

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2005-2006

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Report of the Manager

Statutory Background

- 1 The schemes' statements have been prepared in accordance with the relevant provisions of the 2005/06 Government Financial Reporting Manual (FRM) www.financial-reporting.gov.uk/ issued by the Treasury.

Description of Pension Schemes

- 2 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 contributions scheme. The employers pay the RCPS 0.8% of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider.
- 3 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the Principal Civil Service Pension Scheme (PCSPS). From 1 October 2002, the Premium Scheme is the only final emoluments scheme available to new staff. The Premium Scheme has a member contribution rate of 3.5% 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% as there are fewer benefits than the Premium Scheme. Some members are in an amalgam of the two schemes known as Classic Plus.
- 4 The final emolument Schemes are operated on a pay-as-you-go basis and principally funded by employers' contributions from member Research Councils. The employers' contribution rate is currently 21.3%. Any annual shortfall forecast between cash outgoings and cash contribution received is met by grant-in-aid from Request for Resources 2 (RfR2) received through the Research Councils' sponsoring body, the Department of Trade and Industry.

Eligible Staff

- 5 All permanent employees of the Research Councils are eligible to join the Premium Scheme or pay into a Partnership Pension Account.

Information for Members

- 6 The JSS website <http://jsspensions.org.uk> gives more information.

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Accounting Officer

The Chief Executive of the Biotechnology and Biological Sciences Research Council (BBSRC) is Accounting Officer for BBSRC and the Research Councils' Pension Schemes.

Administrators

The Schemes are administered by the Research Councils' Joint Superannuation Service - a unit within BBSRC.

Actuaries

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

Bankers

- 8 Banking services for the Pension Schemes are provided by Paymaster, HM Paymaster General's Office and Barclays Bank plc.

Auditors

- 9 The accounts of the Research Councils' Pension Schemes are audited by the Comptroller and Auditor General in accordance with paragraph 3(3) of Schedule 1 to the Science and Technology Act 1965. The audit fee payable is £27,000 (2004-05: £26,000). In so far as the Accounting Officer is aware, there is no relevant audit information of which the Research Councils' Pension Schemes' auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the Research Councils' Pension Schemes' auditors are aware of that information.

Employers

- Biotechnology and Biological Sciences Research Council and its sponsored institutes
- Engineering and Physical Sciences Research Council
- Economic and Social Research Council
- Natural Environment Research Council
- Particle Physics and Astronomy Research Council.
- Council for the Central Laboratory of the Research Councils

Changes

- 10 The employers' contribution rose from 10.1% to 21.3% on 1 April 2005 following the valuation by GAD as at 31 March 2002. The Civil Partnership Act 2004 came into force on 5 December 2005. The major change for the schemes is that a registered civil partner is paid a pension equivalent to a spouse's pension for service since 6 April 1988. The Gender Recognition Act came into force on 4 April 2005. National Insurance Modifications now relate to the gender of the person at the time of the gender change. A number of changes will come in on 6 April 2006 ("A" Day) as a result of new tax rules. An example is that there will be restrictions on adjustments to lump sum that can be paid, for instance, as a result of delayed pay awards.

Additional Voluntary Contributions

- 11 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 Scheme. Employee contributions are paid directly by the participating Research Council and accordingly contributions and AVC investments are not included in these accounts.

Events Since the End of the Financial Year

- 12 There have been no events since 31 March 2006 that affect these accounts.

