

**RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS  
2007-2008**

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## RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

### **Report of the Manager**

#### **Statutory Background**

- 1 The schemes' statements have been prepared in accordance with the relevant provisions of the 2007/08 Government Financial Reporting Manual (FRm) [www.financial-reporting.gov.uk/](http://www.financial-reporting.gov.uk/) issued by the Treasury.

#### **Description of Pension Schemes**

- 2 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'. 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.
- 3 The Nuvos scheme has a normal retirement age of 65 and a member contribution rate of 3.5%. The accrual rate is 2.3% of pensionable earnings for each year in the scheme. The total pension accrued at the end of March is then increased by the Retail Price Index for the year to the previous September.
- 4 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% of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider.
- 5 The other schemes provide retirement and related benefits based on individual final emoluments by analogy to the Principal Civil Service Pension Scheme (PCSPS). Since 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 1/60<sup>th</sup> 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 1/80<sup>th</sup> 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.
- 6 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 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 for Innovation, Universities and Skills (DIUS).

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**Eligible Staff**

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

**Information for Members**

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

**Accounting Officer**

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

**Administrators**

- 10 The schemes are administered by the Research Councils' Joint Superannuation Service (JSS) - a unit within BBSRC.

**Actuaries**

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

**Bankers**

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

**Auditors**

- 13 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 £43,500 (2006-07: £29,000). 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.
- 14 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.

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### **Employers**

- 15 These are as follows:
- Biotechnology and Biological Sciences Research Council and its sponsored institutes
  - Economic and Social Research Council
  - Engineering and Physical Sciences Research Council
  - Macaulay Institute
  - Moredun Research Institute
  - Natural Environment Research Council
  - RCUK Shared Service Centre
  - Rowett Research Institute
  - Science and Technology Facilities Council
  - Scottish Agricultural College
  - Scottish Crops Research Institute
  - Technology Strategy Board

### **Changes during 2007/08**

- 16 The 2007/08 Pension Accounts include the former SEERAD pension scheme, which merged into the Research Councils' Pension Schemes on 1 April 2007 and results in an increase of membership numbers of 22%.
- 17 A new scheme arrangement came into being for new entrants on 30 July 2007. This scheme arrangement has a pension age of 65 and is known as Nuvos. It differs from the former scheme arrangements as it is a career average scheme. Scheme members prior to 30 July 2007 have been unaffected by the introduction of the new scheme.
- 18 A number of changes to the final salary schemes came into being on 1 October 2007 and 1 March 2008. Members leaving on or after 1 October are now able to take an increased tax free lump sum equivalent to 25% of the capital value of their pension benefits. The increase lump sum is funded from a reduction in the member's annual pension at a cost of £1 pension for every £12 of tax free pension lump sum. In addition, since 1 October 2007 for those aged over 60 and 1 March 2008 for all other members, Added Pension has been introduced as the mechanism by which members can make increased contributions within the scheme to add to their pension benefits. This has replaced the former arrangement of the purchase of Added Years, although existing contracts will continue. Both arrangements are of a nil cost to the scheme, however Added Pension is a more flexible arrangement for members and could therefore lead to a greater take up of members increasing their scheme benefits than in the past.

## RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

- 19 From 1 March 2007 Partial Retirement has been introduced for all schemes. This is where a member can access all or part of their pension whilst remaining in employment provided they reduce their earnings by at least 20%. This can be achieved by a reduction in hours and/or salary. Normal abatement rules apply and access to pension before pension age results in an actuarial reduction in benefits.

