes

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(for the year ended 31 March 2006)

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REPORT

INTRODUCTION

This Resource Account for the United Kingdom Atomic Energy Authority's (UKAEA) defined benefit public service pensions schemes for the year to 31 March 2006 covers the 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 the UKAEA's pension schemes.

The business, its objectives and strategy

The UKAEA pension schemes are statutory schemes as defined under Section 26(1) of the Finance Act 1970 but are not exempt under Chapter I (1) of Part XIV of the Income and Corporation Taxes Act 1988. Notwithstanding some relatively minor non-approvable benefits, the schemes would be exempt if there were real investments.

The schemes are contracted out under the Pension Schemes Act 1993 and subsequent legislation.

The UKAEA's public service pensions schemes comprise the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme. They relate to the employees of the UKAEA, British Nuclear Fuels plc and National Radiological Protection Board (which became part of the Health Protection Agency with effect from 1 April 2005), together with some employees of the Engineering and Physical Sciences Research Council, the Particle Physics and Astronomy Research Council, the Council for the Central Laboratory of the Research Councils (including former employees of the Science and Engineering Research Council), and former UKAEA employees who transferred to the Ministry of Defence (Atomic Weapons Establishment) and the Civil Nuclear Police Authority.

The funding of payments from the UKAEA's pension schemes is provided by a Request for Resources, supplied to the Department of Trade and Industry. It should be noted that any contributions made to the schemes are used to meet the payment of scheme benefits but any surplus of such contributions over payments is surrendered to the Consolidated Fund. Similarly, any deficit is met by Parliamentary Supply with payment from the Consolidated Fund.

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

Management of the Schemes

The schemes are managed by UKAEA. The respective responsibilities of UKAEA and DTI 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 the UKAEA and amended from time to time as approved by Ministers.

The public service pensions schemes are statutory schemes and there are no trustees.

Operating review

There is no fund of investments as such but the schemes are run and accounts prepared as though a fund does exist. There are notional portfolios of investments which are deemed to be similar to that of a sample of UK funded pension schemes and the notional investment return and market value are determined by reference to the average performance of such a portfolio. The Government Actuary's Department (GAD) determines the investment return and fund value.

Actuary's valuation and statement

The Government Actuary's Department (independent actuaries of the schemes) completed their actuarial valuation, based on the value of the fund at 31 March 2006 in May 2006. Their report confirmed that the schemes' liabilities were £4,221 million discounted at a real rate of 2.8% under the rules at the date of the valuation and that the contribution rate was sufficient to provide for benefits in the future. The actuarial statement is reproduced on page 11. The actuary has advised that no changes to his report need to be made as a result of events since the end of the financial year.

Changes in scheme rules

During the year a new section was added to the UKAEA pension scheme rules formally to incorporate the Pensions Sharing on Divorce legislation. Two amendments were made to the death benefit rules. The first of these was made to clarify the position where one or more of the nominations in a multiple nomination becomes invalid. The second change was made to bring the arrangements for beneficiaries of members who die after their preserved awards have come into payment into line with other public service schemes. Amendments were also made to reflect the provisions of the Civil Partnership Act 2004 and the Finance Act 2004. These rule changes are described in more detail in the managers' report on page 6.

Contributions

All contributions have been in accordance with the Rules.

Future plans

The Nuclear Decommissioning Authority (NDA) was established with effect from 1 April 2005. The NDA is to establish a new scheme, the Combined Nuclear Pension Plan (CNPP), which will be the vehicle for future pension provision for eligible members in the nuclear industry who are currently members of the Combined Pension Scheme of the UKAEA (CPS). As eligibility for membership to the CPS ceases individuals will be invited to join the CNPP and will be given the option to preserve their accrued benefits in the CPS or to transfer them to the CNPP. The number of contributing members to the CPS will therefore reduce following the process of competition of the civil nuclear sites under the NDA strategy. This process is expected to begin in 2006/7.

In line with other public service pension schemes, the UKAEA schemes, with effect from 1 April 2006, have introduced a revised method to determine the employers contributions, known as Superannuation Contributions Adjusted for Past Experience (SCAPE). This has resulted in an increase in the contributions received from all employers and a commensurate reduction in the funds voted for 2006-07.

Financial review

The value of pension cost increased by £14 million to £94.2 million with overall pension expenditure increasing by £10.3 million to £297 million. The value of benefits payable increased by £9.5 million to £162.6 million. The increase was mainly due to the annual increase in the value of benefits, and to changes in the profile of the pensioners. The numbers of pensioners, deferred pensioners, and dependants remained constant at 32,459 for the year.

The value of contributions received increased by 4.6% to £24.5 million principally as a result of higher salaries being paid to contributors. There was a slight decrease in the number of contributing members, which fell by 171 to 14,097 at the end of the year. The value of transfers in to the schemes decreased in 2005-06 to £5.5 million.

Overall, the net outgoings for the year increased by £21 million from last year's net outgoings of £246.1 million to £267.1 million. The net outgoings include group transfers out to other schemes.

The overall scheme liability of £4.22 billion increased by £715 million from last year.

The financial statements on pages 19 to 33 provide an overview of the schemes' income and expenditure.

Benefits

The benefits were increased by 3.1 % (2004-05 - 2.8%). Further information is given in the Manager's Report on page 6.

Auditors

These Financial Statements have been audited by the Comptroller and Auditor General (C&AG) whose opinion is expressed on pages 17-18. The notional cost of the audit is £46,500

Disclosure of Audit Information

- so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware, and
- the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Sir Brian Bender KCB

Principal Accounting Officer and Permanent Secretary

17 July 2006

Report of the Managers

1. Constitution of the Schemes

The three UKAEA public service pension schemes, (the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme) are unusual in their constitution. Contributions made to the schemes are used to meet the payment of scheme benefits. Any surplus of contributions over payments is surrendered to the Consolidated Fund. Any deficit is met by Parliamentary Vote with payment from the Consolidated Fund. 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. However, the schemes are run and accounts prepared as though a fund does exist. There are notional portfolios of investments which are deemed to be similar to that of a sample of UK funded pension schemes and the notional investment return and market value are determined by reference to the average performance of such a portfolio. The Government Actuary's Department (GAD) determines the investment return and fund value. This method of determining a notional investment return will cease with effect from 1 April 2006.

Following the introduction of Superannuation Contributions Adjusted for Past Experience (SCAPE) on 1 April 2006, the participating employers will pay contributions based on the expected cost of the members' benefits as they accrue. These contributions will be set by the scheme actuary at each regular valuation of the scheme, based on the expected demographic and financial experience of the scheme at the time of the valuation.

