

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

# Research Councils' Pension Scheme Account 2011-12

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# Research Councils' Pension Scheme Account 2011-12

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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 2011-12 Government Financial Reporting Manual (FReM) [www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk) issued by HM Treasury and with regard to the Science and Technology Act 1965.
- 2 The RCPS is an unfunded pension scheme, in which payments from the pension scheme are funded by current employees and employers pension scheme contributions with the difference between these contributions and scheme expenditure financed by Grant-in-Aid provided from Department for Business, Innovation and Skills.

### Description of pension schemes

- 3 The Nuvos scheme commenced on 30 July 2007. This is a career average pension scheme, which together with the Partnership Pension Account, forms the pension options open to 'new starters' since 30 July 2007. However, members who have a past history of membership of the Classic, Classic Plus or Premium schemes may be allowed to rejoin 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 a member contribution rate of 3.5 per cent. The accrual rate is 2.3 per cent 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 the RCPS 0.8 per cent of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider.
- 6 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the Principal Civil Service Pension Scheme (PCSPS). New starters were eligible to join the Premium scheme from 1 October 2002 until 29 July 2007. It has a member contribution rate of 3.5 per cent and provides a pension based on 1/60th of salary but without an automatic lump sum. Members joining from 1 April 1994 until 30 September 2002 entered what is now known as the Classic scheme. This provides a pension based on 1/80th of salary and an automatic lump sum. The Classic member contribution rate is only 1.5 per cent as there are fewer benefits than the Premium Scheme. Some members are in an amalgam of the two schemes known as Classic Plus.
- 7 The final emolument 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 per cent since 1 April 2010. The previous rate of 21.3 per cent was payable from 1 April 2008 until 31 March 2010. Any annual shortfall forecast between cash outgoings and cash contribution received is met by grant-in-aid received through the Research Councils' sponsoring body, the Department for Business, Innovation and Skills (BIS).

### Eligible staff

- 8 All employees of the Research Councils are eligible to join the Nuvos scheme or pay into a Partnership Pension Account.

### Information for members

- 9 The Research Councils' Joint Superannuation Service (JSS) website <http://jsspensions.org.uk> gives more information.

## Accounting Officer

- 10 Professor Douglas Kell, the Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) is Accounting Officer for BBSRC and for the Research Councils' Pension Schemes.

## Administrators

- 11 The schemes are administered by the Research Councils' Joint Superannuation Service (JSS), a unit within BBSRC. The RCUK Shared Services Centre Ltd (SSC) provides support services to JSS.

## Actuaries

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

## Bankers

- 13 Banking services for the Pension Schemes in 2011-12 were provided by the Government Banking Service and Lloyds Bank plc. During 2011-12 the Pension Schemes' banking services provided by Lloyds Bank plc were transferred to the Government Banking Service. The Lloyds bank account was closed on 30 April 2012.

## Auditors

- 14 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 £43,000 (2010-11: £42,000).
- 15 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 he ought to have taken to make himself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.
- 16 No non-audit work, other than that due as part of the final audit, was performed by the auditors on behalf of the Research Councils' Pension Schemes during the year.

## Employers

17 During 2011-12 the following employers have had members in the Research Councils' Pension Schemes:

- Arts and Humanities Research Council.
- Biotechnology and Biological Sciences Research Council and its strategically funded institutes.
- Diamond Light Source.
- Economic and Social Research Council.
- Engineering and Physical Sciences Research Council.
- James Hutton Institute.
- Moredun Research Institute.
- Natural Environment Research Council.
- RCUK Shared Service Centre.
- Science and Technology Facilities Council.
- Scottish Agricultural College.
- Technology Strategy Board.

## Changes during 2011-12

- 18 On 1 April 2009, the Arts and Humanities Research Council (AHRC) joined the Research Councils' Pension Schemes. Staff of the AHRC were offered the opportunity to Bulk Transfer their former accrued Principal Civil Service Pension Scheme benefits into the Research Councils Pension Schemes. Bulk transfers of £3.054 million in respect of this are included in the 2011-12 RCPS accounts.
- 19 From 1 April 2010, 152 members of the University of Southampton staff were transferred to the Natural Environment Research Council (NERC) and became members of the Research Councils' Pension Schemes following a 'Transfer of Undertakings Protection of Employment (TUPE). The staff members that were formerly in the Pension and Assurance Scheme for Non Academic Staff will be dealt with on an individual basis. Former members of the Universities Superannuation Scheme will be given the opportunity to Bulk Transfer their accrued benefits in to the Research Councils' Pension Schemes. The results of the Bulk Transfer will be included in the 2012-13 RCPS accounts.
- 20 The James Hutton Institute was created on 1 April 2011 to bring together the Macaulay Land Use Research Institute and Scottish Crops Research Institute. All existing staff members were TUPE transferred to the new Institute. The James Hutton Institute became a member of the Research Councils Pension Scheme with effect 1 April 2011 for the existing staff that TUPE transferred and future new recruits.
- 21 The RCUK Shared Services Centre Ltd (SSC) was established to provide transactional services across the Research Councils. HR and Payroll sections of the Research Councils had previously been responsible for providing the JSS with the necessary data to administer the Research Councils Pension Schemes. The SSC is now responsible for providing JSS with data for approximately 70 per cent of the active members of the Research Councils' Pensions Schemes. Over the course of 2011-12, a number of interfaces were under development to assist in the data transfer between the SSC and the JSS. The costs of setting up the SSC were incurred by the Research Councils and not by the Research Councils' Pensions Schemes.
- 22 The Chancellor invited John Hutton to chair the independent Public Service Pensions Commission. The Commission undertook a fundamental structural review of public service pension provision. This review covered all the large Public Sector pension schemes including the Research Councils' Pension Schemes.