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Pension Scheme Membership

13

	31 March	31 March
	2006	2005
	No.	No.
New Schemes		
Current Members in Service	7,942	8,188
Pensions in Payment	2,648	2,420
Early Retirements	466	430
Preserved Pensions	4,399	4,169
Total	<u>15,455</u>	<u>15,207</u>
Old Schemes		
Pensions in Payment	5,506	5,553
Annual Compensation Payments	24	53
Preserved Pensions	2,563	2,672
Total	<u>8,093</u>	<u>8,278</u>
GRAND TOTAL	<u>23,548</u>	<u>23,485</u>
	2005-06	2004-05
	No.	No.
Members in Service at 1 April	8,188	8,049
Adjustment resulting from changes notified in current year	19	65
Adjusted figure for 1 April	8,207	8,114
New Members in year	628	725
Leavers and Retirements in year	(893)	(651)
Members in Service at 31 March	<u>7,942</u>	<u>8,188</u>
	31 March	31 March
	2006	2005
	No.	No.
Classic Scheme	4,932	5,471
Classic Plus Scheme	400	441
Premium Scheme	2,610	2,276
Members in Service at 31 March	<u>7,942</u>	<u>8,188</u>
Holder of Partnership Pension Accounts	94	66

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Enquiries

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

Professor Julia Goodfellow CBE, Chief Executive and Accounting Officer of BBSRC

Dated

**ACTUARIAL STATEMENT FOR THE RESEARCH COUNCIL PENSION
SCHEME FOR 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 Research Council Pension Schemes (RCPS), for benefits accrued in respect of employment (or former employment) prior to 31 March 2006, has been assessed to be £1,945 million, using the methodology and assumptions set out in Sections C and D below. The results are broken down, between the various categories of members and the active and closed schemes, as follows:

Active schemes	<u>£ million</u>
Active members	845
Current pensioners	390
Deferred members	<u>270</u>
Total	1,505
Closed schemes	<u>£ million</u>
Current pensioners	350
Deferred members	<u>90</u>
Total	440

The overnight change in liabilities as at 1 April 2005 was some £255 million, arising from the impact of the Treasury's change in real investment return in excess of inflation for valuing pension scheme liabilities to 2.8% pa from 3.5% pa.

B. Accruing Costs

The cost of benefits accruing for each year is met partly by a contribution of either 1.5% from members who remained in the Classic scheme, or a contribution of 3.5% from those who opted for the Premium/Classic Plus scheme, with the employer meeting the balance of the cost. The cost of benefits accruing in the year 2005/2006 has been assessed as follows:

	% of pensionable pay
Employer's share of standard cost	22.7%

The standard cost is the ongoing (long term) cost of the scheme calculated on the actuarial assumptions before adjustment for any surplus/deficit in the scheme.

The Employer's share of the standard cost above is calculated on the accounting basis at the beginning of the accounting year (i.e. 1 April 2005 following the change in the Treasury required real investment return assumption to 2.8% pa from 3.5% pa). The employer's recommended contribution rate of 21.3% was set from 1 April 2005 following the completion of the valuation as at 31 March 2002. The employer recommended contribution rate reflects the implementation of the Treasury's SCAPE (Superannuation Contributions Adjusted for Past Experience) methodology for actuarial valuations of unfunded public sector pension schemes, the updating of the actuarial assumptions and the actual experience of the scheme as at 31 March 2002.

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From 1 October 2002, a new pension benefit structure was introduced. As a result, the pension benefit structure of some members of the RCPS has changed. All new members since that date have been automatically entered into the Premium scheme with the option of joining the defined contribution Partnership arrangement. Staff then in post were offered the option between remaining on the existing structure or moving to the new scheme.

In relation to the pensionable payroll for the financial year 2005/2006 and using the rates of contribution described the employer's charges in cash terms are £51.0 million.

C. Methodology

The value of the liabilities has been obtained by projecting the liabilities as at 31 March 2004, obtained in the mini actuarial valuation, to the balance sheet date and followed by an adjustment to reflect the accounting basis as at 31 March 2006. The standard contribution rate for accruing costs has also been determined with reference to the rate calculated in the 31 March 2004 valuation.

D. Assumptions

The assessments have been prepared in accordance with the Finance Reporting Manual requirements as set out by HM Treasury. These include a discount rate net of price increases of 2.8% p.a. (pension benefits under the scheme are increased in line with the Retail Price Index).

In addition I have assumed that investment return in excess of earnings increases is 1.3% p.a. The main financial assumptions expressed in nominal terms are:

- A rate of earnings increases will be 4.0% p.a. excluding promotional and performance increments
- A long term nominal discount rate of 5.4% p.a.
- A rate of long-term inflation and pensions increases of 2.5% p.a.

