

Remuneration report

Remuneration Policy

The Remuneration Committee is responsible for agreeing the pay and allowances of senior managers, i.e. Directors. The Committee members are listed below:-

Mr E Wallis, Chairman NERC as of 1 January 2007 (previously Mr R Margetts)
Mr E Jenner, Council Member
Professor A Halliday, Council Member
Professor A Thorpe, Chief Executive
Mrs J Timberlake, Director, People Skills and Communication who attends in an Advisory capacity only

The Remuneration Committee works in accordance with its policy on Senior Staff pay which is designed to reward senior staff on the basis of individual skills, experience and performance set against the market median for their role. A market related pay point is determined by survey evidence obtained from relevant comparator organisations in the public, higher education and voluntary sectors and is up rated annually.

In accordance with NERC's appraisal system, performance is assessed against pre-set objectives for individual roles with input in the assessment process from individual reviewees, reviewers and the Chief Executive.

From 1 April 2006 all pay movement for senior employees is performance related. Prior to that date the non-consolidated element of senior pay was performance related.

It should be noted that no senior managers are on a service contract. No significant awards have been made to senior staff this year.

More information about the remuneration committee can be found at the following website:
www.nerc.ac.uk/about/work/boards/intro/#remuneration

Employment Contracts

NERC staff are not Civil Servants but the organisation makes its appointments in accordance with the broad principles set out in the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

All Senior Officers covered by this report, apart from the Chief Executive, hold appointments, which are open-ended. Senior Staff appointed before October 2006 may work until age 65, provided their performance remains satisfactory and there is a continuing need for them; they may also request retention beyond age 65, although there is no entitlement to this. Senior staff appointed after October 2006 have a contractual retirement age of 65, although they may also seek retention beyond that age. All staff may retire after age 50 and draw their pensions on an actuarially reduced basis. Staff appointed before October 2006 may draw full pensions from age 60. Staff who leave during a formal redundancy exercise will be eligible for compulsory early retirement/severance terms, as defined under the rules of the Research Council's Superannuation Scheme. These payments are in line with those due under the Civil Service Compensation Scheme.

The notice period for all Senior Employees is three months.

Remuneration of the Chief Executive

Professor Thorpe started his tenure on the 1st April 2005. His initial contract is for a period of four years.

The emoluments of the Chief Executive, including taxable benefits, were £107,106 (2006: £94,618). This included basic salary of £102,375 (2006: £94,618) and performance related bonus of £4,731 (2006: nil). A charge of £21,805 (2006: £20,154) was also incurred in respect of employer's pension contributions. This was assessed as 21.3% of basic salary (2006: 21.3%). The Cash Equivalent Transfer Value for the Chief Executive at the 31 March 2007 was £843,993. The real increase in the cash equivalent transfer value for the period was £60,289. The Chief Executive is an ordinary member of the Research Councils' Pension Scheme.

Audited Information

Remuneration of Senior Employees

Other members of the council's senior management team received emoluments during the year, including taxable benefits as below, these individuals are all ordinary members of the Research Councils' Pension Scheme.

Table 1: Remuneration of Senior Employees (2006-07)

Name	Note ref.	Total emoluments 2006-07 £000	Total emoluments 2005-06 £000	Pension increase in real terms £000	Accrued pension at 31/03/07 £000	Lump sum at 31/03/07 £000	Cash equivalent Transfer value as at 1/04/06 £000	Cash equivalent Transfer value as at 31/03/07 £000	Cash Equiv. transfer value increase in real terms £000
A Thorpe		105 - 110	90 - 95	0 - 2.5	0 - 5	-	754	844	60
D Falvey	1	55 - 60	100 - 105	-	5 - 10	31	231	244	10
C G Rapley		105 - 110	100 - 105	0 - 2.5	10 - 15	123	882	986	26
P Nuttall		105 - 110	80 - 85	7.5 - 10	35 - 40	108	676	738	32
A Willmott		65 - 70	45 - 50	0 - 2.5	0 - 5	-	398	430	17
J Hansford		85 - 90	75 - 80	2.5 - 5	30 - 35	119	868	921	12
A E Hill		95 - 100	90 - 95	0 - 2.5	5 - 10	76	382	406	18
D Bloomer		80 - 85	80 - 85	0 - 2.5	5 - 10	-	76	89	11
J Timberlake		80 - 85	70 - 75	0 - 2.5	0 - 5	-	35	64	27
S Wilson		80 - 85	80 - 85	0 - 2.5	5 - 10	36	117	143	8
J Ludden	2	65 - 70	-	0 - 2.5	0 - 5	-	-	19	17