On the basis of the recommendations made by GAD and having regard to whether each employer's participation in the UKAEA scheme is open or closed to new members, the following employer contribution rates are applicable in respect of active membership from 1 April 2006:

| | |
|----------------------------|--------|
| UKAEA | 16.20% |
| BNFL | 15.00% |
| Civil Nuclear Constabulary | 16.20% |
| HPA (formerly NRPB) | 17.30% |
| Research Councils | 15.80% |
| Ministry of Defence | 14.80% |

2. Managers, Advisers and Employers

Managers

| | |
|----------------------------|---|
| UKAEA Pensions Manager | Richard Stoneham, Marshall Building, 521 Downs Way, Harwell, Didcot, Oxfordshire OX11 0RA |
| Address for correspondence | Pensions Administration Office, Brownhill Lodge, Thurso, Caithness KW14 7BA |

Advisers

| | |
|-------------------|---|
| Actuary | The Government Actuary, Finlaison House 15-17 Furnival Street London EC4A 1AB |
| Principal Bankers | Royal Bank of Scotland plc, Olrig Street, Thurso, Caithness KW14 7BL |
| Legal advisers | UKAEA Legal Branch, Marshall Building, 521 Downs Way, Harwell, Didcot, Oxfordshire OX11 0RA |
| Auditor | The Comptroller and Auditor General, National Audit Office, 157-197 Buckingham Palace Road, Victoria, London SW1W 9SP |

*Employers***The following employers participate in the schemes:**

- United Kingdom Atomic Energy Authority (UKAEA)
- British Nuclear Fuels plc (BNFL)
- Civil Nuclear Police Authority (CNC)
- Health Protection Agency (HPA)
- Ministry of Defence (MOD)
- Engineering and Physical Science Research Council (EPSRC)
- Particle Physics and Astronomy Research Council (PPARC)
- Council for the Central Laboratory for the Research Councils (CCLRC)

On 1 April 1994 EPSRC took over those employees previously employed by the Science and Engineering Research Council (SERC) who were members of the Principal Non-Industrial Superannuation Scheme. On 1 April 1995 CCLRC was created out of EPSRC. In these accounts the acronym SERC is used to refer to the sub-scheme relating to the research councils.

The Civil Nuclear Police Authority was formed on 1 April 2005. Members of the Civil Nuclear Constabulary may continue in membership of the Combined Pension Scheme 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.

3. Membership Statistics

| Contributing Members | UKAEA | CNC | BNFL | HPA | MOD | SERC | Total |
|------------------------------|--------------|------------|---------------|------------|--------------|-------------|---------------|
| At 1 April 2005 | 2,376 | 639 | 10,770 | 331 | 30 | 122 | 14,268 |
| New Entrants | 169 | 154 | 341 | 0 | 0 | 0 | 664 |
| Transfer from other Employer | 3 | 0 | 1 | 0 | 0 | 0 | 4 |
| Transfer to other Employer | 1 | 0 | 3 | 0 | 0 | 0 | 4 |
| Retirements | 96 | 13 | 193 | 3 | 4 | 18 | 327 |
| Deaths | 3 | 0 | 9 | 0 | 0 | 0 | 12 |
| Leavers | 137 | 23 | 314 | 20 | 1 | 1 | 496 |
| At 31 March 2006 | 2,311 | 757 | 10,593 | 308 | 25 | 103 | 14,097 |
| Deferred Pensioners | UKAEA | CNC | BNFL | HPA | MOD | SERC | Total |
| At 1 April 2005 | 4,467 | 3 | 5,324 | 153 | 110 | 93 | 10,150 |
| New | 66 | 7 | 227 | 8 | 1 | 1 | 310 |
| New – Pensions Sharing | 2 | 0 | 14 | 0 | 1 | 0 | 17 |
| New – cancelled transfers | 11 | 0 | 23 | 2 | 0 | 0 | 36 |
| Retirements | 95 | 0 | 119 | 2 | 7 | 3 | 226 |
| Deaths | 12 | 1 | 13 | 0 | 0 | 0 | 26 |
| Leavers (now transfers) | 29 | 1 | 37 | 0 | 0 | 2 | 69 |
| At 31 March 2006 | 4,410 | 8 | 5,419 | 161 | 105 | 89 | 10,192 |
| Pensioners | UKAEA | CNC | BNFL | HPA | MOD | SERC | Total |
| At 1 April 2005 | 7,608 | 3 | 6,508 | 146 | 1,212 | 609 | 16,086 |
| New Retirements | 191 | 13 | 312 | 5 | 11 | 21 | 553 |
| New – Pensions Sharing | 0 | 0 | 4 | 0 | 0 | 0 | 4 |
| Deaths | 310 | 0 | 247 | 9 | 50 | 16 | 632 |
| At 31 March 2006 | 7,489 | 16 | 6,577 | 142 | 1,173 | 614 | 1,6011 |

| Dependants' Pensions | UKAEA | CNC | BNFL | HPA | MOD | SERC | Total |
|-------------------------|--------------|----------|--------------|-----------|------------|------------|--------------|
| At 1 April 2005 | 2,908 | 0 | 2,373 | 32 | 742 | 168 | 6,223 |
| New Retirements | 175 | 0 | 175 | 3 | 26 | 10 | 389 |
| Deaths | 171 | 0 | 128 | 3 | 43 | 11 | 356 |
| At 31 March 2006 | 2,912 | 0 | 2,420 | 32 | 725 | 167 | 6,256 |

4. Scheme records

Records are maintained in separate parts for UKAEA, CNC, BNFL, HPA, MOD, and SERC to enable the actuary to advise on the contributions to be made by the participating employers to the schemes.

5. Additional voluntary contributions

In addition to allowing members to pay additional contributions to purchase added years of service within the schemes, additional contributions may 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 Prudential Assurance Company Limited to whom contributions are paid.

The AVC scheme is open to members of the public service 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 schemes. The costs of the Plan, which are directly linked to shift pay earnings, are borne by the relevant employers.

The transactions relating to the AVC scheme and the Plan are not included in these accounts as separate accounts are prepared to these defined contribution arrangements.

6. Rule amendments

During the year a new section was added to the UKAEA pension scheme rules to formally incorporate the Pensions Sharing on Divorce legislation.

The rules regarding death benefits were amended to clarify the position where one or more of the nominations in a multiple nomination becomes invalid. The death benefit rules were further amended to reflect the position in other public service schemes whereby beneficiaries of members who die after their preserved awards have come into payment are paid five years' worth of the member's pension prior to death as a lump sum, less any benefits paid to the member.