The demographic assumptions adopted for the assessments are based on those used in the interim actuarial valuation of the scheme as at 31 March 2004, except for the future pensioners' mortality which has been updated to reflect continuing improvement in life expectancy.

E. Notes

(1) The data for this assessment was gathered from the JSS pension administrators and relates to 31 December 2005. The data has been compared with information obtained for the RCPS mini valuation as at 31 March 2004, in order to confirm its reliability.

Andrew Johnston
Fellow of the Institute of Actuaries
4 April 2006
Government Actuary's Department, London

Statement of Accounting Officer's Responsibilities

Under the Science and Technology Act 1965, the Secretary of State for Trade and Industry, 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 are prepared on an accruals basis and must give a true and fair view of the financial transactions of the schemes during the year and the disposition, at the end of the financial year, of the net liabilities.

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 of State for Trade and Industry 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 of Trade and Industry 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 the Treasury and published in "Government Accounting".

Statement by Chief Executive on Internal Control

Scope of Responsibility

As BBSRC's Accounting Officer designated as such by the DTI Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Research Councils' Pension Schemes' policies, aims and objectives whilst safeguarding the public funds and Research Councils' Pension Schemes' assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Combined Management Statement and Financial Memorandum agreed with OST.

The Purpose of the 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 2005 and up to the date of approval of the annual accounts, and accords with Treasury guidance

Capacity to Handle Risk

The BBSRC gives leadership to the process by a number of means, including:

- 1) setting out a risk management policy and strategy;
- 2) signing up to risk management assurance statements at the most senior levels;
- 3) updating and reviewing the register of key risks at least annually.

The interests of key stakeholders and operational partners are also considered.

The Risk and Control Framework

Risk management and internal control are considered on a regular basis during the year by the Research Councils' Pensions Schemes Management Board which is comprised of representatives of all research councils participating in the Schemes. A risk inventory for the Research Councils' Pension Scheme has been prepared and considered by the Management Board during the year. Appropriate controls and actions have been taken in respect of these risks.

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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 review the Accounts of the Research Councils' Pensions Schemes.

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. 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.

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

Professor Julia Goodfellow CBE, Chief Executive and Accounting Officer of BBSRC

Dated

The Certificate And Report Of The Comptroller And Auditor General To The Houses Of Parliament

I certify that I have audited the financial statements of the Research Councils' Pension Schemes for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Combined Revenue Account and Statement of Recognised Gains and Losses, the Combined Balance Sheet, the 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 Report of the Manager 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 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 also report to you if, in my opinion, the Report of the Manager is not consistent with the financial statements, the Report of the Manager is not consistent with the Actuary's Report, if the Biotechnology and Biological Sciences Research Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 9 and 10 reflects the Biotechnology and Biological Sciences Research Council'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 Biotechnology and Biological Sciences Research Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Report of the Manager and consider whether it is consistent with the audited financial statements. 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 Research Councils' Pension Schemes' 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 of the Research Councils' Pension Schemes for the year ending 31 March 2006, the net outgoings, recognised gains and losses and the amount and disposition at that date of its assets and liabilities, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;
- 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

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

Date:

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Combined Revenue Account for the year ended 31/03/2006

	Notes	<u>2005-06</u>	<u>2005-06</u>	2004-05
		£'000	£'000	£'000
Principal Arrangements - Research Councils' Pension Schemes				
Income				
Contributions receivable	3		53,915	28,327
Transfers in: individuals			3,831	3,615
Other pension income			<u>133</u>	<u>93</u>
			<u>57,879</u>	<u>32,035</u>
Outgoings				
Pension cost	4	55,000		46,000
Transfers out	5	4,797		14,603
Interest on scheme liabilities		101,000		87,000
Administration Costs	6	<u>677</u>		<u>682</u>
			<u>(161,474)</u>	<u>(148,285)</u>
Net outgoings for the year			<u>(103,595)</u>	<u>(116,250)</u>
Agency Arrangements				
Early Retirement Lump Sum payments		3,952		1,149
Less Recoveries		<u>(3,952)</u>		<u>(1,149)</u>
Combined net outgoings for the year			<u>(103,595)</u>	<u>(116,250)</u>

All activities are regarded as continuing.
The notes on pages 15 to 23 form part of these accounts.