- 23 Lord Hutton of Furness published his final report on public service pension provision on 10 March 2011, setting out his recommendation to Government on pensions arrangements that are sustainable and affordable in the longer term, fair to both the public service workforce and the taxpayer, and consistent with the fiscal challenges ahead, while protecting accrued rights.
- 24 The Government has accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, unions and others. In November 2011, the Government set out its proposals for public sector pension reform. The RCPS is a 'by-analogy' scheme to the Principal Civil Service Pension Scheme (PCSPS), so any change to the PCSPS will be automatically applied to the RCPS.
- 25 In April 2012, the Minister for the Cabinet Office, Francis Maude, announced that discussions have now concluded with the Civil Service unions on details for a new Principal Civil Service Pension Scheme to be introduced from 1 April 2015.
- 26 Heads of Agreement on the main elements of scheme design were reached on 20 December 2011 and since then intensive discussions have taken place between the Cabinet Office and Civil Service trade unions on the remaining details. Union leaders have now been asked to put the details of this new scheme to their members.
- 27 The Chancellor announced in his June 2010 budget that the Government had decided that future public sector pension increases would be based on the Consumer Prices Index rather than the Retail Prices Index. This change became effective for the April 2011 pensions increase.
- 28 During 2011-12, the reorganisation of the governance arrangements between BBSRC and its strategically funded institutes was completed. From the point of completion, no new recruits to the institutes, with the exception of the Institute for Animal Health, are eligible for entry into the Research Councils Pension Scheme.
- 29 During the year there were no changes to the contribution rate from employees or employers but changes have been announced for 2012-13 onwards as detailed in point 36 overleaf.

### Review of the financial statements

- 30 For the year ended 31 March 2012 there was an overall position of net expenditure of £161.5 million compared to net income of £196.7 million for the year ended 31 March 2011. The main difference for the increase in income is the difference in the pension cost reported by GAD. For 31 March 2012 the cost was £74 million compared to negative expenditure of £267 million for 31 March 2011 which was due to past service costs figures.
- 31 Income was £86.2 million compared to £84.9 million for 2010-11. The overall increase was due to the bulk transfer in of AHRC of £3 million which is explained in point 17 above and a decrease of £1.2 million in individual transfers in.
- 32 From 2011-12 onwards there will no longer be any payments for early retirement lump sums as there is no longer enhancement of pensionable service when a member leaves under compensation scheme terms following the introduction of the new compensation scheme in December 2010.
- 33 In 2011-12 the pension liability rose by £157 million from £3.03 billion to £3.19 billion due to a pension costs of £74 million and costs associated with changes in assumption of £32 million.

### Anticipated changes during 2012-13

- 34 Each public service pension scheme, with the exception of the armed forces, is required to deliver savings equivalent to an average increase of 3.2 per centage points in employee contributions by 2014-15. As a consequence, from 1 April 2012 the contributions paid by most members towards their Research Council pension will increase. The 1 April 2012 increase is equivalent to an average of 1.5 per cent. Further increases are anticipated for 1 April 2013 and 2014.

- 35 The extra amount to be paid will be set according to the member's salary. Members will pay more towards their pension from 1 April 2012 if their pensionable earnings (salary and pensionable allowances) each year are more than £15,000 on a full-time equivalent basis.
- 36 Following Cabinet Office amendment to the Principal Civil Service Pension Scheme rules the Research Councils Pension Scheme (RCPS) 'by-analogy' arrangement will result in increased employee contribution rates from the 1 April 2012 as set out below.

### Classic Scheme

<b>Annual pensionable earnings</b> (full-time equivalent basis)	<b>Current classic contribution rate before tax relief</b> (see 2)	<b>New 1 April 2012 contribution rate before tax relief</b>
Up to £15,000	1.5	1.5
£15,001 – £21,000	1.5	2.1
£21,001 – £30,000	1.5	2.7
£30,001 – £50,000	1.5	3.1
£50,001 – £60,000	1.5	3.5
Over £60,000	1.5	3.9

### Premium, nuvos and classic plus

<b>Annual pensionable earnings</b> (full-time equivalent basis)	<b>Current premium, nuvos and classic plus contribution rate before tax relief</b> (see 2)	<b>New 1 April 2012 contribution rate before tax relief</b>
Up to £15,000	3.5	3.5
£15,001 – £21,000	3.5	4.1
£21,001 – £30,000	3.5	4.7
£30,001 – £50,000	3.5	5.1
£50,001 – £60,000	3.5	5.5
Over £60,000	3.5	5.9

- 37 The Bulk transfer of former members of the Universities Superannuation Scheme who TUPE transferred from the University of Southampton to NERC on 1 April 2010 will be finalised and the results will feature in the 2012-13 RCPS Accounts.
- 38 The majority of employers within the RCPS will undertake voluntary redundancy exercises throughout the 2012-13 year. This, coupled with reduced recruitment, is expected to result in a reduction to the number of Active scheme members.

### Freestanding additional voluntary contributions

- 39 Members in service are entitled to make additional voluntary contributions (AVC's) under contracts between the employee and Scottish Widows, Equitable Life Assurance Society and 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 Principal Civil Service Pension Schemes. Employee contributions are paid directly by the participating Research Council and accordingly contributions and AVC investments are not included in these accounts.

## Pension Scheme Membership

	<b>31 March 2012 No.</b>	31 March 2011 No.
<b>New Schemes</b>		
Current members in Service	<b>7,822</b>	8,321
Pensions in Payment	<b>6,894</b>	6,326
Early Retirements	<b>337</b>	484
Preserved Pensions	<b>7,593</b>	7,343
<b>Total</b>	<b>22,646</b>	22,474
<b>Old Schemes</b>		
Pensions in Payment	<b>5,360</b>	5,406
Preserved Pensions	<b>1,674</b>	1,802
<b>Total</b>	<b>7,034</b>	7,208
<b>Grand total</b>	<b>29,680</b>	29,682
	<b>2011-12 No.</b>	2010-11 No.
<b>Members in Service at 1 April</b>	<b>8,321</b>	8,560
Adjustment resulting from changes notified in current year	<b>(18)</b>	(3)
Adjusted figure for 1 April	<b>8,303</b>	8,557
New members in year	<b>393</b>	552
Leavers and retirements in year	<b>(874)</b>	(758)
<b>Members in Service at 31 March</b>	<b>7,822</b>	8,321
	<b>31 March 2012 No.</b>	31 March 2011 No.
Classic Scheme	<b>3,256</b>	3,616
Classic Plus Scheme	<b>287</b>	316
Premium Scheme	<b>2,183</b>	2,396
Nuvos Scheme	<b>2,096</b>	1,993
<b>Members in Service at 31 March</b>	<b>7,822</b>	8,321
Holders of Partnership Pension Accounts	<b>119</b>	122

## Guaranteed Minimum Pension (GMP) Data

- 40 During 2007-08 a problem with the late notification of GMP data was identified, which the Scheme became aware of in 2008-09. The JSS has commenced working with HMRC to assess the number of cases, and the value of overpayments, which are deemed to be irrecoverable. At the date of signing these accounts 800 individual cases have been identified and the calculation of the overpayments has commenced. It is expected to report the final position in the 2012-13 RCPS accounts. This issue is also highlighted in the Accounting Officer's Governance Statement (page 15).