The provisions of the Civil Partnership Act 2004, which became enacted on 5 December 2005 are now reflected in the rules.

The provisions of the Finance Act 2004 and associated provisions are being reflected in the rules. Along with other public service pension schemes the following areas are included:-

- Premature retirement – withdrawal of commutation and the fact that it will no longer be possible to pay a pension to an individual under age 50 from 6 April 2006. Compensation payment which are non pension payments are being removed from Appendix 8 of the scheme.
- Children's Pensions
- Re-employment
- Aggregation of service
- Refund of Family Benefit contributions
- Allocation of Pensions
- Trivial Commutation
- Contribution Limits

- Serious Ill-Health Commutation
- Contributions and cash payment in respect of the AVC Scheme and Shift Pay Pension Plan

7. Pensions review

Under the rules of the Schemes, 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 1993. The increase for 2005-06 was effected on 11 April 2005 and amounted to 3.1% (2004-05 – 2.8%).

8. Transfer values paid

Individual transfer values paid have been calculated using either “a cash equivalent method” in accordance with the Pension Schemes Act 1993 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, bulk transfer values paid have been calculated with 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.

There were two transfer value payments in December 2005 in respect of the Gemini Project, £82,943 from BNFL and £600,434 from AEA Technology plc making a total of £683,377. The outstanding balance of £571,377 is due by way of three more payments of £82,943 from BNFL and one payment of £322,548 from AEA Technology plc in future years.

The Nuclear Decommission Authority (NDA) was formed on 1 April 2005. During 2006/07 it is anticipated between 1,000 and 1,300 contributing members will transfer from the Combined Pension Scheme to the NDA’s Industry Wide Pension Scheme (IWS).

9. Premature retirements

The rules of the schemes 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 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:

| | <u>2005-06</u> | <u>2004-05</u> |
|--|-------------------|-------------------|
| | £000 | £000 |
| Amount due to employers at 1 April | 750 | 107 |
| Received from employers during year | 32,341 | 26,623 |
| Paid to members during year | (30,251) | (23,762) |
| Repaid to employers during year | (2,232) | (2,218) |
| Amount due to employees at 31 March | <u>608</u> | <u>750</u> |

The figures shown above reflect only those activities administered by the UKAEA Pensions Administration Office.

Other benefits, paid directly by participating employers to members retiring early, are excluded.

10. Actuarial position

The last approved triennial actuarial valuation of the Combined Pension Scheme was completed in respect of the scheme's position at 31 March 2003. The Actuary recommended a change to some employer contribution rates from 1 April 2006.

The last approved triennial actuarial valuation of the Principal Non-Industrial Superannuation Scheme was completed in respect of the scheme's position at 31 March 2004. The advice and recommendations made by the Actuary were accepted and did not require any change to the existing contribution rates.

The last approved triennial actuarial valuation of the Protected Persons Superannuation Scheme was completed in respect of the scheme's position at 31 March 2005. The advice and recommendations made by the Actuary were accepted and did not require any change to the existing contribution rates.

However, the funding arrangements for the three Schemes changed with the introduction of the SCAPE methodology from 1 April 2006 and the rates recommended by the Actuary following the valuations are superseded.

The main purpose of the triennial actuarial valuations have been to determine each employers' contribution rate. However, from 1 April 2006 a different way of accounting for pensions cost in respect of the contributions due from employers will be introduced, SCAPE.

Following the introduction of SCAPE, participating employers will pay contributions based on the expected cost of the members' benefits as they accrue. These contributions will be set by the scheme actuary at each regular valuation of the scheme, based on the expected demographic and financial experience of the scheme at the time of the valuation.

**REPORT OF THE ACTUARY
UNITED KINGDOM ATOMIC ENERGY AUTHORITY
– COMBINED PENSION SCHEME
– PRINCIPAL NON-INDUSTRIAL SUPERANNUATION SCHEME
– PROTECTED PERSONS SUPERANNUATION SCHEME**

Accounts for the year ended 31 March 2006

A Liabilities

The capitalised value as at 31 March 2006 of expected future benefit payments under the three UKAEA pension schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2006, has been assessed using the methodology and assumptions set out in sections C and D. The results are as follows:

Table 1 – Combined Pension Scheme

| | £ million | | | | |
|-------------------------------|-----------------------|-----------------------|--------------------|-------------------|-----------------------|
| Value of liabilities | UKAEA | BNFL | NRPB | MOD | Total |
| Pensions in payment | 778.6 | 609.8 | 15.3 | 0.2 | 1,403.9 |
| Deferred pensions | 172.5 | 185.3 | 4.2 | – | 362.0 |
| Active members (past service) | 450.2 | 1,579.7 | 52.9 | – | 2,082.8 |
| Total | <u>1,401.3</u> | <u>2,374.8</u> | <u>72.4</u> | <u>0.2</u> | <u>3,848.7</u> |

Table 2 – Principal Non-Industrial Superannuation Scheme

| | £ million | | |
|-------------------------------|---------------------|---------------------|---------------------|
| Value of liabilities | Research Councils | MOD | Total |
| Pensions in payment | 98.8 | 171.9 | 270.7 |
| Deferred pensions | 6.5 | 11.6 | 18.1 |
| Active members (past service) | 44.2 | 13.5 | 57.7 |
| Total | <u>149.5</u> | <u>197.0</u> | <u>346.5</u> |

Table 3 – Protected Persons Superannuation Scheme

| | £ million | | | |
|-------------------------------|-------------------|--------------------|-------------------|--------------------|
| Value of liabilities | UKAEA | BNFL | MOD | Total |
| Pensions in payment | 7.9 | 17.9 | 0.3 | 26.1 |
| Deferred pensions | – | – | – | – |
| Active members (past service) | – | – | – | – |
| Total | <u>7.9</u> | <u>17.9</u> | <u>0.3</u> | <u>26.1</u> |

For the three schemes combined, the total liabilities are as follows:

Table 4 – Combined CPS, PNISS and PPSS

| Value of liabilities | | | | | | £ million |
|-------------------------------|----------------|----------------|-------------|-------------------|--------------|----------------|
| | UKAEA | BNFL | NRPB | Research Councils | MOD | Total |
| Pensions in payment | 786.5 | 627.7 | 15.3 | 98.8 | 172.4 | 1,700.7 |
| Deferred pensions | 172.5 | 185.3 | 4.2 | 6.5 | 11.6 | 380.1 |
| Active members (past service) | 450.2 | 1,579.7 | 52.9 | 44.2 | 13.5 | 2,140.5 |
| Total | 1,409.2 | 2,392.7 | 72.4 | 149.5 | 197.5 | 4,221.3 |

In each of the tables 1 to 4, the liabilities have been split approximately by membership status at the latest formal valuation.