Notes

1 Dr Falvey left NERC on 9 October 2006.

2 Dr Ludden became Director of British Geological Survey with effect from 1 July 2006.

3 The average annual earnings increase for senior employees (excluding Chief Executive) was 5%.

4 No senior employee has received any other benefit during the year.

Total Emoluments

Total emoluments include gross salaries and performance related bonuses. From 1 April 2004 basic pay rates for senior staff incorporate all existing allowances including a supervisory and responsibility allowance and any contribution awards.

Pension benefits

All Senior Employees are ordinary members of the Research Councils' Pension Scheme (RCPS) which is a defined benefit scheme funded from annual grant-in-aid on a pay-as-you-go basis.

Further details about the RCPS can be found in Note 4(d) of the Annual Accounts.

The Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Research Councils' pension arrangements and for which the Civil Service (CS) Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration of Council Members

Members of Council receive an Honorarium of £6,410 per annum to cover all work for the Council including membership of Council's Boards and Science Management Audits. The Chairman of the Council, Mr Margetts left the Council on 31 December 2006 and received a salary of £11,403. The incoming chairman, Mr Wallis, joined the Council on 1 January 2007 and received a salary of £3,853. These rates are effective from 1 October 2006 and are formulated by the Department of Trade and Industry.

Council members are normally employed on fixed term contracts not exceeding 4 years.

Honoraria are not payable to members who are:

- Civil Servants
- Employees of NERC
- Full time employees of organisations whose funds are derived from Votes of Parliament (eg Government Departments, UK Atomic Energy Authority, British Broadcasting Corporation and other Research Councils)

Members of Council may not receive fees in addition to honoraria. University academic staff and retired Civil Servants are eligible to receive honoraria or fees.

Table 2: Membership of the NERC Council (2006-07)