## Membership Contributions Data in 2010-11

- 41 During the 2010-11 external audit of the Scheme's accounts, an issue was identified with the auto-entry of new recruits into the Scheme. As a result, a comprehensive review of all employees not paying pension scheme contributions was undertaken. It became evident that the large majority of employees not contributing to the Scheme were employed on a non-pensionable basis or had actively chosen to 'opt out' of the Scheme. However, 44 cases were identified as requiring further investigation, and JSS has worked with employers to resolve these individual instances on a case-by-case basis.
- 42 The investigation discovered three cases, going back a number of years, where both the employee and scheme administrator believed the individuals to be scheme members but payroll had failed to collect and pay over scheme contributions. There was additionally one further case where contributions ceased for a scheme member of many years following a migration of data error when transferring functions across to the RCUK Shared Service Centre.
- 43 Of the remaining 40 cases a large majority resulted from employees originally being contracted for less than 12 months. In these circumstances employees are provided with details of the pension scheme options available to them but membership arises only when an employee asks to join. However, these employees have subsequently been issued with further contracts, some of which were for 12 months or more and as a result these employees should have been auto entered into the RCPS. The employers have discussed backdating scheme membership with their employees to the date where they should have been auto enrolled into the RCPS. Some employees have taken up this offer, with a small number declining.
- 44 In all there were 23 scheme members with a total value of outstanding pensions contributions of £343,000. The underlying control weaknesses have been fully reviewed, and new procedures and controls are now in place. This issue is also highlighted in the Accounting Officer's Governance Statement (page 15).

## Enquiries

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

## Managers, Advisers and Employers

### **Accounting Officer**

Professor Douglas Kell  
Polaris House, North Star Avenue, Swindon, SN2 1UY.

### **Actuary**

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

### **Bankers**

Kevin Skudder (Relationship Support Manager), Lloyds Bank plc, 3rd Floor, 25 Gresham Street, London EC2V 7HN  
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 – Alison Lennon

BBSRC – Janet Juillerat

ESRC – Norma Thorpe

EPSRC – Peter Ethelson

NERC – Steve Allsop

STFC – Jerry Snewin

Polaris House, North Star Avenue, Swindon, SN2 1UY.

RCUK Shared Service Centre – Jenny Hardy

Technology Strategy Board – Ann Shaw

North Star House, North Star Avenue, Swindon, SN2 1FA.

Diamond Light Source – Deepak Kalia

Diamond House, Harwell Science and Innovation Campus Didcot, Oxfordshire, OX11 0DE.

Scottish Institutes – Alison Cartwright

(Macauley Institute, Moredun Research Institute, Scottish Agricultural College, Scottish Crops Research Institute)

The James Hutton Institute , Invergowrie, Dundee, DD2 5DA.

*Professor Douglas Kell*

25 January 2013

Chief Executive and Accounting Officer of BBSRC

# Actuarial Statement for the Research Council Pension Scheme Accounts for the year ended 31 March 2012

## Introduction

This statement has been prepared by the Government Actuary's Department at the request of the Research Council Pension Scheme's Management Board ('the Management Board'). It summarises the pensions disclosures required for the 2011-12 Resource Accounts of the Research Council Pension Scheme ('the scheme', or 'RCPS').

The RCPS is a final salary and/or career average salary defined benefit scheme, with benefits calculated by-analogy to the Principal Civil Service Pension Scheme. The PCSPS 1974 was laid before Parliament under section 2(11) of The Superannuation Act 1972. These regulations, and subsequent amendments, set out the rules of the PCSPS, to which RCPS operates by-analogy. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability).

The statement is based on an assessment of the liabilities as at 31 March 2012, using membership data as at 31 December 2011.

## Membership data

Tables A to C summarise the principal membership data as at 31 December 2011 used to prepare this statement.

**Table A – Active Members**

	Number	Open Scheme Total Pensionable Pay* (£000)
<b>Males</b>	4,739	179,931
<b>Females</b>	3,192	95,143
<b>Total</b>	<u>7,931</u>	<u>275,074</u>

\* As at 31 December 2011, but including assumed increase to pensionable pay to the assessment date as advised by JSS and including pensionable allowances.

**Table B – Deferred Members**

	Number	Open Scheme Total deferred pension* (£000)	Number	Closed Schemes Total deferred pension* (£000)
<b>Males</b>	4,013	17,907	865	1,440
<b>Females</b>	3,924	11,268	842	1,297
<b>Total</b>	<u>7,937</u>	<u>29,175</u>	<u>1,707</u>	<u>2,737</u>

\* pension amounts as at the assessment date; therefore not including pension increase due in April 2012.

**Table C – Pensions in Payment**

	Open Scheme		Closed Schemes	
	Number	Annual pension* (£000)	Number	Annual pension* (£000)
<b>Males</b>	3,797	53,830	2,586	23,097
<b>Females</b>	2,254	11,273	1,613	5,085
<b>Spouses and dependents</b>	676	3,380	1,178	4,919
<b>Total</b>	<u>6,727</u>	<u>68,483</u>	<u>5,377</u>	<u>33,101</u>

\* pension amounts as at the assessment date; therefore not including pension increase due in April 2012.

## Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method, with allowance for expected future pay increases in respect of active members, and the principal assumptions applying to the 2011-12 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2012 was determined using the Projected Unit Credit Method and the principal assumptions applying to the 2010-11 Resource Accounts.

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

The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2012, the assumed rate of return in excess of pension increases was decreased from 2.90 per cent a year to 2.80 per cent a year, and the assumed rate of return in excess of earnings was decreased from 0.70 per cent a year to 0.60 per cent a year. In addition, with effect from 31 March 2012, the assumed rate of future pension increases is 2.00 per cent a year and the assumed nominal rate of salary growth is 4.25 per cent a year (changed from 2.65 per cent and 4.90 per cent respectively as at 31 March 2011).

**Table D – Principal Financial Assumptions**

Assumption	31 March	31 March
	2012	2011
	%	%
Rate of return (discount rate)	<b>4.85</b>	5.60
Rate of return in excess of:		
Earnings increases	<b>0.60</b>	0.70
Pension increases (CPI)	<b>2.80</b>	2.90
Expected return on assets:	<b>n/a</b>	n/a

The pension increase assumption as at 31 March 2012 is based on the Consumer Price Index (CPI) expectation of inflation.

## Demographic assumptions

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

The mortality assumptions have been set by the Management Board based on the results of the analysis of scheme experience to 31 March 2010 for the Resource Accounts and updated for the most recently available population projections.