B Accruing Costs

Combined Pension Scheme

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost met by the employer. The cost of benefits accruing in the year 2005-06 has been assessed as follows:

Table 5 – Combined Pension Scheme

| | % of pensionable pay | | | |
|--|----------------------|------------|------------|----------|
| | UKAEA | BNFL | NRPB | MOD |
| Standard contribution rate | 22.5 | 20.6 | 22.4 | – |
| Members' contribution rate | 5.0 | 5.0 | 5.0 | – |
| Employers' share of standard cost | 17.5 | 15.6 | 17.4 | – |
| Actual rate charged to employers for current year | 0.0 | 0.0 | 0.5 | – |

In the case of UKAEA and BNFL the employer paid no contributions during the financial year. For NRPB, the employer's charge was £46,358 for the financial year. The actual contributions paid by each of these employers are less than the standard cost because allowance has been made for a (notional) surplus based on the experience of the scheme in relation to previous charges. The MOD section has no active members and so no benefits are accruing.

Principal Non-Industrial Superannuation Scheme

The cost of benefits accruing for each year of service is met partly by a specified contribution from members, with the balance of the cost met by the employer. The cost of benefits accruing in the year 2005-06 has been assessed as follows:

Table 6 – Principal Non-Industrial Superannuation Scheme

| | % of pensionable pay | |
|--|----------------------|------------|
| | Research Councils | MOD |
| Standard contribution rate | 23.8 | 21.2 |
| Members' contribution rate | 7.5 | 7.5 |
| Employers' share of standard cost | 16.3 | 13.7 |
| Actual rate charged to employers for current year | 0.0 | 0.0 |

No employer contributions were paid during the financial year. The actual employer contributions are less than the standard cost because allowance has been made for a (notional) surplus based on the experience of the scheme in relation to previous charges.

Protected Persons Superannuation Scheme

There are no active members in the scheme, and the scheme is closed. Therefore, there are no further benefits accruing. There were no contributions to the scheme in the year 2005-06.

C Methodology

In all three schemes, the value of liabilities has been obtained using the projected accrued benefit method, with allowance for expected future pay increases in respect of any active members.

Combined Pension Scheme and Principal Non-Industrial Superannuation Scheme

The standard contribution rate for accruing costs has been determined using the projected unit method with a three year control period. Under the projected unit method, for a closed scheme such as the PNISS, the standard contribution rate will rise as the members of the scheme approach retirement.

Protected Persons Superannuation Scheme

There are no active members and hence there is no standard contribution rate.

D Assumptions

The principal financial assumptions adopted for the assessment made in relation to this statement are an investment return of 2.8% a year in excess of price increases and 1.3% a year in excess of earnings increases. A nominal investment return of 5.4% was used, though this is less significant to the assessment. The nominal rate of earnings increases implied by these assumptions is about 4%. The demographic assumptions adopted for the assessment are largely derived from the experience of the membership of the schemes.

E Notes

- (1) This statement is based on the results of a full actuarial valuation of the Combined Pension Scheme carried out as at 31 March 2003, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2003 to 31 March 2006.

Figures for the Principal Non-Industrial Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2004, updated approximately for the subsequent financial years to reflect known changes over the period 31 March 2004 to 31 March 2006.

Figures for the Protected Persons Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2005, updated approximately for the subsequent financial year to reflect known changes which have occurred over the period 31 March 2005 to 31 March 2006.

It is emphasised that the projection of the liabilities from the last valuation date to the current date is approximate. More accurate assessments will be available following the next formal valuation.

- (2) The pension benefits taken into account in this assessment are those provided from the rules of the pension scheme, including normal retirement benefits, ill-health retirement benefits, and benefits applicable following the death of the member. The assessments do not include the cost of injury benefits (in excess of ill-health benefits), or redundancy benefits which might arise in respect of current employees. Nor do the assessments include the cost of redundancy benefits which are already in payment to members below normal retirement age or pension payments to members between ages 60 and 65 where the members' retirement age has been reduced from 65 to 60 and the cost is met directly by the employer.

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the HM Treasury has directed the Department of Trade and Industry to prepare for each financial year resource accounts detailing the resources acquired, held, or disposed of during the year and the use of resources by the UKAEA Pension Schemes during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the UKAEA Pension Schemes and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the *Government FReM* and in particular to:

- a. Observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- b. Make judgements and estimates on a reasonable basis;
- c. State whether applicable accounting standards, as set out in the Government FReM have been followed, and disclose and explain any material departures in the financial statements; and
- d. Prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer of the Department of Trade and Industry. 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 department of Trade and Industry's assets, are set out in the Accounting officers' memorandum issued by the HM Treasury and published in *Government Accounting*.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the **UKAEA Pensions Schemes ("the Schemes")** policies, aims, and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

In accordance with the rules of Government Accounting, I have appointed the Chief Executive of the UKAEA as its Accounting Officer. The Accounting Officer of UKAEA is responsible for the management and administration of the Schemes on my behalf under the terms of a Management Framework, between the UKAEA and the Department, and for the maintenance and operation of the system of internal control in that body. The Chief Executive and Accounting Officer of the UKAEA, has signed a statement relating to that system, which is reproduced in the relevant audited Accounts of the Schemes.

The Schemes are managed and administered by the UKAEA and funded through the Department. The 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. UKAEA prepares three separate audited Accounts for the Schemes and the Department prepares this Resource Account which consolidates those three accounts. Thus the systems of internal control in operation at UKAEA and within the Department are both relevant to this Account.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Schemes' policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Management Framework, established between the Department and UKAEA during the 2003-04 financial accounting period, sets out the responsibilities of DTI and UKAEA in respect of the funding and management of the Schemes and incorporates a framework for the management of risks and system of internal control.

DTI and UKAEA management have taken an active lead in embedding risk management within the Schemes by working together to identify the key risks and agree actions plans for their management. A joint risk register has operated throughout 2005-06 and procedures are in place for DTI and UKAEA to review and update the register on a regular basis.

Guidance is also available to both DTI and UKAEA staff on the management of risk and DTI has also incorporated the topic in a number of its training courses. Risk Management is also incorporated in DTI's personal objective setting process.

4. The risk and control framework

The risk management framework for the Schemes operates through the initial identification of risks against the scheme's 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 a named individual who will report on progress in managing the risk when the risk register is reviewed. Assurance is obtained through regular management reviews and UKAEA Internal Audits of the Schemes.