Name	Affiliation	Period of appointment	Total Emoluments £'000		Note Ref
			2006-07	2005-06	
Mr E Wallis	Chairman	01 Jan 2007 – 31 Dec 2010	0 - 5	n/a	1
Mr R Margetts	Previous Chairman	01 Jan 2001 – 31 Dec 2006	10 - 15	10 - 15	1
Professor A Thorpe	Chief Executive and Deputy Chairman	01 Apr 2005 – 31 Mar 2009	0	0	2
Professor M Anderson	Professor of Physical Geography and Assistant Director, Institute for Advanced Studies, University of Bristol	01 Aug 2001 – 31 Jul 2007	5 - 10	5 - 10	
Professor H Dalton	Chief Scientific Adviser (CSA), Department for the Environment, Food and Rural Affairs (Defra)	01 Apr 2002 – 31 Mar 2006	0	0	2
Professor H Davies	Institute of Atmospheric & Climate Science, EHT	01 Aug 2005 – 31 Jul 2008	5 - 10	0 - 5	
Professor T Davies	School of Environmental Sciences, University of East Anglia	01 Nov 2001 – 31 Jul 2008	5 - 10	5 - 10	
Professor A Fitter	Department of Biology, University of York	01 Aug 2005 – 31 Jul 2008	5 - 10	0 - 5	
Professor A Glover	School of Medical Science, University of Aberdeen, Chief Scientific Advisor for Scotland	01 Aug 2001 – 31 Jul 2007	5 - 10	5 - 10	
Professor A Halliday	Department of Earth Sciences, University of Oxford	22 Nov 2004 – 31 Jul 2008	5 - 10	5 - 10	
Mr P Hazell	Chairman of the Argent Group, Non-executive Director of UK Coal Plc, BRIT Insurance Plc, and Smith & Williamson, Member of the Competition Commission and Chair of Audit Committee	22 Nov 2004 – 31 Jul 2008	10 - 15	5 - 10	4
Mr E Jenner	Technology and business consultant, formerly of AstraZeneca Plc, Chair of the Science and Innovation Strategy Board (SISB)	01 Apr 2002 – 31 Jul 2008	10 - 15	10 - 15	3
Mrs K Morgan	Vice Chairman of the Royal Agricultural College, Pro Chancellor of the University of West of England, Deputy Chairman of WaterAid	01 Aug 2002 – 31 Jul 2008	5 - 10	5 - 10	
Mrs S Parkin	Programme Director at Forum for the Future	01 Aug 2003 – 31 Jul 2006	5 - 10	5 - 10	
Professor P Curran	Vice Chancellor and Professor of Physical Geography, Bournemouth University	08 Aug 2006 – 31 Jul 2010	0 - 5	n/a	
Professor J Mitchell	Chief Scientist, Met Office	10 Oct 2006 – 30 Sept 2010	0	n/a	2
Professor M Lockwood	Professor at the University of Southampton, Chief Scientist at the Rutherford Appleton Laboratory's Space Science Department	01 Mar 2007 – 31 Jul 2010	-	n/a	
Professor M Wilson	Pro-Dean for Research in the Faculty of Environment, University of Leeds	01 Mar 2007 – 31 Jul 2010	0 - 5	n/a	
Mr C Paynter	Chief Executive Officer of EADS Astrium Ltd	01 Mar 2007 – 31 Jul 2010	-	n/a	
Professor J Beddington	Department of Environmental Science & Technology, Imperial College	01 Aug 2000 – 31 Jul 2006	0 - 5	5 - 10	
Professor M Depledge	Head of Science for Environment Agency	15 Sep 2003 – 30 Jun 2006	0	0	2
Dr C Hicks	Director General of the British National Space Centre and Director-Space in the Department of Trade and Industry	04 Dec 2002 – 30 Apr 2006	0	0	2
Professor J Petts	Head of School, School of Geography, Earth & Environmental Sciences, The University of Birmingham	01 Aug 2000 – 31 Jul 2006	0 - 5	5 - 10	
Professor D Roberts	Distinguished Advisor at BP Explorations	01 Aug 2003 – 31 Jul 2006	0 - 5	5 - 10	

Notes

1 Mr Wallis became the Chairman of Council with effect from 1 January 2007. Mr Margetts left the Council on 31 December 2006.

2 Honoraria are not payable to members who are civil servants, employees of NERC or full time employees of organisations whose funds are derived from Votes of Parliament.

3 Mr Jenner received standard Council member rate and additional remuneration in respect of activities undertaken as the Chair of the Science and Innovation Board.

4 Mr Hazell received standard Council member rate and additional remuneration in respect of activities undertaken as the Chair of the Audit Committee.

More information about the NERC Council and its membership can be found at the following website:
www.nerc.ac.uk/about/work/boards/council/

Professor Alan Thorpe

Chief Executive & Accounting Officer

Date: 29 June 2007

Annual accounts 2006-07

Statement of Council's and Chief Executive's Responsibilities with Respect to the Financial Statements

Under Paragraph 3 of Schedule 1 to the Science and Technology Act 1965 the Council is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Secretary of State for Trade and Industry, with approval of HM Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Council's state of affairs at the year end and of its statement of net expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government 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 the going concern basis.

The Secretary of State for Trade and Industry has appointed the Chief Executive as Accounting Officer of the Natural Environment Research Council. 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 the keeping of proper records and for safeguarding the Natural Environment Research Council's assets are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury and published in "Government Accounting" (The Stationery Office).

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Natural Environment Research Council's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The powers, roles, responsibilities and membership of Council are defined in its Royal Charter. The nature of its relationship with its sponsor department, the Office of Science and Innovation of the Department of Trade and Industry, is defined in the OSI/NERC Management Statement and Financial Memorandum (2005), available on the NERC website.