### **Changes during 2008/09**

- 20 A number of Institutes will be transferring into the university sector during 2008/09 resulting in Research Councils' Pension Schemes' members leaving the scheme and being given the option of bulk transferring their accrued benefits. The Institutes involved are:
- IGER Aberystwyth, who will TUPE transfer their remaining staff (173 members) on 31 March 2008, 29 Principal Investigators having been earlier transferred on 7 October 2007.
  - Roslin and the Neuropathogenesis Unit, who will TUPE transfer their remaining staff (197 members) on 1 May 2008, 24 Principal Investigators having been earlier transferred on 30 September 2007.
  - Rowett Research Institute, who are planning to transfer all of their staff (187 members), possibly during July 2008.
- 21 These transfers will reduce the Research Councils' Pension Schemes Employer and Employee contributions received in 2008/09. The 'Bulk' transfer of the members accrued benefits will in addition require the Research Councils' Pension Schemes to receive a one off Annual Managed Expenditure (AME) adjustment to the 2008/09 grant-in-aid, in respect of the capitalisation of these members benefits.
- 22 Although IGER staff formally transferred to the employment of the University of Aberystwyth on 31 March 2008, the TUPE transfer is accounted for in 2008/09. Under the pensions SORP, the TUPE transfer is not deemed to have been conducted until the option to transfer has been signed by members. All formal IGER employees completed this option in 2008/09.

### **Additional Voluntary Contributions**

- 23 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.

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**Events Since the End of the Financial Year**

- 24 There were no reportable post balance sheet events between the balance sheet date and the date that these accounts have been signed. The accounts do not reflect events after this date.

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**Pension Scheme Membership**

25

	<b>31 March 2008 No.</b>	<b>31 March 2007 No.</b>
<b>New Schemes</b>		
Current Members in Service	8,865	7,666
Pensions in Payment	5,098	2,938
Early Retirements	573	456
Preserved Pensions	6,575	4,750
<b>Total</b>	<b>21,111</b>	<b>15,810</b>
<b>Old Schemes</b>		
Pensions in Payment	5,436	5,503
Preserved Pensions	2,259	2,392
<b>Total</b>	<b>7,695</b>	<b>7,895</b>
<b>GRAND TOTAL</b>	<b>28,806</b>	<b>23,705</b>
	<b>2007-08 No.</b>	<b>2006-07 No.</b>
<b>Members in Service at 1 April</b>	<b>8,933</b>	<b>7,942</b>
Adjustment resulting from changes notified in current year	37	(31)
Adjusted figure for 1 April	8,970	7,911
New Members in year	817	619
Leavers and Retirements in year	(922)	(864)
<b>Members in Service at 31 March</b>	<b>8,865</b>	<b>7,666</b>
	<b>31 March 2008 No.</b>	<b>31 March 2007 No.</b>
Classic Scheme	4,835	4,447
Classic Plus Scheme	417	361
Premium Scheme	3,151	2,858
Nuvos Scheme	462	0
<b>Members in Service at 31 March</b>	<b>8,865</b>	<b>7,666</b>
Holders of Partnership Pension Accounts	151	110

The increase in numbers shown for 31 March 2008 reflect the former SEERAD pension Scheme merging with the RCPS on 1<sup>st</sup> April 2007.

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**Enquiries**

- 26 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.

Mr Steve Visscher, Interim Chief Executive and Accounting Officer of BBSRC

Date: 26 June 2008

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**ACTUARIAL STATEMENT FOR THE RESEARCH COUNCIL PENSION SCHEME FOR ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008**

**A. Liabilities**

The capitalised value as at 31 March 2008 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 2008, has been assessed to be £2,887 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:

<b>Active Schemes</b>	<b><u>£ million</u></b>
Active members	1,076
Current pensioners	809
Deferred members	<u>496</u>
<b>Total</b>	<b><u>2,381</u></b>
<b>Closed Schemes</b>	<b><u>£ million</u></b>
Current pensioners	424
Deferred members	<u>82</u>
<b>Total</b>	<b><u>506</u></b>

**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 2007/2008 has been assessed as follows:

	<b>% of FTE pensionable pay</b>
Employer's share of standard cost	28.2%

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. 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.

## RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

From 1 October 2002, the RCPS has offered a number of different pension options to its employees and introduced a revised defined benefit option on 30 July 2007. As a result, the pension benefit structure of some members of the RCPS has changed. All new members between 1 October 2002 and 29 July 2007 have been automatically entered into the Premium scheme with the option of joining the defined contribution Partnership arrangement. Staff then in post on 1 October 2002 were offered the option between remaining on the existing structure or moving to the new scheme. From 30 July 2007 all new members have been automatically entered into the Nuvous scheme with the option of joining the defined contribution Partnership arrangement.