Risk is identified for the Schemes through regular reviews of risk by DTI & UKAEA management and at risk workshops.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board, the Audit & Risk Committee and mechanisms are in place to ensure continuous improvement of the system is in place.

There have been no significant internal control problems during 2005-06.

Sir Brian Bender KCB

Principal Accounting Officer and Permanent Secretary

17 July 2006

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 19 to 33 for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Revenue Account and the Combined Statement of Recognised Gains and Losses, the Combined Balance Sheet, the Combined Cashflow Statement 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

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether 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. I report whether the contributions payable to the Schemes have been paid in accordance with the Schemes' rules and the recommendations of the actuary. I also report to you if, in my opinion, the Report of the Schemes' manager is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 15 to 16 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report, the Report of the Managers and the Report of the Actuary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the financial transactions of the Schemes for the year ending 31 March 2006, the net outgoings and cash requirement and disposition at that date of its assets and liabilities;
- 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; and
 - the contributions payable to the Schemes during the year ended 31 March 2006 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

John Bourn

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

18 July 2006

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer, the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

| | | | | | Estimate | | | 2005-06 Outturn | 2004-05 |
|------------------------------------|------|------------------------------|----------------|----------------------|------------------------------|----------------|----------------------|--|--------------|
| | | | | | | | | Net Total outturn compared with Estimate: saving/ (excess) | Net Total |
| Request for resources | Note | Gross Expenditure £000 | A-in-A £000 | Net Total £000 | Gross Expenditure £000 | A-in-A £000 | Net Total £000 | £000 | £000 |
| Civil Superannuation Non Budget | | 303,481 | 28,974 | 274,507 | 297,047 | 28,974 | 268,073 | 6,434 | 248,265 |
| | | 332,000 | – | 332,000 | 198,967 | – | 198,967 | 133,033 | – |
| Total resources | 3 | 635,481 | 28,974 | 606,507 | 496,014 | 28,974 | 467,040 | 139,467 | 248,265 |

Summary of net cash requirement 2005-06

| | | | | | 2005-06 | | | 2004-05 | |
|----------------------|--|--|--|--|---------|------------------|-----------------|--|---------|
| | | | | | | | | Net Total outturn compared with Estimate: saving/ (excess) | Outturn |
| | | | | | Note | Estimate £000 | Outturn £000 | £000 | £000 |
| Net cash requirement | | | | | 4 | 136,548 | 135,116 | 1,432 | 113,756 |

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the scheme and is payable to the Consolidated Fund (cash receipts being shown in italics):

| | Note | Forecast 2005-06 | | Outturn 2005-06 | |
|-------|------|------------------|-------------------------|-----------------|-------------------------|
| | | Income £000 | <i>Receipts</i> £000 | Income £000 | <i>Receipts</i> £000 |
| Total | 5 | – | – | 1,013 | 1,076 |

Explanation of Variance

The non-budget estimate of £332,000,000 was in anticipation of the effects of a change in the discount rate. The change in the real discount rate in 2005-06 was a change from 3.5 % to 2.8%, a reduction of 0.7% and amounted to £198,967,000, provided by GAD. The effect of the change was lower than anticipated.

Notes 1 to 21 form part of these accounts.

Combined Revenue Account

for the year ended 31 March 2006

| | | <u>2005-06</u> | <u>2004-05</u> |
|--|------|------------------|------------------|
| | Note | £000 | £000 |
| Principal Arrangements – UKAEA Pension Scheme | | | |
| Income | | | |
| Contributions receivable | 7 | 24,528 | 23,460 |
| Transfers-in | 8 | 5,459 | 17,156 |
| | | <u>29,987</u> | <u>40,616</u> |
| Outgoings | | | |
| Pension cost | 9 | 94,239 | 80,212 |
| Transfers in | 10 | 5,459 | 17,156 |
| Interest on scheme liabilities | 11 | 197,302 | 189,284 |
| Admin expenses | 3(b) | 47 | 50 |
| | | <u>297,047</u> | <u>286,702</u> |
| Net outgoings for the year | | <u>(267,060)</u> | <u>(246,086)</u> |

Combined Statement of Recognised Gains and Losses

for the year ended 31 March 2006

| | | <u>2005-06</u> | <u>2004-05</u> |
|---|------|----------------|----------------|
| | Note | £000 | £000 |
| Actuarial (gains)/loss | 16.8 | 580,760 | 152,135 |
| Recognised (gains) and losses for the financial year | | <u>580,760</u> | <u>152,135</u> |

Notes 1 to 21 form part of these accounts.

Combined Balance Sheet

for the year ended 31 March 2006

| | | <u>2005-06</u> | <u>2004-05</u> |
|--|------|--------------------|--------------------|
| | Note | £000 | £000 |
| Principal Arrangements – UKAEA Pension Scheme | | | |
| Current assets: | | | |
| Debtors | 13 | 3,574 | 3,425 |
| Cash at bank and in hand | 14 | 6,238 | 8,627 |
| | | <u>9,812</u> | <u>12,052</u> |
| Creditors: (amounts falling due within one year) | 15 | (7,575) | (11,275) |
| Net current assets, excluding pension liability | | <u>2,237</u> | <u>777</u> |
| Pension liability | 16.1 | (4,221,379) | (3,506,249) |
| Net liabilities, including pension liability | | <u>(4,219,142)</u> | <u>(3,505,472)</u> |
| Taxpayers' equity: | | | |
| General fund | 17 | (4,219,142) | (3,505,472) |
| | | <u>(4,219,142)</u> | <u>(3,505,472)</u> |

*Sir Brian Bender KCB*Principal Accounting Officer and Permanent Secretary
17 July 2006*Notes 1 to 21 form part of these accounts.*

Combined Cash Flow Statement

for the year ended 31 March 2006

| | <u>2005-06</u> | <u>2004-05</u> |
|--|-----------------------------|----------------------|
| Note | £000 | £000 |
| Net cash outflow from operating activities | 18(a) (132,937) | (112,467) |
| Payments of the amounts due to the Consolidated Fund | (6,000) | (1,396) |
| Financing | 18(b) 136,548 | 126,740 |
| Increase/(decrease) in cash in the year | 18(c) <u>(2,389)</u> | <u>12,877</u> |

Notes 1 to 21 form part of these accounts.

Notes to the Combined Resource Account for the Year Ended 31 March 2006

1. Basis of preparation of the scheme statement

The combined scheme statements have been prepared in accordance with the relevant provisions of the 2005-06 Government Financial Reporting Manual (FReM) issued by the Treasury, which reflect the requirements of Financial Reporting Standard (FRS 17) *Retirement Benefits*. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice *Financial Reports of Pension Schemes* to the extent that these are appropriate.