Statement of Recognised Gains and Losses for the year ended 31/03/2006

	Notes	<u>2005-06</u>	<u>2005-06</u>	2004-05
		£'000	£'000	£'000
Deficit for the year			<u>(103,595)</u>	<u>(116,250)</u>
Recalculation of opening provision	9.06	(255,000)		(37,000)
Actuarial gains/(losses)	9.09	<u>21,729</u>		<u>(122,296)</u>
			<u>(233,271)</u>	<u>(159,296)</u>
Total Recognised Losses for the year			<u>(336,866)</u>	<u>(275,546)</u>

The notes on pages 15 to 23 form part of these accounts.

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Combined Balance Sheet as at 31/03/2006

	Notes	31 March 2006	31 March 2005
		<u>£'000</u>	<u>£'000</u>
Current Assets and Liabilities			
Debtors	7	1,135	837
Cash at bank and in hand		1,091	1,042
		<u>2,226</u>	<u>1,879</u>
Less: Creditors (amounts falling due within one year)	8	(92)	(1,917)
Net Current assets/(liabilities), excluding pension liability		2,134	(38)
Pension liability	9	(1,945,000)	(1,620,000)
Net liabilities, including pension liabilities		(1,942,866)	(1,620,038)
Agency arrangements - Early Retirement Lump Sums			
Debtors	10	1,026	17
Combined schemes - total net liabilities		<u>(1,941,840)</u>	<u>(1,620,021)</u>
Taxpayers' equity			
General fund	11	<u>(1,941,840)</u>	<u>(1,620,021)</u>

Professor Julia Goodfellow CBE, Chief Executive BBSRC, Accounting Officer
Dated 3 July 2006

The notes on pages 15 to 23 form part of these accounts.

Cash Flow Statement for the year ended 31/03/2006

	Notes	2005-06	2004-05
		<u>£'000</u>	<u>£'000</u>
Net cash outflow from operating activities	12	(14,998)	(42,321)
Central funding - grant-in-aid	13	15,100	42,332
Interest payable to the Office of Science & Innovation		(53)	(47)
		<u>49</u>	<u>(36)</u>
Increase/(decrease) in cash		<u>49</u>	<u>(36)</u>

The notes on pages 15 to 23 form part of these accounts.

Notes to the Schemes' Statement

1 Basis of preparation of the schemes' statement

The schemes' statements have been prepared in accordance with the relevant provisions of the 2005/06 Government Financial Reporting Manual (FReM) www.financial-reporting.gov.uk/ issued by the Treasury which reflect the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits., The format has changed to comply with the FReM and comparative amounts are restated where necessary to conform to the revised presentation. 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.

a) Research Councils' Pension Schemes - principal arrangements

The schemes' statement summarises the transactions of the RCPS which acts as a principal. The Balance Sheet shows the deficit on the scheme; the Revenue Account shows, inter alia, the movements in the liability analysed between the pension cost 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.

a) 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.

2 Accounting Policies

a) Income

Income includes contributions received and receivable from payrolls run during the year by contributing employers. Transfers in are finalised and included on the date cash is received.

b) Pension Cost and Interest on Scheme Liabilities

The pension 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 their new pension scheme.

d) **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' Revenue Account. Any amounts owing to BBSRC are included in creditors.

e) **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 debtors.

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.

f) **Debtors and Creditors**

Debtors and Creditors are the result of timing differences between the accrued amounts in the Revenue Account and cash being received or paid.

g) **Pension Liability**

The movements and balance on the pension liability are supplied by the Government Actuaries Department.

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.

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

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

h) General Fund

Grant-in-Aid is provided from Department of Trade and Industry 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 General Fund in accordance with the FReM.