In relation to the pensionable payroll for the financial year 2007/2008 and using the rates of contribution described, the employer's charges in cash terms are £75 million.

### **C. Methodology**

The benefits valued are those accrued up to 31 March 2008. The assessment of the liabilities of the active staff have been assessed by summing the present value of all the benefits accrued at the valuation date based on earnings projected to retirement, or earlier exist, and pension increases thereafter. For pensions in payment and deferred pensions a similar calculation has been carried out making allowance for future pension increases.

### **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 2.5% 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 1.0% p.a. The main financial assumptions expressed in nominal terms are:

- A rate of earnings increases will be 4.3% p.a. excluding promotional and performance increments
- A long term nominal discount rate of 5.3% p.a.
- A rate of long-term inflation and pensions increases of 2.75% 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 2007. 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 Johnson**  
**Fellow of the Institute of Actuaries**  
**16 April 2008**  
**Government Actuary's Department, London**

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

**Statement of Accounting Officer's Responsibilities**

Under the Science and Technology Act 1965, the Secretary of State for Innovation, Universities 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 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 for Innovation, Universities 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 Innovation, Universities 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 the Treasury and published in "Government Accounting".

## RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

### **Statement by Chief Executive on Internal Control**

#### **Scope of Responsibility**

As BBSRC's Accounting Officer designated as such by the Department for Innovation Universities and Skills' (DIUS) 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 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 DIUS.

#### **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 2008 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.

The Research Councils' Internal Audit Service (RCIAS) review the key risks to the RCPS on an annual basis. During 2007/08 the RCIAS conducted an audit of the accuracy of the information flow. A revised rolling 5 year audit plan, developed to replace the annualised audit to allow for a more comprehensive review of the RCPS, was accepted by JSS management and will proceed in 2008/09.

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

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 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 RCIAS, the risk management frameworks developed and responses to external management letters which identify if control gaps exist.

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

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 accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Mr Steve Visscher, Interim Chief Executive and Accounting Officer of BBSRC

Date: 26 June 2008

RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08**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 2008 under the Science and Technology Act 1965. These comprise the Combined Revenue Account and Statement of Recognised Gains and Losses, the Combined Balance Sheet, the Cash Flow 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 Science and Technology Act 1965 and Secretary of State for the Department for Innovation, Universities and Skills 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 Secretary of State for Department for Innovation, Universities and Skills directions issued under the Science and Technology Act 1965. 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.

In addition, I report to you if the schemes have 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 HM Treasury regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the scheme's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the scheme'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 and the actuarial statement. 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 ACCOUNTS 2007-08

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 in accordance with the Science and Technology Act 1965 and directions made thereunder by the Secretary of State for Department for Innovation, Universities and Skills, of the amount and disposition of the scheme's assets and liabilities as at 31 March 2008, the net outgoings, recognised gains and losses and cashflows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Secretary of State for Trade and Industry directions issued under the Science and Technology Act 1965.

**Audit opinion on Regularity**

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

**Report**

I have no observations to make on these financial statements.

**T J Burr  
Comptroller and Auditor General**

**Date:**

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

## Combined Revenue Account for the year ended 31/03/2008

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	Notes	<u>2007-08</u>	<u>2007-08</u>	<u>2006-07</u>
		£'000	£'000	£'000
<b>Principal Arrangements - Research Councils' Pension Schemes</b>				
<b>Income</b>				
Contributions receivable	3		<b>64,908</b>	54,773
Transfers in: individuals			<b>4,101</b>	2,530
Other pension income			<b>137</b>	83
			<b>69,146</b>	<u>57,386</u>
<b>Outgoings</b>				
Pension cost	4	<b>83,000</b>		55,000
Transfers out	5	<b>4,799</b>		4,959
Interest on scheme liabilities		<b>125,000</b>		105,000
Administration costs	6	<b>734</b>		617
			<b>(213,533)</b>	<u>(165,576)</u>
<b>Net outgoings for the year</b>			<b>(144,387)</b>	<u>(108,190)</u>
<b>Agency Arrangements</b>				
Early Retirement Lump Sum payments		<b>3,276</b>		3,833
Less Recoveries		<b>(3,276)</b>		(3,833)
			<b>(144,387)</b>	<u>(108,190)</u>

All activities are regarded as continuing.