2. Accounting policies

The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) in the extent that it is meaningful and appropriate to the public sector.

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 Scheme 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.

2.1 Contributions receivable

- 2.1.1 Employers' normal pension contributions are accounted for on an accruals basis.
- 2.1.2 Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid.
- 2.1.3 Employees' pension contributions are accounted for on an accruals basis.
- 2.1.4 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).

2.2 Transfers

- 2.2.1 Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.3 Income received in respect of enhancements

- 2.3.1 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 scheme liability) on a cash basis.

2.4 Other income

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

2.5 Current service cost

2.5.1 The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Revenue account. The cost is based on a discount rate of 2.8% real (i.e. 5.4% including inflation).

2.6 Past service costs

2.6.1 Past service costs are increases in the present value of the scheme 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.

2.6.2 Past service costs are recognised in the Revenue account on a straight line basis over the period in which increase in benefits vest.

2.7 Interest on scheme liabilities

2.7.1 The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Revenue account. The interest cost is based on a discount rate of 2.8% real, (i.e. 5.4% including inflation).

2.8 Other payments

2.8.1 Other payments are accounted for on an accruals basis.

2.9 Scheme liability

2.9.1 Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 2.8% real (i.e. 5.4% after inflation).

2.9.2 Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect current conditions.

2.10 Pension benefits payable

2.10.1 Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

2.11 Pension payments to those retiring at their normal retirement age

2.11.1 Where a retiring member of the pension scheme 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 scheme liability on an accruals basis.

2.11.2 Where a retiring member of the pension scheme has 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 scheme liability on a cash basis.

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

2.12.1 Where a member of the pension scheme is entitled only to a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

2.12.2 Where a member of the pension scheme has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.13 Injury benefits

2.13.1 Injury benefits are accounted for on an accruals basis. They are not funded through the normal pension contributions (accruing pension liability contributions) and are in respect of injuries sustained. The amounts payable are a charge on the pension scheme and shown in the Revenue account. Those payable after that date are recoverable from employers.

2.14 Lump sums payable on death in service

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

2.15 Actuarial gains/losses

2.15.1 Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses for the year.

2.16 Additional Voluntary Contributions

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

3. Reconciliation of Estimates, accounts and budgets**3(a) Reconciliation of net resource outturns to combined net outgoings**

| | | | 2005-06 | 2004-05 |
|---|----------------|----------------|----------------|----------------|
| | | Supply | Outturn | |
| | Outturn | Estimate | compared | Outturn |
| Note | £000 | £000 | with | £000 |
| | | | Estimate | |
| | | | £000 | £000 |
| Net Resource Outturn | 467,040 | 606,507 | 139,467 | 248,265 |
| Less: effect of discount rate change accounted for in the STRGL | (198,967) | | 198,967 | |
| | 268,073 | | 338,434 | |
| Non-supply Income (CFERs) | 5 (1,013) | – | 1,013 | (2,179) |
| Combined Net Outgoings | 267,060 | 606,507 | 339,447 | 246,086 |

3(b) Outturn against final Administration Budget

The costs of administration of the schemes, with the exception of notional audit fees of £46,500 (2004-05 – £50,000) is borne by the UKAEA who recover the appropriate proportion of the costs from the other participating employers. Audit fees were in respect of statutory services only.

4. Reconciliation of resources to cash requirement

| | Note | Estimate £000 | Outturn £000 | 2005-06 Outturn Compared with Estimate: saving/ (excess) £000 |
|---|------|------------------|-----------------|---|
| Net Resource Outturn | 3(a) | 606,507 | 268,073 | 338,434 |
| Accruals adjustments | | | | |
| Non cash items | | (635,481) | (297,047) | (338,434) |
| Changes in working capital other than cash | | – | 1,460 | (1,460) |
| Changes in creditors falling due after more than one year | | | | |
| Use of provisions: | | | | |
| Pension | | 165,522 | 162,630 | 2,892 |
| Central funding | | – | – | |
| Net cash requirement | | 136,548 | 135,116 | 1,432 |

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in *italics*):

| | Note | Forecast 2005-06 | | Outturn 2005-06 | |
|--|------|------------------|------------------|-----------------|------------------|
| | | Income £000 | Receipts £000 | Income £000 | Receipts £000 |
| Operating income and receipts – excess A in A | 6 | – | – | 1,013 | 1,076 |
| Total income payable to Consolidated Fund | | – | – | 1,013 | 1,076 |

6. Reconciliation of income recorded within the Revenue Account to operating income payable to the Consolidated Fund

| | Note | 2005-06 £000 | 2004-05 £000 |
|--|------|-----------------|-----------------|
| Operating income | 5 | (1,013) | (2,179) |
| Gross income | | (1,013) | (2,179) |
| Operating income payable to the Consolidated Fund | | (1,013) | (2,179) |

7. Pension contributions receivable

| | 2005-06 £000 | 2004-05 £000 |
|-------------------------|-----------------|-----------------|
| Employers | (49) | (43) |
| Employees: | | |
| Normal | (21,858) | (21,226) |
| Purchase of added years | (2,621) | (2,191) |
| | (24,528) | (23,460) |

8. Pension transfers-in (see also Note 10)

| | <u>2005-06</u> | <u>2004-05</u> |
|--|----------------|-----------------|
| | £000 | £000 |
| Group transfers in from other schemes | (4,590) | (10,075) |
| Individual transfers in from other schemes | (869) | (7,081) |
| | <u>(5,459)</u> | <u>(17,156)</u> |

9. Pension cost

| | <u>2005-06</u> | <u>2004-05</u> |
|--------------------------------------|----------------|----------------|
| | £000 | £000 |
| Current service cost (see note 16.1) | 94,239 | 80,212 |
| | <u>94,239</u> | <u>80,212</u> |

10. Transfers in (see also Note 8)

| | <u>2005-06</u> | <u>2004-05</u> |
|--|----------------|----------------|
| | £000 | £000 |
| Group transfers in from other schemes | 4,590 | 10,075 |
| Individual transfers in from other schemes | 869 | 7,081 |
| | <u>5,459</u> | <u>17,156</u> |

Amounts receivable in respect of inward transfers increased the pension liability to the same extent. This increase is reflected in the Revenue account as expenditure as part of the movements in the provision during the year.