The other demographic assumptions adopted for the assessment of the liabilities as at 31 March 2012 are broadly those adopted for the 2006 funding valuation of the RCPS.

The 'S1' series of standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with the mortality rates applicable for two years of age older than members' actual age for female members not in ill-health. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. Heavier baseline mortality assumptions are adopted for members in ill-health.

The reforms to the PCSPS due to be implemented in April 2015 and the increased member contributions being phased in from April 2012 will also apply to the RCPS and may affect the behaviour of members, e.g. members subject to a later normal pension age for accrual after 2015 might be expected to retire later. Given the uncertainty surrounding the potential impact of these changes on member behaviour, the Management Board has decided to make no allowance for them for the purposes of the 2011-12 Resource Accounts.

The contribution rate used to determine the accruing cost in 2011-12 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2010-11 Resource Accounts.

## Liabilities

Table E summarises the assessed value as at 31 March 2012 of benefits accrued under the scheme prior to 31 March 2012 based on the data, methodology and assumptions described on pages 10-12. The corresponding figures for the previous four year ends are also included in the table.

**Table E – Statement of Financial Position**

£ million

	<b>31 March 2012</b>	31 March 2011	31 March 2010	31 March 2009	31 March 2008
<b>Total market value of assets</b>	<b>nil</b>	nil	nil	nil	nil
<b>Value of liabilities</b>	<b>3,189</b>	3,031	3,498	2,648	2,887
<b>Surplus/(Deficit)</b>	<b>(3,189)</b>	(3,031)	(3,498)	(2,648)	(2,887)
<b>Of which recoverable by employers</b>	<b>n/a</b>	n/a	n/a	n/a	n/a

## Pension Cost

The cost of benefits accruing in the year ended 31 March 2012 (the Current Service Cost) is based on a standard contribution rate of 26.5 per cent. Members contributed between 1.5 per cent and 3.5 per cent of pensionable pay, depending on the section of the scheme they belong to. Table F shows the employers' share of the contribution rate used to determine the Current Service Cost taking into account an estimated average rate of contributions paid by members. The corresponding figures for 2010-11 are also included in the table.

**Table F – Contribution Rate**

	<b>Per centage of pensionable pay</b>		
	<b>1 April 2011 to 31 March 2012</b>	22 June 2010 to 31 March 2011	1 April 2010 to 21 June 2010
	%	%	%
<b>Standard contribution rate</b>	<b>26.5</b>	28.6	33.4
<b>Members' estimated average contribution rate</b>	<b>2.6</b>	2.6	2.6
<b>Employers' estimated share of standard contribution rate</b>	<b>23.9</b>	26.0	30.9

For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 26.0 per cent, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. The most significant difference between the actuarial assessments for Resource Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 2.9 per cent pa for the 2011-12 Current Service Cost (1.8 per cent pa up to 22 June 2010 and 2.5 per cent thereafter for 2010-11) compared with 3.5 per cent pa for the existing scheme funding rate (note that the discount rate for scheme funding purposes has been reviewed and reduced to 3 per cent, but this does not affect the current rate of contributions in payment). A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

The pensionable payroll for the financial year 2011-12 was £278 million (derived from membership data provided as at 31 December 2010 and as at 31 December 2011). Based on this information, the accruing cost of pensions in 2011-12 (at 26.5 per cent of pay) is assessed to be £74 million (including employee normal contributions).

*Sandra Bell*  
Government Actuary's Department

13 June 2012

## Statement of Accounting Officer's responsibilities

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

The combined financial statements must give a true and fair view of the state of affairs of the scheme at the year end and of the net income or expenditure and cashflows for the year ended 31 March 2012. The financial statements are required to provide disclosure of any material expenditure or income that has been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them. The financial statements must be prepared so as to ensure that the contributions payable to the Schemes during the year have been paid in accordance with the Schemes rules and recommendations of the Actuary.

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

- observe the accounts direction issued by the Secretary for Business, Innovation and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

# Governance Statement by Chief Executive

## Scope of responsibility

As the Accounting Officer for BBSRC and RCPS, designated as such by the Department for Business, Innovation and Skills (BIS) Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Research Councils' Pension Schemes' policies, aims and objectives, while safeguarding the public funds and Research Councils' Pension Schemes' assets for which I am personally responsible, in accordance with the duties assigned to me and disclosed in 'Managing Public Money'. As the Accounting Officer for BBSRC and RCPS I ensure that all decisions made are legal and comply with the Corporate Governance Framework and the relevant aspects of the Corporate Governance Code.

## 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 provides an overview of the Schemes' performance during the year and how successfully it has coped with the challenge it faces.

## Governance framework

In my role as Accounting Officer, I am supported by BBSRC's Council, its Boards, and the Executive team within BBSRC. Further information about BBSRC's governance framework can be found in the BBSRC Annual Report and Accounts 2011-12 ([www.bbsrc.ac.uk/annualreport](http://www.bbsrc.ac.uk/annualreport)) and on the BBSRC website ([www.bbsrc.ac.uk](http://www.bbsrc.ac.uk)).

## System of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of BBSRC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and realising their impact only then, and to manage them efficiently, effectively and economically. By extension, this process will include the principal risks that may apply to the Research Councils' Pension Schemes.

The system of internal control has been in place in the Research Councils' Pension Schemes for the year ended 31 March 2012 and up to the date of approval of the annual accounts, and accords with HM Treasury guidance.

## The risk and control framework

Overall responsibility for risk management rests with me as Accounting Officer. I sign this annual Governance Statement as part of the RCPS audited Annual Accounts. The task of implementing and maintaining BBSRC's overall risk management policy and strategy is delegated to the Director of Finance who fulfils the role of the Director responsible for risk. The task of reviewing the Schemes' risk management framework is delegated to the Head of JSS.

The Head of JSS undertakes a review of the Risk Management Framework three or four times per year. Additionally, a member of the Research Councils' Pensions Schemes Management Board will act on behalf of the Board to consider the outcomes of the reviews and endorse any mid-year changes to the Risk Management Framework, which are then advised to the Board. The Research Councils' Pensions Schemes Management Board formally considers and agrees the Risk Management Framework documents on an annual basis.

The Audit and Assurance Services Group (AASG), previously known as the Research Councils' Internal Audit Service (RCIAS), reviews the key risks to the RCPS on an annual basis. A rolling five year audit plan is followed to allow for a comprehensive review of the Research Councils' Pensions Schemes.