The notes on pages 17 to 24 form an integral part of these accounts.

## Statement of Recognised Gains and Losses for the year ended 31/03/2008

	Notes	<u>2007-08</u>	<u>2007-08</u>	<u>2006-07</u>
		£'000	£'000	£'000
Deficit for the year			<b>(144,387)</b>	<u>(108,190)</u>
Recalculation of closing provision	10.09	<b>173,000</b>		(430,000)
Actuarial gains/(losses)	10.08	<b>4,572</b>		(49,157)
Net bulk staff transfer in	10.10	<b>(432,000)</b>		
			<b>(254,428)</b>	<u>(479,157)</u>
<b>Total Recognised Losses for the year</b>			<b>(398,815)</b>	<u>(587,347)</u>

The notes on pages 17 to 24 form an integral part of these accounts.

**Combined Balance Sheet as at 31/03/2008**

	Notes	<b>31 March 2008</b>	31 March 2007
		<b>£'000</b>	£'000
<b>Current assets and liabilities</b>			
Debtors	7	<b>2,761</b>	348
Cash at bank and in hand	8	<b>1,932</b>	2,186
		<b>4,693</b>	2,534
Less: Creditors (amounts falling due within one year )	9	<b>(1,781)</b>	(217)
<b>Net current assets, excluding pension liability</b>		<b>2,912</b>	2,317
Pension liability	10	<b>(2,887,000)</b>	(2,515,000)
<b>Net liabilities, including pension liabilities</b>		<b>(2,884,088)</b>	(2,512,683)
<b>Agency arrangements - Early Retirement Lump Sums</b>			
Debtors	11	<b>587</b>	652
Combined schemes - total net liabilities		<b>(2,883,501)</b>	(2,512,031)
<b>Taxpayers' equity</b>			
General fund	12	<b>(2,883,501)</b>	(2,512,031)

Steve Visscher, Interim Chief Executive BBSRC, Accounting Officer  
Date: 26 June 2008

The notes on pages 17 to 24 form an integral part of these accounts.

**Cash Flow Statement for the year ended 31/03/2008**

	Notes	<b>2007-08</b>	2006-07
		<b>£'000</b>	£'000
Net cash outflow from operating activities	13	<b>(27,599)</b>	(16,061)
Net central funding	12	<b>27,345</b>	17,156
(Decrease)/increase in cash		<b>(254)</b>	1,095

The notes on pages 17 to 24 form an integral part of these accounts.

## RESEARCH COUNCILS' PENSION SCHEMES ACCOUNTS 2007-08

### **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 2007/08 Government Financial Reporting Manual (FRM) [www.financial-reporting.gov.uk/](http://www.financial-reporting.gov.uk/) issued by the Treasury which reflect the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. 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.

##### **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.

#### **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.

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c) **Transfers Out**

Transfers out are included when notified by the person transferring and by 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 (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.

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.

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**h) General Fund**

Grant-in-Aid is provided from Department for Innovation, Universities and Skills (DIUS) 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 DIUS at the end of March each year under the Consolidated Fund Extra Receipts (CFER) arrangements.

	<b>2007-08</b>	2006-07
	£'000	£'000
<b>3. Contributions receivable</b>		
Employers' contributions	56,818	47,841
Employees' contributions: normal	6,296	5,282
Employees' contributions: purchase of added years and added pension	1,794	1,650
	<b>64,908</b>	54,773
<b>4. Pension cost</b>		
Current service cost	83,000	55,000
<b>5. Transfers out</b>		
Individual transfers out to other schemes	4,799	4,959
<b>6. Administration costs</b>		
Total running costs	466	581
Less offsetting receipts	-	(125)
Net running costs	466	456
Pensioner payroll agency fees	153	122
Auditors' remuneration	42	29
Actuarial and bank charges	73	10
	<b>734</b>	617
<b>7. Debtors - contributions due in respect of pensions</b>		
	<b>£'000</b>	£'000
<b>7(a) Analysis by type</b>		
Trade debtors	44	14
Accrued income and prepaid expenditure	2,717	334
	<b>2,761</b>	348
<b>7(b) Analysis by receipt type</b>		
Pension contributions due from employers	1,774	334
Prepaid benefits	796	-
Employees' normal contributions	151	-
Other debtors	40	14
	<b>2,761</b>	348
<b>7(c) Intra-Government Balances</b>		
Research Councils	2,751	338
Other organisations	10	10
	<b>2,761</b>	348
<b>8. Cash</b>		
	<b>£'000</b>	£'000
HM Paymaster general's Office	351	202
Barclays Bank plc	1,581	1,984
	<b>1,932</b>	2,186