11. Interest on scheme liabilities (see also Note 16.1)

| | <u>2005-06</u> | <u>2004-05</u> |
|------------------------------|----------------|----------------|
| | £000 | £000 |
| Interest charge for the year | 197,302 | 189,284 |
| | <u>197,302</u> | <u>189,284</u> |

12. Additional Voluntary Contributions

The UKAEA's pension schemes provide for employees to make additional voluntary contributions (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 which offer free standing additional voluntary contribution schemes. The Managers of the Combined Pension Scheme, the Principal Non-Industrial Superannuation Scheme and the Protected Persons Superannuation Scheme are responsible for payments made to the Schemes' approved providers. These AVCs are not brought to account in this Resource Account. Members participating in this arrangement receive an annual statement from the approved provider made up to 31 March each year confirming the amounts held to their account and the movements in the year.

Contributions to the AVC and Shift Pay Pension Plan schemes are deducted from employees' salaries and are paid over directly by the employers to the approved provider.

During the year, £4,373,082 (2004-05 – £4,486,929) was paid to the approved providers. The aggregate amounts of AVC investments are as follows:

The Prudential Assurance Company Limited

Movements in the year were as follows:

| | <u>2005-06</u> | <u>2004-05</u> |
|---|----------------------|----------------------|
| | £000 | £000 |
| Balance at 1 April | 49,315 | 45,115 |
| New investments | 4,373 | 4,487 |
| Sales of investments to provide pensions benefits | (2,332) | (2,155) |
| Changes in market value of investments | 2,317 | 1,868 |
| Balance at 31 March | <u>53,673</u> | <u>49,315</u> |

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

13. Debtors – contributions due in respect of pensions**13(a) Analysis by type**

| | <u>2005-06</u> | <u>2004-05</u> |
|---|---------------------|---------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Pension contributions due from employers | 1,990 | 1,915 |
| Employees' normal contributions | 4 | 4 |
| Group transfers | 1,440 | 1,255 |
| Individual transfers | 140 | 251 |
| | <u>3,574</u> | <u>3,425</u> |

Included within these figures is £1,013,000 (2004-05: £2,179,000) that will be due to the Consolidated Fund once the debts are collected.

13(b) Intra-Government Balances

| | Amounts falling due within | |
|---|-----------------------------------|---------------------|
| | <u>2005-06</u> | <u>one year</u> |
| | £000 | <u>2004-05</u> |
| | £000 | £000 |
| Balances with bodies external to government | 3,574 | 3,425 |
| At 31 March | <u>3,574</u> | <u>3,425</u> |

14. Cash at bank and in hand

| | <u>2005-06</u> | <u>2004-05</u> |
|-----------------------------|---------------------|---------------------|
| | £000 | £000 |
| Balance at 1 April | 8,627 | (4,250) |
| Net change in cash balances | (2,389) | 12,877 |
| Balance at 31 March | <u>6,238</u> | <u>8,627</u> |

The following balances at 31 March were held at:

| | | |
|-----------------------------------|---------------------|---------------------|
| Commercial Banks and cash in hand | 3,423 | 5,613 |
| Net change in cash balances | 2,815 | 3,014 |
| Balance at 31 March | <u>6,238</u> | <u>8,627</u> |

The Paymaster bank account for the UKAEA's pension schemes is a part of the Department of Trade and Industry's total financing arrangements with HM Treasury.

15. Creditors – in respect of pensions**15(a) Analysis by type**

| | <u>2005-06</u> | <u>2004-05</u> |
|--|-----------------------|------------------------|
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Pensions | (18) | (5) |
| Lump sums | (171) | (63) |
| Refund of contribution | (19) | (25) |
| Individual transfers out to other schemes | (112) | (313) |
| Inland Revenue and voluntary contributions | (1,992) | (1,916) |
| Cash held on behalf of employees | (608) | (773) |
| Miscellaneous | (31) | (1) |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | (1,432) | (6,000) |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund | | |
| Received | (2,179) | – |
| Receivable | (1,013) | (2,179) |
| | <u>(7,575)</u> | <u>(11,275)</u> |

15(b) Intra-Government Balances

| | Amounts falling due within | |
|---|-----------------------------------|------------------------|
| | <u>2005-06</u> | <u>2004-05</u> |
| | £000 | £000 |
| Balances with other central government bodies | (6,616) | (10,095) |
| Balances with bodies external to government | (959) | (1,180) |
| At 31 March | <u>(7,575)</u> | <u>(11,275)</u> |

16. Provision for pension liability

The UKAEA pension scheme is a combination of a group of defined benefit public service pension schemes. This statement is based on a full actuarial valuation of the Combined Pension Scheme carried out as at 31 March 2003 by the Government Actuary's Department (GAD), updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2003 to 31 March 2006. Figures for the Principal Non-Industrial Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2004, updated approximately for the subsequent financial years to reflect known changes over the period 31 March 2004 to 31 March 2006. Figures for the Protected Persons Superannuation Scheme are based on a full actuarial valuation carried out as at 31 March 2005, updated approximately for the subsequent financial years to reflect known changes which have occurred over the period 31 March 2005 to 31 March 2006.

It is emphasised that the projection of the liabilities from the last valuation date to the current date is approximate. More accurate assessments will be available following the next formal valuation.

The major assumptions used by the Actuary were:

| | At 31 March 2006 % | At 31 March 2005 % | At 31 March 2004 % |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Rate of increase in salaries | 4.0 | 4.9 | 4.9 |
| Rate of increase in pensions in payment and deferred pensions | 2.5 | 3.4 | 3.4 |
| Discount rate | 5.4 | 7.0 | 7.0 |
| Inflation assumption | 2.5 | 3.4 | 3.4 |

Most pension benefits under the scheme are increased in line with inflation. In accordance with the Resource Accounting Manual, the scheme liability has been discounted at a real rate of 2.8 per cent (5.4 per cent nominal).

During the year ended 31 March 2006, employer contributions were in the range 0 to 0.5 per cent of pensionable pay. It is expected that contributions will remain at this level for the next year.

The scheme managers 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.

Pension scheme liabilities accrue over employee's 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.

The value of the liability on the balance sheet 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 notes 16.4 and 16.5. 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.