BBSRC actively encourages 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's risk policy acts as a key document underpinning this work, outlining how risk should be handled in the organisation and the roles and responsibilities of staff, including Directors and the Audit Board. The BBSRC risk policy is supported by a risk strategy and the use of risk registers across the organisation; these are regularly reviewed at both Director and operational levels with support from the Corporate Risk Manager, who provides advice on how risks are to be assessed and how the risk appetite should be determined.

The BBSRC Audit Board regularly reviews the Council's risk management framework and reports to Council on any issues of concern. The BBSRC Audit Board also reviews the Accounts of the Research Councils' Pensions Schemes.

### **Risk Assessment**

The RCPS Risk Management Framework identifies key risks and the possible threat/opportunity should these risks crystallise. The register is monitored by the Head of JSS three or four times a year, and is formally considered by the RCPS Management Board on an annual basis.

During 2011-12 the key risk for RCPS related to the issue identified with membership contribution data which pointed towards weaknesses in the control framework. Actions and remedies have been agreed and the issue is being monitored by the Research Councils' Pensions Schemes Management Board. This issue is described in more detail below.

### **RCUK Shared Services Centre Ltd (SSC)**

The SSC provides processing services in human resources, procurement, payroll, finance, grants, and IT to the seven Research Councils. As a unit within BBSRC, JSS receives support services from the SSC. During 2011-12, work was ongoing to develop further the security and controls framework operating between the Research Councils and the SSC Ltd.

Looking ahead, the expansion of the SSC's client base presents the Councils with both threats and opportunities. It is expected that greater economies of scale will lead to reductions in unit costs and therefore service charges. There is, however, some concern around the potential disruption to the current level of service over the coming year and potentially beyond as a diverse range of new clients come on board. It will be important, therefore, that appropriate new governance arrangements are put in place to protect the Research Councils during this period of transition.

### **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 Research Councils' Pensions Schemes and the Research Councils 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.

The principle elements of support for the Accounting officer's assurance statement are the work of the Audit Board and the BBSRC Executive including review of the work of AASG, the risk management frameworks developed and responses to external management letters which identify if control gaps exist.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Research Councils' Pensions Schemes Management Board and the BBSRC Audit Board and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

During 2008-09 the Scheme was made aware of a problem with the late notification of Guaranteed Minimum Pension (GMP) data. The JSS has commenced work with HM Revenue and Customs (HMRC) to assess the number of cases and the value of any overpayments which are deemed to be irrecoverable. At the date of signing these accounts 800 individual cases have been identified and the calculation of the overpayments has commenced. It is expected to report the final position in the 2012-13 RCPS accounts.

As part of the external audit of the Research Councils' Pensions Schemes accounts for 2010-11, issues were identified with membership contribution data which pointed towards weaknesses in the control framework. These issues were highlighted by the migration of the Research Councils' Pensions Schemes to the RCUK Shared Services Centre, which took place during the 2010-11 year.

As a result, a comprehensive review of all employees not paying pension scheme contributions was undertaken during 2011-12, with 44 cases being identified for further investigation. JSS worked with employers to resolve all of these instances on a case-by-case basis, and the impact on the 2010-11 accounts was a total value of outstanding pension contributions of £343,000 relating to 23 scheme members.

Improvements of the control framework were introduced in order to minimise the impact on the current and future financial years. However, following a review by the AASG a further 3 new cases were identified during the period June 2011 to March 2012. A full Root Cause Analysis has since been undertaken. The results were reported to the Research Councils' Pensions Schemes Management Board and actions and remedies have been agreed. These will be reviewed and tested by the AASG in 2012-13.

A recent process work through has identified a number of issues with the SSC processes and interface, consistent with previous internal and external audit findings. This status has been reflected in the current RCPS risk register and actions have been taken to put in place appropriate controls.

In general therefore, controls are in place which can provide a reasonable degree of assurance that operational, financial and reputational risks are managed appropriately.

*Professor Douglas Kell*  
Chief Executive and Accounting Officer of BBSRC

25 January 2013

# 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 Scheme for the year ended 31 March 2012 under the Science and Technology Act 1965. These comprise the Combined Statement of Comprehensive expenditure, the Combined Statement of Financial Position, the Combined Statement of Changes in Taxpayer's Equity, the Combined Statement of 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 and Technology Act 1965. I conduct 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 Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Research Councils' Pension Scheme; 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 to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, 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 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 2012, and of its 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.

*Amyas C E Morse*  
Comptroller and Auditor General

8 February 2013

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

## Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Notes	2011-12 £000	2011-12 £000	2010-11 £000
<b>Principal Arrangements – Research Councils' Pension Schemes</b>				
<b>Income</b>				
Contributions receivable	3		<b>81,733</b>	82,091
Transfers in: individuals	4		<b>1,411</b>	2,660
Transfers in: bulk	4		<b>3,054</b>	–
Other pension income	7		<b>35</b>	111
			<b>86,233</b>	84,862
<b>Expenditure</b>				
Pension cost	5	<b>74,000</b>		86,000
Past service cost	5	–		(353,000)
Enhancements		<b>1,739</b>		–
Transfers out	6	<b>4,659</b>		6,158
Interest on scheme liabilities	10	<b>169,000</b>		148,000
Administration costs	9	<b>845</b>		958
			<b>(250,243)</b>	111,884
<b>Net (Expenditure)/Income</b>			<b>(164,010)</b>	196,746
<b>Agency Arrangements</b>				
Early Retirement Lump Sum payments		–		1,936
Less Recoveries		<b>(2,531)</b>		(1,936)
			<b>2,531</b>	
<b>Combined Net (Expenditure)/Income for the year</b>			<b>(161,479)</b>	196,746
<b>Other Comprehensive Net Expenditure</b>				
Recognised gains and losses for the year				
<b>Actuarial (losses)/gains</b>	15.12		<b>(31,000)</b>	67,763
<b>Total Comprehensive Net (Expenditure)/ Income for the year ended 31 March 2012</b>			<b>(192,479)</b>	264,509

All activities are regarded as continuing.

The notes on pages 24 to 36 form an integral part of these accounts.