Council has established three bodies to support it in discharging its responsibilities:

- i. the Audit Committee;
- ii. the Science & Innovation Strategy Board (SISB); and
- iii. the NERC Investment Committee (NIC).

The responsibilities of the Chief Executive, who is also the Accounting Officer of the Council, are set out in the OSI/NERC Management Statement and Financial Memorandum. I may delegate the administration of these responsibilities to Council's employees but may not assign any of the responsibilities absolutely to any other person. I have established the NERC Executive Board (NEB) to support me in discharging these responsibilities.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NERC for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

Overall responsibility for risk management in NERC lies with the Chief Executive, who as the NERC Accounting Officer signs this annual Statement of Internal Control as part of the audited Annual Accounts. Currently I delegate the task of implementing and maintaining the risk management policy and strategy to the Director Finance and Information Systems who fulfils the role of Director Responsible for Risk. The Director Responsible for Risk's responsibilities include overseeing the activities of the Risk Management Network (see para 5) and reporting on risk management to the NERC Executive Board (NEB). NERC Directors have a responsibility to ensure the effective application of NERC's risk management strategy and policy. These arrangements ensure risk management is an integral part of NERC's management style and is tied to core activities and Delivery Plan targets.

NEB is the owner of the NERC Risk Management Strategy and is responsible for reporting issues relating to risks and their management to Council, and for receiving assurance from NERC staff that risks are managed appropriately and passing this assurance to Council.

In executing these responsibilities the role of NEB can be characterised as follows:

- | | | |
|----------|-----|---|
| Monitor: | i | overseeing the process |
| | ii | noting business critical risks |
| | iii | noting mitigation strategies |
| | iv | reviewing audit output |
| | v | carry out an annual review of risk and the risk management systems in place |
| Decide: | i | setting and communicating the NERC level risk appetite |
| Direct: | i | setting delegated authority levels |
| | ii | solving risk management dilemmas (when asked to do so) |

The NEB will review specific, high risk, matters on a monthly basis together with issues relating to any risks that are referred upwards by Research Centre Directors and others via the agreed escalation procedures.

NEB encourages sound properly managed risk taking and recognises that effective risk management, rather than risk avoidance, is an essential ingredient for successful business operations.

NEB Directors appoint "owners" for all risk threats as they emerge. These risk owners are most likely to be middle / senior managers within NERC Swindon Office and the Research Centres / Laboratories. Risk owners have responsibility for the practical day to day management of risks and are responsible for ensuring that appropriate management plans are prepared and that risk response actions are carried out effectively. Responsibility for managing key business risks are retained at a senior level.

Risks are managed by trained and experienced people. All staff in NERC participate in an annual appraisal, where individual training needs and personal development requirements including in relation to risk are identified and assessed. Specific risk management training is provided in response to ad hoc requests.

The NERC Risk Management Network, which currently meets twice each year, helps promote best practice in risk management across NERC by sharing lessons learnt and monitoring compliance with (and continued relevance of) the NERC Risk Management Strategy and Policy (which are available to all staff via the NERC extranet).

4. The risk and control framework

The purpose of the NERC Risk Management Strategy is to describe at a high level how NERC will implement its Risk Management Policy, setting out the necessary organisation, roles and responsibilities, along with the framework and underlying principles of the control system.

NERC Directors have a responsibility to ensure the effective application of NERC's risk management strategy and policy. Directors must satisfy themselves that the following issues have been adequately addressed within their areas of responsibility:

- the requirements of corporate governance – these include developing more focused and open ways of managing risk and ensuring that all NEB decisions on managing risk are implemented
- the need to identify appropriate 'risk owners' at a sufficiently senior level for all identified risks
- the adequacy of reporting arrangements that ensure the timely escalation of major risk issues internally within their area of responsibility; and, where appropriate externally to NEB. And that these arrangements are in line with delegated authority levels and the provisions of Research Centre Management Statements (where these apply)
- the need to ensure a shared understanding of risk management principles, thereby ensuring a consistent approach to the treatment of risks at all levels
- deciding the overall risk tolerance level, or "risk appetite" for areas that they have a responsibility for (mindful of the NERC level risk appetite determined by NEB).