16.1 Analysis of movement in scheme liability

| | | <u>2005-06</u> | <u>2004-05</u> |
|---|------|---------------------------|---------------------------|
| | Note | £000 | £000 |
| Scheme liability at 1 April | | (3,506,249) | (3,220,599) |
| Current service cost | 9 | (94,239) | (80,212) |
| Interest on pension scheme liability | 11 | (197,302) | (189,284) |
| Pension transfers in | 8 | (5,459) | (17,156) |
| Benefits paid | 16.2 | 156,078 | 149,839 |
| Pension payments to and on account of leavers | 16.3 | 6,552 | 3,298 |
| Actuarial gain/(loss) | 16.4 | (580,760) | (152,135) |
| Scheme liability at 31 March | | <u>(4,221,379)</u> | <u>(3,506,249)</u> |

16.2 Analysis of benefits paid

| | | <u>2005-06</u> | <u>2004-05</u> |
|---|--|-----------------------|-----------------------|
| | | £000 | £000 |
| Pensions or annuities to retired employees and dependents (net of recoveries of overpayments) | | 138,852 | 134,145 |
| Commutations and lump sum benefits on retirement: | | 15,667 | 14,833 |
| Death in service benefits | | 1,559 | 861 |
| Per cash flow statement | | <u>156,078</u> | <u>149,839</u> |

16.3 Analysis of payments to and on account of leavers

| | | <u>2005-06</u> | <u>2004-05</u> |
|---------------------------------------|--|---------------------|---------------------|
| | | £000 | £000 |
| Refund to members leaving service | | 450 | 498 |
| Group transfers to other schemes | | 2,917 | - |
| Individual transfers to other schemes | | 3,185 | 2,800 |
| Per cash flow statement | | <u>6,552</u> | <u>3,298</u> |

16.4 Analysis of actuarial gain/(loss)

| | | <u>2005-06</u> | <u>2004-05</u> |
|---|--|-------------------------|-------------------------|
| | | £000 | £000 |
| Experience gains and losses rising on the scheme liabilities | | (1,885) | (28,798) |
| Changes in assumptions underlying the present value of scheme liabilities | | (578,875) | (123,337) |
| Per Statement of Recognised Gains and Losses | | <u>(580,760)</u> | <u>(152,135)</u> |

16.5 History of experience gains and losses

| | <u>2005-06</u> | <u>2004-05</u> | <u>2003-04</u> |
|---|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| Experience gains and losses on scheme liabilities: | | | |
| Amount (£000) | 1,885 | 28,798 | 12,176 |
| Percentage of the present value of the scheme liabilities | 0.0% | 0.8% | 0.4% |
| Total amount recognised in statement of total recognised gains and losses | | | |
| Amount (£000) | 580,760 | 152,135 | 12,176 |
| Percentage of the present value of the scheme liabilities | 13.8% | 4.3% | 0.4% |

17. General Fund

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

| | <u>2005-06</u> | <u>2004-05</u> |
|---|---------------------------|---------------------------|
| | £000 | £000 |
| Balance at 1 April | (3,505,472) | (3,218,876) |
| Net Parliamentary Funding | | |
| Drawn Down | 136,548 | 119,756 |
| Year end adjustment | | |
| Supply Creditor/(Debtor) – current year | (1,432) | (6,000) |
| Excess Vote – prior year | – | (2) |
| Net Transfer from Operating Activities | | |
| Combined Net Outgoings | (267,060) | (246,086) |
| CFERS repayable to Consolidated Fund | (1,013) | (2,179) |
| Actuarial gains and losses (SRGL) | (580,760) | (152,135) |
| Add: Adjustment for notional audit fees | 47 | 50 |
| Balance at 31 March | <u>(4,219,142)</u> | <u>(3,505,472)</u> |

18. Notes to the Cash Flow Statement**18(a) Reconciliation of combined net outgoings to operating cash flows**

| | | <u>2005-06</u> | <u>2004-05</u> |
|--|------|-------------------------|-------------------------|
| | Note | £000 | £000 |
| Combined net outgoings for the year | | (267,060) | (246,086) |
| Adjustments for non-cash transactions | | 47 | 50 |
| (Increase)/Decrease in Debtors | | (149) | (890) |
| <i>less movements in debtors relating to items not passing through the revenue account</i> | | – | – |
| Increase/(Decrease) in Creditors' pensions | | (145) | 944 |
| <i>less movements in creditors relating to items not passing through the revenue account</i> | | – | – |
| Increase in pension provision | 16.1 | 291,541 | 269,496 |
| Increase in pension provision- enhancements and transfers in | 16.1 | 5,459 | 17,156 |
| Use of provisions – pension liability | 16.2 | (154,519) | (148,978) |
| Use of provisions – refunds and transfers | 16.3 | (6,552) | (3,298) |
| Use of provisions – death in service | 16.3 | (1,559) | (861) |
| Net cash outflow from operating activities | | <u>(132,937)</u> | <u>(112,467)</u> |

18(b) Analysis of financing and reconciliation to the net cash requirement

| | | <u>2005-06</u> | <u>2004-05</u> |
|--|-------|-----------------------|-----------------------|
| | Note | £000 | £000 |
| From the Consolidated Fund (Supply) – current year | | 136,548 | 119,756 |
| From the Consolidated Fund (Supply) – prior year | | – | 6,984 |
| Net financing | | 136,548 | 126,740 |
| Decrease/(Increase) in cash | 18(c) | 2,389 | (12,877) |
| | | 138,937 | 113,863 |
| Due to CF rec in prior year and paid over – surplus funding | | (6,000) | (1,396) |
| Adjustments for payments and receipts not related to Supply | | – | – |
| Due to CF rec in prior year and not paid over -excess AinA in current year | | 2,179 | 1,289 |
| Net cash requirement per Statement of Parliamentary Supply | | <u>135,116</u> | <u>113,756</u> |

18(c) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

| | <u>2005-06</u> | <u>2004-05</u> |
|--|---------------------|------------------------|
| | £000 | £000 |
| Net cash requirement | 135,116 | 113,756 |
| From the Consolidated Fund (Supply) – current year | (136,548) | (119,756) |
| From the Consolidated Fund (Supply) – prior year | – | (6,984) |
| Amounts due to the Consolidated Fund received and not paid | 18(b) 3,821 | 107 |
| Increase/(decrease) in cash | <u>2,389</u> | <u>(12,877)</u> |

19. Financial Instruments

FRS13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which Government Departments are financed, the Department is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

The Department's financial instruments comprise of cash, loans, investments, public dividend capital, provisions, trade debtors, and trade creditors. Details of these can be found in the relevant notes.

Resources voted annually by Parliament finance the Department's net revenue resource requirements and its capital expenditure and there is therefore no exposure to significant liquidity risks. The Department does not access funds from commercial sources and so is not exposed to significant interest rate risk.

The Department had no exposure to exchange rate risk during the year.

There is no material difference between the fair values and book values of the Group's financial instruments.

Short-term debtors and creditors have been excluded from the above disclosures, as allowed by FRS13.

20. Contingent liabilities disclosed under FRS 12

There are no Contingent Liabilities

21. Related-party transactions

The UKAEA Pension Schemes fall within the ambit of the Department of Trade and Industry, which is regarded as a related party. During the year, the schemes have had material transactions with the department and other departments, executive agencies and trading funds 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.

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