Interest received on the Schemes' Barclays bank account is included in Other Pension Income. The same amount is paid over to the Office of Science and Innovation at the end of March each year under the Consolidated Fund Extra Receipts (CFER) arrangements.

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2005-06

3. Pension contributions receivable	2005-06	2004-05
	£'000	£'000
Employers' contributions	47,095	21,955
Employees' contributions: normal	5,127	4,822
Employees' contributions: purchase of added years	1,693	1,550
	53,915	28,327

Following a review by the Government Actuary's Department, employers' contributions were paid by each participating Council at the rate of 21.3% (2004-05: 10.1%).

4. Pension Cost	2005-06	2004-05
	£'000	£'000
Current service cost	55,000	45,000
Settlements and curtailments	-	1,000
	55,000	46,000

5. Transfers out	2005-06	2004-05
	£'000	£'000
Group transfers out to other schemes	-	11,192
Individual transfers out to other schemes	4,797	3,411
	4,797	14,603

6. Administration expenses	2005-06	2004-05
	£'000	£'000
Total running costs	530	490
Less offsetting receipts	(24)	(21)
Net running costs	506	469
Pensioner payroll agency fees	118	116
Auditors' remuneration	27	26
Actuarial and bank charges	26	71
	677	682

7. Debtors - contributions due in respect of pensions	2005-06	2004-05
	£'000	£'000
7(a) Analysis by type		
Pension contributions due from employers	1,041	584
Employees' normal contributions	67	179
Transfers in	-	69
Other debtors	27	5
	1,135	837
7(b) Intra-Government Balances		
Research Councils	671	243
Other organisations	464	594
	1,135	837

£19,000 (2004-05: £167,500) of debtors were outstanding at the end of April.

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8. Creditors - in respect of pensions

	2005-06	2004-05
	£'000	£'000
8(a) Analysis by type		
Pensions	-	1,335
Overpaid contributions: employers	-	-
Overpaid contributions: employees	42	-
Administration expenses	23	556
Audit fee	27	26
	92	1,917

Overpaid contributions relate to income not due until 1 April 2006. Administration expenses are owed to the Biotechnology and Biological Sciences Research Council. At 31 March 2004, £1,335,000 was owing to the pensioner payroll agency (the Natural Environment Research Council).

	2005-06	2004-05
	£'000	£'000
8(b) Intra-Government Balances		
Research Councils	23	1,891
Other organisations	69	26
	92	1,917

9. Provisions for pension liabilities

9.01 The Research Councils' Pension Schemes are unfunded defined benefit schemes. An actuarial valuation was carried out at 31 March 2006 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2006	At 31 March 2005	At 31 March 2004
Price inflation	2.50%	2.50%	4.80%
Earnings increase	4.00%	4.00%	6.40%
Rate used to discount the Schemes' liabilities	2.80%	3.50%	3.50%
Increase for pensions in payment and deferred pensions in line with increases in Retail Price Index	2.50%	2.50%	2.70%

9.02 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.

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9.03 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.

9.04 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 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 9.05. Note 9.09 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.

9.05 Analysis of movements in the scheme liability

	Notes	<u>2005-06</u>	<u>2005-06</u>	2004-05
		£'000	£'000	£'000
Scheme liability at 1 April			1,620,000	1,388,000
Recalculation of opening provision	9.06		255,000	37,000
Restated balances at 1 April			1,875,000	<u>1,425,000</u>
Current service cost	4	55,000		45,000
Settlements and curtailments	4	-		1,000
Past service costs		-		-
Interest on scheme liabilities		101,000		87,000
Enhancements		-		-
Benefit payments	9.07	(63,747)		(59,878)
Payments to or on account of leavers	9.08	(524)		(418)
Analysis of actuarial (gains)/losses on the scheme liabilities	9.09	(21,729)		122,296
			70,000	<u>195,000</u>
Scheme liability at 31 March			1,945,000	<u>1,620,000</u>

9.06 Recalculation of opening provision

The real investment return in excess of inflation for valuing pension liabilities changed from 3.5% to 2.8% pa as at 1 April 2005. The overnight change in liabilities is £255M.