NERC has a web-based database to host the NERC risk register. The system is known as STAR (System for Targets and Risks).

STAR is the cornerstone of NERC risk management and provides a single system for recording Business Risks, Business Critical Projects and Delivery Plan Targets / Milestones. In addition to attaching scores to risks and identifying mitigation tactics, STAR also records information concerning quarterly progress against plan by way of a "traffic light system". Reports from STAR are considered by NEB (Delivery Plan Targets/Milestones progress report) and the NERC Audit Committee (Business Critical Projects status report). STAR also provides the quarterly report to OSI that details progress towards achieving NERC Delivery Plan Targets and Milestones.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control operating within NERC. My review of the effectiveness of the system of internal control is informed by:

- Director's Annual Statements on Internal Control (DASIC)
- the advice of the Audit Committee
- the advice of the Risk Management Network
- the work of the internal auditors
- comments made by the external auditors in their management letter and other reports
- feedback from other consultancy and review activities.

The DASIC exercise provides the main evidence informing the nature of my own assurance on internal controls as these assurances come from senior managers responsible for the development and maintenance of the NERC internal controls framework.

The Audit Committee has a duty to monitor NERC's internal control systems. The Audit Committee receives reports, directly and through internal audit and may refer any matter within its terms of reference to the NEB or Council and make recommendations concerning actions to be taken.

A network of managers responsible for the practical implementation of the NERC Risk Management Strategy in each of NERC's business units has been established and is known as "the Risk Management Network". The Network also includes members with special relevant expertise, for example the NERC Health and Safety Adviser and Security Adviser. The Network is chaired by the NERC Head of Finance on behalf of the Director Responsible for Risk and meets at least twice a year, ad hoc meetings may be convened to discuss and prepare advice on issues of urgency.

As part of its governance responsibilities, the NERC Executive Board (NEB) undertakes an annual review of the risks to which NERC is exposed. To help discharge this responsibility, NEB has approved a Risk Management Policy and Risk Management Strategy; agreed to the creation of a Risk Management Network; and to the appointment of a Risk Management Co-ordinator. The purpose of this post is to support the Director Responsible for Risk and Chair of the Risk Management Network in carrying out their responsibilities; and to focus management attention to risk management and provide a central reference point for risk management issues within NERC.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the NERC Executive Board, the Audit Committee and the Director Responsible for Risk.

6. Significant internal control problems

My review did not identify any significant internal control weaknesses.

Professor Alan J. Thorpe

Chief Executive & Accounting Officer

Date: 29 June 2007

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

I certify that I have audited the financial statements of the Natural Environment Research Council for the year ended 31 March 2007 under the Science and Technology Act 1965. These comprise the Statement of Net Expenditure, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration report that is described in that report as having been audited.

Respective Responsibilities of the Council, Chief Executive and Auditor

The Council and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Science and Technology Act 1965 and Secretary of State for Trade and Industry directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State for Trade and Industry directions made thereunder. I also report to you whether, in my opinion, certain information given in the Annual Report, which comprises Vital Statistics and Management Commentary, is consistent with the financial statements. 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 Natural Environment 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the Natural Environment Research Council 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 form an opinion on the effectiveness of the Natural Environment Research Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Natural Environment Research Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited 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 and the part of the Remuneration Report to be audited.

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 Trade and Industry, of the state of the Natural Environment Research Council's affairs as at 31 March 2007 and of its net expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State for Trade and Industry directions made thereunder; and
- information given within the Annual report, which comprises Vital Statistics and Management Commentary is consistent with the financial statements.