**9. Creditors - in respect of pensions**

	<u>2007-08</u>	<u>2006-07</u>
	£'000	£'000
<b>9(a) Analysis by type</b>		
Trade creditors	1,231	-
Accrued expenditure and prepaid income	550	217
	<u>1,781</u>	<u>217</u>

The £1,231 trade creditor relates to benefit payments made by the Natural Environment Research Council (NERC) on behalf of the scheme, that had not been reimbursed to them as at 31 March 2008.

**9(b) Analysis by expenditure type**

Pensions	1,231	-
Overpaid contributions: employers	-	136
Overpaid contributions: employees	36	43
Other including administration expenses	471	9
Audit fee	43	29
	<u>1,781</u>	<u>217</u>

**9(c) Intra-Government Balances**

Research Councils	1,702	139
Other organisations	79	78
	<u>1,781</u>	<u>217</u>

**10. Provisions for pension liabilities**

10.01 The Research Councils' Pension Schemes are unfunded defined benefit schemes. An actuarial valuation was carried out at 31 March 2008 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2008	At 31 March 2007	At 31 March 2006	At 31 March 2005
Price inflation	2.75%	2.75%	2.50%	2.50%
Earnings increase	4.30%	4.30%	4.00%	4.00%
Rate used to discount the schemes' liabilities	2.50%	1.80%	2.80%	3.50%
Increase for pensions in payment and deferred pensions in line with increases in Retail Price Index	2.75%	2.75%	2.50%	2.50%

10.02 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.

10.03 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.

10.04 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 10.05. Note 10.08 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.

**10.05 Analysis of movements in the scheme liability**

	Notes	<u>2007-08</u>	<u>2007-08</u>	<u>2006-07</u>
		£'000	£'000	£'000
Scheme liability at 1 April			<b>2,515,000</b>	1,945,000
Current service cost	4	<b>83,000</b>		55,000
Interest on scheme liabilities		<b>125,000</b>		105,000
Benefit payments	10.06	<b>(89,910)</b>		(68,711)
Payments to or on account of leavers	10.07	<b>(518)</b>		(446)
Analysis of actuarial (gains)/losses on the scheme liabilities	10.08	<b>(4,572)</b>		49,157
			<b>113,000</b>	140,000
			<b>2,628,000</b>	2,085,000
Recalculation of closing provision	10.09		<b>(173,000)</b>	430,000
Net bulk staff transfer in	10.10		<b>432,000</b>	-
<b>Scheme liability at 31 March</b>			<b>2,887,000</b>	2,515,000

**10.06 Analysis of benefits paid**

	<u>2007-08</u>	<u>2006-07</u>
	£'000	£'000
Pensions to retired employees and dependents (net of recoveries or overpayments)	<b>(77,748)</b>	(58,668)
Commutations and lump sum benefits on retirement or death	<b>(12,162)</b>	(10,043)
As per cash flow (note 13)	<b>(89,910)</b>	(68,711)

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

	<u>2007-08</u>	<u>2006-07</u>
	£'000	£'000
Refunds to members leaving service	<b>(518)</b>	(446)
As per cash flow note (note 13)	<b>(518)</b>	(446)

**10.08 Analysis of actuarial (gains)/losses on the scheme liabilities**

	<u>2007-08</u>	<u>2006-07</u>
	£'000	£'000
Experience (gains)/losses arising on the scheme liabilities	<b>(3,000)</b>	50,000
Other (see note 2g)	<b>(1,572)</b>	(843)
	<b>(4,572)</b>	49,157

**10.09 Recalculation of closing provision**

The overnight reduction in scheme liabilities as at 31 March 2008 was £173m, represented by an increase in the rate used to discount the schemes liabilities, and partially offset by a decrease in mortality rates. The increase in discount rate to 2.5% from 1.8% resulted in a decrease in the value of the pension liability by £354m. The change in mortality assumption increased the pension liability valuation by £181m.