## Combined Statement of Financial Position as at 31 March 2012

	Notes	31 March 2012 £000	31 March 2011 £000
<b>Current assets</b>			
Receivables	12	5,673	2,567
Cash and cash equivalents	13	8,879	17,687
<b>Total current assets</b>		<b>14,552</b>	20,254
<b>Current liabilities</b>			
Payables (amounts falling due within one year)	14	(5,427)	(10,142)
<b>Net current assets, excluding pension liability</b>		<b>9,125</b>	10,112
Pension liability	15	(3,189,134)	(3,031,739)
<b>Net liabilities, including pension liabilities</b>		<b>(3,180,009)</b>	(3,021,627)
<b>Agency arrangements – Early Retirement Lump Sums</b>			
Receivables		–	–
<b>Combined schemes – Total net liabilities</b>		<b>(3,180,009)</b>	(3,021,627)
<b>Taxpayers' equity</b>			
General fund		(3,180,009)	(3,021,627)

Professor Douglas Kell  
Chief Executive BBSRC, Accounting Officer

25 January 2013

*The notes on pages 24 to 36 form an integral part of these accounts.*

## Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2012

	Notes	2011-12 £000	2011-12 £000	2010-11 £000
Balance at 1 April			<b>(3,021,627)</b>	(3,490,229)
Grant in Aid: drawn down	17	<b>34,100</b>		34,100
Interest payable to the BIS		<b>(3)</b>		(7)
Net Parliamentary funding			<b>34,097</b>	34,093
Combined net outgoings			<b>(161,479)</b>	196,746
Actuarial (losses)/Gains			<b>(31,000)</b>	67,763
Recalculation of closing provision	15.13		-	165,000
Bulk staff transfer in			-	5,000
Bulk staff transfer out			-	-
Balance at 31 March			<b>(3,180,009)</b>	<b>(3,021,627)</b>

*The notes on pages 24 to 36 form an integral part of these accounts.*

## Combined Statement of Cash Flows for the year ended 31 March 2012

	Notes	2011-12 £000	2010-11 £000
<b>Cash flows from operating activities</b>			
Combined net (expenditure)/income for the year		<b>(161,479)</b>	196,746
(Increase) in receivables – principal arrangements		<b>(3,106)</b>	(1,290)
Decrease in receivables – agency arrangements		–	325
(Decrease)/increase in payables		<b>(4,715)</b>	9,781
<b>Decrease in provision for non cash transactions</b>			
Current service cost	5	<b>74,000</b>	84,000
Past service cost	5	–	(353,000)
Settlements and curtailments	5	–	2,000
Interest cost	10	<b>169,000</b>	148,000
Transfers out		<b>1,000</b>	–
<b>Increase in pension provision for use of pension liabilities</b>			
Benefit payments	15.10	<b>(118,656)</b>	(108,781)
Payments to or on account of leavers	15.11	<b>(688)</b>	(727)
<b>Net cash outflow from operating activities</b>		<b><u>(44,644)</u></b>	<u>(22,946)</u>
<b>Cash flows from financing activities</b>			
Net Parliamentary financing		<b>34,097</b>	34,093
(Decrease)/increase in cash and cash equivalents		<b><u>(10,547)</u></b>	<u>11,147</u>
Cash and cash equivalents at the beginning of the period	13	<b>17,687</b>	6,540
Cash and cash equivalents at the end of the period	13	<b>8,879</b>	17,687
(Decrease)/increase in cash		<b><u>(8,808)</u></b>	<u>11,147</u>

*The notes on pages 24 to 36 form an integral part of these accounts.*

# Notes to the Schemes' Statement

## 1 Basis of preparation of the Schemes' statements

The Schemes' statements have been prepared in accordance with the relevant provisions of the 2011-12 Government International IFRS Financial Reporting Manual (FReM) [www.financial-reporting.gov.uk/](http://www.financial-reporting.gov.uk/) issued by HM Treasury, which reflect the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Retirement Benefit Plans. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

Where the FReM permits a choice in accounting policy, the accounting policy judged to be the most appropriate to the particular circumstances of RCPS for the purpose of giving a true and fair view have been selected. The particular policies adopted by 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 15 of accounts).

### *c Adoption of new or amended standards effective in 2011-12*

The following revised standards and interpretations have been applied by the Schemes since 1 April 2011:

<b>International Financial Reporting Standards (IFRS/IAS)</b>		<b>Effective date</b>
IAS 24	Related Party Disclosures	1 January 2011
<b>Major FReM Changes</b>		<b>Effective date</b>
Chapter 5	Governance Statement	2011-12
Chapter 6	Grants and Grant-in-Aid	2011-12

## 2 Accounting Policies

### *a Contributions receivable*

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

### *b 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 Government Actuaries Department (GAD). Payments by the schemes are treated as a reduction in the pension liability.

*c Transfers out*

Transfers out are included when notified by the person transferring and by their new pension scheme.

*d Transfers in*

Transfers in are included when notified by the person transferring and agreed by their previous pension scheme administrators.

*e 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.

*f 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.

*g 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.

*h Receivables and payables*

Receivables and payables are the result of timing differences between the accrued amounts in the Statement of Comprehensive Net Expenditure and cash being received or paid.

*i Pension liability*

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

Accrued payments by the schemes are shown as reductions in the pension liability. GAD estimate these payments before the year end. Any difference is included as other actuarial gains and losses.

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

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

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

*j General Fund*

Grant-in-Aid is provided from Department for Business, Innovation and Skills (BIS) Request for Resources 2 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.

Interest received on the schemes' Lloyds bank accounts is included in Other Pension Income. The same amount is paid over to BIS at the end of March each year under the Consolidated Fund Extra Receipts (CFER) arrangements.

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 Derivatives and financial instruments*

The Pension Scheme is not exposed to the same level of risk as many business entities and the financial assets and liabilities at the reporting date are included at amortised cost. Where the time value of money is material, the amount of the asset or liability will be the present value of the expenditures/income expected to be required to settle the obligation. The discount rate used will be the real discount rate set by HM Treasury, currently at 3.5 per cent.

**Trade receivables**

Trade receivables are not interest bearing and are carried at original invoice amount less allowance for impairment. Provision for impairment is established when there is objective evidence that the Pension Scheme will not be able to collect all amounts due according to the original terms of the receivable. The amount of provision is the difference between the carrying amount and recoverable amount and is recognised in the statement of comprehensive income.

**Trade and other payables**

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

*l Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Pension Scheme's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

*m Pension benefits payable*

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

*n Additional Voluntary Contributions*

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

**3 Contributions receivable**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Employers' contributions	<b>70,114</b>	72,426
Employers' contributions: purchase of added years and added pension	–	–
Employees' contributions: normal	<b>9,880</b>	8,137
Employees' contributions: purchase of added years and added pension	<b>1,739</b>	1,528
	<b>81,733</b>	82,091

£69 million employers and £14 million employees contributions are expected in 2012-13. Employee contributions will be higher due to the increase in employee contribution rates introduced on 1 April 2012.