Audit 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 transaction conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General
Date: 4 July 2007

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

Statement of net expenditure for the year ended 31 March 2007

	Note	2007 £000	2006 £000 Restated - note 2
Expenditure			
Staff costs	4(b)	107,318	106,640
Staff early retirements	5	1,577	1,767
Grants and Training	6	113,068	116,235
Other operating costs	7	130,473	120,149
Depreciation	9 (a)	20,611	18,840
Impairment of fixed assets	9(a)	286	592
Total Expenditure		373,333	364,223
Income	3	(47,119)	(48,254)
Net Operating Costs Before Financing		326,214	315,969
Notional Cost of Capital	13	7,686	7,272
CEH Restructuring	12	958	21,379
Financing Lease Interest		1,401	1,475
Interest receivable	8	(137)	(22)
Unwinding of Discount	12	476	462
Change in Discount Rate	12	-	855
(Profit)/Loss on disposal of fixed assets		(2,629)	146
Net Expenditure for the Year	14	333,969	347,536

Accumulated Income and Expenditure reserves are shown at note 14.

All activities are continuing.

The maintenance and integrity of NERC'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.

Balance sheet as at 31 March 2007

	Note	31 March 2007 £000	31 March 2006 Restated - note 2 £000
Fixed Assets			
Tangible assets	9	297,387	264,349
Investments	9 (c)	44	362
		297,431	264,711
Current Assets			
Debtors	10	36,436	32,914
Cash at bank and in hand		16,214	10,640
		52,650	43,554
Current Liabilities			
Creditors falling due within one year	11 (a)	(52,744)	(45,274)
Net current liabilities		(94)	(1,720)
Total assets less current liabilities			
		297,337	262,991
Creditors falling due after more than one year	11 (b)	(16,078)	(16,322)
Provisions for liabilities and charges	12	(34,131)	(35,598)
Total Assets Less Liabilities		247,128	211,071
Capital and Reserves			
Government Grant Reserve	14	3,059	-
Revaluation Reserve	14	73,111	62,301
Accumulated Income and Expenditure Reserve	14	170,600	148,358
Donated Asset Reserve	14	358	412
Total Government Funds	14	247,128	211,071

Professor Alan Thorpe
Chief Executive & Accounting Officer
Date: 29 June 2007

Cash flow statement for the year ended 31 March 2007

	Note	2007 £000	2006 Restated £000
Net cash outflow from operating activities	15	(304,123)	(284,643)
Returns on investments and servicing of finance			
Interest Received	8	137	22
Interest Element of Finance Lease Payments		(1,401)	(1,475)
		(1,264)	(1,453)
Capital Expenditure			
Payments to acquire tangible fixed assets	9(a)	(36,772)	(32,040)
Receipts from disposal of tangible fixed assets		2,898	52
		(33,874)	(31,988)
Net cash outflow before financing		(339,261)	(318,084)
Financing			
Grant-in-Aid Received	14	340,630	295,977
Funding Received from Other Bodies	14	5,137	6,446
Capital Element of Finance Lease Payments		(932)	(861)
		344,835	301,562
Increase/(Decrease) in Cash	16	5,574	(16,522)

Statement of total recognised gains and losses for the year ended 31 March 2007

	2007 £000	2006 Restated £000
Net Expenditure for the Year	(333,969)	(347,536)
Grant in aid received	340,630	295,977
Funding Received from Other Bodies	5,137	6,446
Impairment of assets recorded through Revaluation Reserve	(26)	(2,681)
Assets donated to NERC in year	-	412
Release of donated asset reserve	(54)	-
Gain on revaluation of fixed assets	17,193	15,308
Release of Government Grant Reserve	(540)	-
Reversal of Notional Cost of Capital	7,686	7,272
Total recognised gains and losses during the year	36,057	(24,802)

Notes to the Accounts

1. Accounting Policies

a. Basis of Accounting

- (i) The accounts have been prepared under the historical cost convention, modified to include revaluation of fixed assets. The accounts have been prepared in accordance with the Financial Reporting Manual (FReM) and the Accounts Direction given by the Secretary of State for Trade and Industry, with the approval of HM Treasury, in pursuance of Section 2(2) of the Science and Technology Act 1965.
- (ii) The accounts meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board in as far as these requirements are appropriate. The Council is exempted from producing a note of historical cost profits and losses normally required by Financial Reporting Standard Number 3.
- (iii) The accounting policies have been applied consistently except for the change in the treatment of the receipt of grant in aid for revenue and general capital purchases and certain other income where there is no exchange transaction which is now treated as a financing inflow and credited directly to reserves rather than being recognised in income for the year (see note 2). The accounts have been restated accordingly.
- (iv) The accounts of all NERC owned establishments have been incorporated into these accounts.

b. Fixed Assets and Depreciation

Tangible Fixed Assets

Expenditure on fixed assets includes the purchase of land and buildings, construction and services projects, and equipment valued at £5,000 or more.