**10.10 Net bulk staff transfer in**

GAD valued the 4,860 SEERAD members transferring into the RCPS as an additional pension liability of £433m, this is shown net of £1m existing RCPS members' liabilities transferring to other schemes. £433m of Annually Managed Expenditure (AME) budget was transferred from SEERAD to the Department for Innovation, Universities and Skills (DIUS) to cover this liability. Further cash grant-in-aid of £8.2m was received during 2007/08 to cover the additional obligations, with future grant-in-aid also being uplifted.

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

See note 10.08	Experience gains / (losses)	Percentage of the Schemes' Liabilities at 31 March
<b>2007-08</b>	<b>3,000</b>	<b>0.1%</b>
2006-07	(50,000)	-2.0%
2005-06	34,000	1.7%
2004-05	(108,000)	-6.7%

**11. Debtors - Agency arrangements**

	<b>2007-08</b>	2006-07
	<b>£'000</b>	£'000
<b>11(a) Analysis by type</b>		
Trade debtors	48	-
Accrued income and prepaid expenditure	539	652
	<u>587</u>	<u>652</u>
<b>11(b) Analysis by receipt type</b>		
ERLS Recoverable	<u>587</u>	<u>652</u>
<b>11(c) Intra-Government Balances</b>		
Research Councils	<u>587</u>	<u>652</u>

**12. General Fund**

	Notes	<b>2007-08</b>	2006-07
		<b>£'000</b>	£'000
Balance at 1 April		<b>(2,512,031)</b>	(1,941,840)
Parliamentary funding: drawn down	14	<b>27,400</b>	17,202
Interest payable to the Office of Science & Innovation		<b>(55)</b>	(46)
Net central funding		<b>27,345</b>	17,156
Combined net outgoings		<b>(144,387)</b>	(108,190)
Actuarial gains/(losses)	10.08	<b>4,572</b>	(49,157)
Recalculation of closing provision	10.09	<b>173,000</b>	(430,000)
Bulk staff transfer in	10.10	<b>(432,000)</b>	-
Balance at 31 March		<u><b>(2,883,501)</b></u>	<u>(2,512,031)</u>

<b>13. Notes to the Cash Flow Statement</b>	Notes	<u>2007-08</u>	<u>2006-07</u>
		<b>£'000</b>	<b>£'000</b>
<b>Net outgoings for the year</b>		<b>(144,387)</b>	(108,190)
(Increase)/decrease in debtors - principal arrangements		<b>(2,413)</b>	787
Decreases in debtors - agency arrangements		<b>65</b>	374
Increases in creditors		<b>1,564</b>	125
Increase in provision			
Current service cost	4	<b>83,000</b>	55,000
Interest cost		<b>125,000</b>	105,000
Use of provisions			
Benefit payments	10.06	<b>(89,910)</b>	(68,711)
Payments to or on account of leavers	10.07	<b>(518)</b>	(446)
<b>Net cash outflow from operating activities</b>		<b><u>(27,599)</u></b>	<b><u>(16,061)</u></b>

#### 14. Grant-in-aid

Grant-in-Aid is provided from Department for Innovation, Universities and Skills for Resources 2 to the Biotechnology and Biological Sciences Research Council as the Council with responsibility for administering the schemes' finances. The allocation for 2007-08 was £27,400,000 (2006-07: £17,202,000) all of which was drawn down by the pension schemes.

#### 15. Related Party Transactions

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

The DIUS is regarded as a related party. During the period 1 April 2007 to 31 March 2008 the Research Councils' Pension Schemes had various material transactions with DIUS and with other entities for which DIUS 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.

#### 16. Post Balance Sheet Events

There were no reportable post balance sheet events between the balance sheet date and the of June 2008, the date when the Accounting Officer despatched the accounts to the Department for Innovation, Universities and Skills. The financial statements do not reflect events after this date.