**4 Pension transfers in**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Individual Transfers in	<b>1,411</b>	2,660
Bulk Transfers in	<b>3,054</b>	–
	<b>4,465</b>	2,660

**5 Pension cost**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Current service cost	<b>74,000</b>	84,000
Past service cost	–	(353,000)
Settlements and curtailments		2,000
	<b>74,000</b>	(267,000)

15.08

**6 Transfers out**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Individual transfers out to other schemes	<b>4,659</b>	6,158
	<b>4,659</b>	6,158

**7 Other pension income**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Amounts receivable in respect of:		
Secondments		5
Other (outgoings)/income	<b>32</b>	99
Bank interest receivable	<b>3</b>	7
	<b>35</b>	111

**8 Additional Voluntary Contributions**

There are no AVC payments made through the Pension Scheme. Any AVC's 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 39 of the Annual Report.

**9 Administration costs**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Total running costs	<b>472</b>	562
Less offsetting receipts	-	-
Net running costs	<b>472</b>	562
Pensioner payroll agency fees	<b>159</b>	195
Auditors' remuneration	<b>43</b>	42
Actuarial charges	<b>154</b>	156
Bank Charges	<b>17</b>	3
	<b>845</b>	958

**10 Interest on Scheme liabilities**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Interest charge for the year	<b>169,000</b>	148,000

**11 Compensation benefits payable**

There is no liability to the scheme as all compensation payments are funded by the Councils.

**12 Receivables – contributions due in respect of pensions**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
<i>12a Analysis by receipt type</i>		
Prepaid Lump Sums	<b>1,557</b>	938
Pension contributions due from employers	<b>2,916</b>	225
Employees' normal contributions	–	32
Other receivables	<b>1,200</b>	1,372
	<b><u>5,673</u></b>	<u>2,567</u>

*12b Intra-Government Balances*

	<b>Amounts falling due within one year</b>	
	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Other central government bodies	<b>3,409</b>	1,488
Other organisations	<b>2,264</b>	1,079
	<b><u>5,673</u></b>	<u>2,567</u>

There are no Intra Government Balances falling due after more than one year for 2011-12 or 2010-11.

**13 Cash and cash equivalents**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Balance at 1 April	<b>17,687</b>	6,540
Net change in cash balances	<b>(8,808)</b>	11,147
Balance at 31 March	<b>8,879</b>	17,687
The following balances at 31 March were held at		
Government Banking Service	<b>8,597</b>	12,489
Commercial Bank	<b>282</b>	5,198
Balance at 31 March	<b><u>8,879</u></b>	<u>17,687</u>

**14 Payables – in respect of pensions**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
<i>14a Analysis by expenditure type</i>		
Early Retirement Lumps Sums recovered from employers	<b>558</b>	402
Payables to other Research Councils	<b>2,833</b>	7,833
Other payables (including administration expenses)	<b>1,993</b>	1,865
Audit fee payable	<b>43</b>	42
	<b>5,427</b>	10,142

The Payables to other Research Councils is monies due to BBSRC. In 2010-11 £7,833,000 was paid to RCPS to cover the costs of pensions when the payroll moved to the new shared services system. In 2011-12, £5 million has been repaid against this balance.

*14b Intra-Government Balances*

	<b>Amounts falling due within one year</b>	
	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Other central government bodies	<b>3,524</b>	10,101
Other organisations	<b>1,903</b>	41
<b>Balance at 31 March</b>	<b>5,427</b>	10,142

There are no Intra Government Balances falling due after more than one year for 2011-12 or 2010-11.

**15 Provisions for pension liabilities**

15.1 The Research Councils' Pension Schemes are unfunded defined benefit schemes. The Report of the Actuary on pages 10 to 13 sets out the scope, methodology and results of the work the actuary has carried out. An actuarial valuation was carried out at 31 March 2012 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	<b>At 31 March 2012</b>	At 31 March 2011	At 31 March 2010	At 31 March 2009
	<b>%</b>	%	%	%
Inflation	<b>2</b>	2.65	2.75	2.75
Earnings increase	<b>4.25</b>	4.90	4.29	4.30
Rate used to discount the Schemes' liabilities	<b>2.80</b>	2.90	1.80	3.20
Increase in pensions CPI	<b>2.90</b>	2.80	–	–
Increase for pensions in payment and deferred pensions in line with increases in Retail Price Index	<b>N/A</b>	N/A	2.75	2.75

The life expectancy of normal health current pensioners at age 60 for men is 28.1 (2010-11: 28.3) and women is 28.7 (2010-11:30.3). The life expectancy of normal health future pensioners at age 60 for men is 29.9 (2010-11:29.7) and women is 30.4 (31.7)

The life expectancy of normal health current pensioners at age 65 for men is 23.3 (2010-11: 23.4) and women is 23.7 (2010-11:25.3). The life expectancy of normal health future pensioners at age 65 for men is 25.5 (2010-11:25.3) and women is 26.0 (27.2)

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 scheme managers acknowledge that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

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

15.6 In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The scheme 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 scheme 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 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 15.8. Note 15.12 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.

## Analysis of the provision for pension liability

	2011-12	2010-11	2009-10	2008-09	2007-08
	£m	£m	£m	£m	£m
<b>RCPS</b>					
Active members	1,094	1,100	1,359	935	1,076
Deferred members	540	506	607	450	809
Current pensioners	1,129	999	1,043	828	496
<b>Total</b>	<b>2,763</b>	<b>2,605</b>	<b>3,009</b>	<b>2,213</b>	<b>2,381</b>
	£m	£m	£m	£m	£m
<b>Closed schemes</b>					
Deferred members	56	60	80	67	424
Current pensioners	370	366	409	368	82
<b>Total</b>	<b>426</b>	<b>426</b>	<b>489</b>	<b>435</b>	<b>506</b>
<b>Total provision for pension</b>	<b>3,189</b>	<b>3,031</b>	<b>3,498</b>	<b>2,648</b>	<b>2,887</b>

## 15.8 Analysis of movements in the scheme liability

	Notes	2011-12	2011-12	2010-11
		£000	£000	£000
Scheme liability at 1 April			3,031,739	3,498,010
Current service cost	5	74,000		86,000
Past service cost				(353,000)
Enhancements		1,739		
Interest on scheme liabilities		169,000		148,000
Benefits payable	15.10	(118,656)		(108,781)
Payments to or on account of leavers	15.11	(688)		(727)
Analysis of actuarial losses/(gains) on the scheme liabilities	15.12	31,000		(67,763)
			156,395	(296,271)
			3,188,134	3,201,739
Recalculation of closing provision	15.13			(165,000)
Net bulk staff transfer in			1,000	(5,000)
Net bulk staff transfer out			-	-
<b>Scheme liability at 31 March</b>			<b>3,189,134</b>	<b>3,031,739</b>

15.9 During the year ended 31 March 2012, employers and employees contributions represented an average of 26.5 per cent of pensionable salaries. The pension rate for 2012-13 and future years until further notice will be 26.5 per cent.