Following the preparation of the 2003-04 Accounts, GAD advised a £37M increase in the provision as at 31 March 2004 caused by a liability adjustment due to data issues as at 31 March 2004.

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9.07 Analysis of benefits paid	<u>2005-06</u>	2004-05
	<u>£'000</u>	£'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	(55,126)	(51,733)
Commutations and lump sum benefits on retirement or death	(8,621)	(8,145)
Other payments	-	-
As per cash flow note 12	<u>(63,747)</u>	<u>(59,878)</u>

9.08 Analysis of payments to or on account of leavers	<u>2005-06</u>	2004-05
	<u>£'000</u>	£'000
Refunds to members leaving service	(524)	(418)
As per cash flow note 12	<u>(524)</u>	<u>(418)</u>

9.09 Analysis of actuarial (gains)/losses on the scheme liabilities	<u>2005-06</u>	2004-05
	<u>£'000</u>	£'000
Experience (gains)/losses arising on the scheme liabilities	(34,000)	108,000
Changes in assumptions underlying the present value of the scheme liabilities	12,000	13,000
Other (see note 2g)	271	1,296
	<u>(21,729)</u>	<u>122,296</u>

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

See note 9.09	Experience gains / (losses)	Percentage of the Schemes' Liabilities at 31 March
2005-06	34,000	1.7%
2004-05	(108,000)	-6.7%
2003-04	(102,000)	-7.3%
2002-03	(35,000)	-2.9%

10. Debtors - Agency arrangements	<u>2005-06</u>	2004-05
	<u>£'000</u>	£'000
10(a) Analysis by type		
ERLS Recoverable	<u>1,026</u>	<u>17</u>
10(b) Intra-Government Balances		
Research Councils	<u>1,026</u>	<u>17</u>

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11. General Fund	Notes	<u>2005-06</u>	2004-05
		<u>£'000</u>	£'000
Balance at 1 April		(1,620,021)	(1,386,760)
Recalculation of opening provision	9.06	<u>(255,000)</u>	<u>(37,000)</u>
Adjusted opening balance		(1,875,021)	(1,423,760)
Net Parliamentary funding: drawn down	13	15,100	42,332
Combined net outgoings		(103,595)	(116,250)
Interest payable to the Office of Science & Innovation		(53)	(47)
Actuarial gains/(losses)	9.09	<u>21,729</u>	<u>(122,296)</u>
Balance at 31 March		<u>(1,941,840)</u>	<u>(1,620,021)</u>

12. Notes to the Cash Flow Statement	Notes	<u>2005-06</u>	2004-05
		<u>£'000</u>	£'000
Net outgoings for the year		(103,595)	(116,250)
Increases in debtors - principal arrangements		(298)	(787)
(Increase)/decrease in debtors - agency arrangements		(1,009)	410
(Decrease)/increase in creditors		(1,825)	1,602
Increase in provision			
Current service cost	4	55,000	45,000
Settlements and curtailments	4	-	1,000
Interest cost		101,000	87,000
Use of provisions			
Benefit payments	9.07	(63,747)	(59,878)
Payments to or on account of leavers	9.08	<u>(524)</u>	<u>(418)</u>
Net cash outflow from operating activities		<u>(14,998)</u>	<u>(42,321)</u>

13. Grant-in-aid

Grant-in-Aid is provided from Department of Trade and Industry 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 2005-06 was £15,100,000 (2004-05: £42,332,000) all of which was drawn down by the Pension Schemes. The allocation for 2004-05 was higher because of the lower employers' contribution rate and the funding of the group transfer out.

14. Related Party Transactions

The Research Councils are Non-Departmental Public Bodies sponsored by the Office of Science and Innovation (OSI) within the Department of Trade and Industry (DTI).

The OSI/DTI are regarded as related parties. During the period 1 April 2005 to 31 March 2006 the Research Councils' Pension Schemes had various material transactions with the OSI/DTI and with other entities for which the OSI/DTI 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 Particle Physics and Astronomy Research Council and the Council for the Central Laboratory of the Research Councils.)

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.