*15.10 Analysis of benefits paid*

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Pensions to retired employees and dependents (net of recoveries or overpayments)	<b>(100,033)</b>	(93,265)
Commutations and lump sum benefits on retirement or death	<b>(18,623)</b>	(15,516)
As per statement of cash flows	<b><u>(118,656)</u></b>	<u>(108,781)</u>

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

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Refunds to members leaving service	<b>(688)</b>	(727)
As per statement of cash flows	<b><u>(688)</u></b>	<u>(727)</u>

*15.12 Analysis of actuarial gains/losses on the scheme liabilities*

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Experience gains arising on the scheme liabilities	<b>(1,000)</b>	(65,000)
Change in assumptions underlying the present value of scheme liabilities	<b>32,000</b>	(2,763)
Per statement of recognised gains and losses	<b><u>31,000</u></b>	<u>(67,763)</u>

*15.13 Recalculation of closing provision*

The overnight decrease in scheme liabilities at 31 March 2012 was £68 million. This was as a result of a change to the financial assumptions where the rate used to discount the provision decreased from 2.9 per cent to 2.8 per cent. This year there were no changes to demographic assumptions.

*15.14 History of Experience gains/(losses) – all recognised in the Statement of Total Recognised Gains and Losses*

	<b>Experience gains/ (losses)</b>	<b>Per centage of the Schemes' Liabilities at 31 March</b>
		%
See note 15.12		
<b>2011-12</b>	<b>1,000</b>	<b>0.0</b>
2010-11	65,000	2.1
2009-10	34,000	1.0
2008-09	-47,000	-1.8
2006-07	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 scheme and are reimbursed by the employer. The balances are for ACP's payable in the next 10 years as employees can leave employment at 55 instead of 65 for men and 60 for women.

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Balance at 1 April	<b>9,792</b>	8,625
Amount paid in year to pension scheme	<b>(1,112)</b>	(752)
Addition in year	<b>145</b>	1,919
Balance at 31 March	<b>8,825</b>	9,792
To be used in the next 12 months	<b>1,431</b>	1,100
To be used after more than 12 months	<b>7,394</b>	8,692

**17 Grant-in-aid**

Grant-in-Aid is provided from the Department for Business, Innovation and Skills Request for Resources 2 to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the schemes' finances. The allocation for 2011-12 was £34,100,000 (2010-11: £34,100,000) all of which was drawn down by the Pension Schemes.

**18 Related Party Transactions**

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

The BIS is regarded as a related party. During the period 1 April 2011 to 31 March 2012 the Research Councils' Pension Schemes had various material transactions with BIS and with other entities for which BIS is regarded as the parent Department. (These were the Biotechnology and Biological Sciences Research Council, the Engineering and Physical Sciences Research Council, the Economic and Social Research Council, the Natural Environment Research Council, the Science and Technology Facilities Council, and the Technology Strategy Board.)

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 scheme.

*Related Party Transactions*

	Pension Contributions		Receivables		Payables	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
	£000	£000	£000	£000	£000	£000
<b>Transactions with Research Councils</b>						
BBSRC	2,193	2,387	331	207	3,484	8,379
EPSRC	1,959	2,300	-	27	-	-
ESRC	989	1,087	-	16	-	-
NERC	19,259	23,156	2,424	403	40	-
STFC	14,779	15,752	19	433	-	-
TSB	1,178	1,088	216	-	-	-
AHRC	553	510	-	5	-	-
<b>Transactions with other employers</b>						
SERAD	8,044	8,152	418	-	-	-
SSC	3,718	3,098	-	2	-	-
Other	17,442	14,896	-	137	-	-
<b>Other related parties</b>	-	-	2,265	1,337	1,903	1,764
<b>Total</b>	<b>70,114</b>	<b>72,426</b>	<b>5,673</b>	<b>2,567</b>	<b>5,427</b>	<b>10,143</b>

**19 Losses and Special Payments**

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

The Research Councils Pension Schemes became aware of a problem with the late notification of GMP data in 2008-09. The JSS has commenced working with HMRC to assess the number of cases, and the value of any overpayments, which are deemed to be irrecoverable. At the date of signing these accounts the number and value of any overpayments can only be estimated by JSS and is estimated as non-material. It is expected to report the final position in respect of any overpayments in the 2012-13 accounts. There are no other contingent liabilities at 31 March 2012 or 31 March 2011.

**20 Events after the reporting Period**

The last formal actuarial funding valuation undertaken for the RCPS as at 31 March 2006 was completed in 2008-09. Consequently, a formal actuarial funding valuation as at 31 March 2010 was initiated but was not expected to be completed at 31 March 2012. Subsequently however, formal actuarial funding valuations for unfunded public service pension schemes were suspended by HM Treasury while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. Since 31 March 2012, HM Treasury have reinstated the requirement for a full funding actuarial valuation and data as at 31 March 2012 will be provided to GAD. HM Treasury will publish directions outlining how the unfunded public service pension scheme actuarial valuations as at 31 March 2012 should be conducted. The 2012 RCPS actuarial funding valuation will be carried out in accordance with these directions.

Since the 31 March 2012, the Government has announced that, following Trade Union ballots on the Proposed Final Agreement, the new 2015 Civil Service pension scheme outlined within the Agreement will now be implemented. As the RCPS is a 'by - analogy' scheme to the Civil Service pension scheme the new scheme arrangement will be automatically applied to the RCPS.

There were no other reportable events after the Reporting Period between the year end and the 25 of January 2013, the date when the Accounting Officer approved the accounts. The financial statements do not reflect events after this date. Reference has been made to events that are likely to occur in 2012-13 in paragraphs 34 to 38 of the Annual Report.

## **21 Financial Instruments**

As the cash requirements of the Scheme 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 Scheme's expected purchase and usage requirements and the Scheme is therefore exposed to little credit, liquidity or market risk.

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