Tangible fixed assets are stated at the lower of depreciated historical cost or valuation. Costs of acquisition, comprising only those costs that are directly attributable to bringing the asset into working condition for its intended use, are capitalised. Land, buildings, ships and aircraft are independently and professionally revalued every five years. These assets are subject to annual indexation when a full revaluation is not completed.

Polaris House, which is jointly owned by the Research Councils, was revalued in 2005/06 by Powis Hughes Associates. All other land and buildings were valued by Powis Hughes Associates during 2002/03 in accordance with SAVP and RICS guidance notes. The basis of valuation was open market value for either existing or alternative use where this could be established or depreciated replacement cost in the case of specialised scientific buildings. The Antarctic Buildings that had a nil net book value were revalued by Ms Jill Thompson, MRICS in 2006/07.

RRS James Clark Ross and RRS Ernest Shackleton were revalued in 2006/07 by Mr Bruce Buchan M.A., F.C.I.Arb. and the aircraft was also valued in 2006/07 by the International Bureau of Aviation Group Limited. RRS Charles Darwin and RRS Discovery were independently and professionally revalued by Mr Bruce Buchan M.A., F.C.I.Arb in 2005/06.

Plant and Equipment and Motor Vehicles are revalued using relevant indices.

Surplus or deficit on revaluation is taken to a Revaluation Reserve, except that any permanent diminution in value is charged to the Statement of Net Expenditure in the year in which it is recognised.

Increased depreciation charges arising from the revaluation are matched by annual transfers from the revaluation reserve to the Income and Expenditure Reserve. On the disposal of a revalued asset, that element of the Revaluation Reserve which becomes realised as a result is transferred directly to the Accumulated Income and Expenditure Reserve.

Freehold land is not depreciated. All other tangible fixed assets are depreciated in order to write off the value of the asset less its estimated residual value over their estimated useful economic lives using straight-line depreciation methodology. These lie within the following ranges :-

Leasehold land	- over the terms of the lease
Freehold buildings	- up to 50 years or valuer's estimates of economic life
Long leasehold buildings	- up to 50 years (or the length of the lease if less)
Short leasehold buildings	- over the length of the lease
Plant and machinery	- 10 to 15 years
Ships and aircraft	- minimum of 20 years for ships, 15 years for aircraft
Scientific equipment	- 5 to 10 years
Office and major computing equipment	- 5 to 10 years
Personal computers	- 3 years
Motor vehicles	- 3 to 7 years
Assets under construction	- not depreciated until brought into use

Fixed assets are not depreciated in the month of acquisition and are depreciated by a full month in the month of disposal.

In accordance with the provisions of FRS 15 paragraph 83, the components of assets with substantially different economic lives are accounted for separately for depreciation purposes and depreciated over their individual useful economic lives.

Donated Assets

Assets which are gifted by third parties are classified as donated assets. These are shown at the lower of current value on receipt or the value of the service provided where the asset is overspecified for its intended use. Donated assets are revalued, depreciated and subject to impairment reviews in the same way as other assets. The amount capitalised is credited to the donated asset reserve. Each year, an amount equal to the depreciation charge on the asset and any impairment will be released from the donated asset reserve to the Statement of Net Expenditure. No cost of capital charge is imposed.

Investments

Investments are shown at market value. Any surplus or temporary deficit on revaluation is taken to the revaluation reserve. Any permanent impairment in value is charged to the Statement of Net Expenditure in the year that it arises.

c. Ownership of Equipment Purchased with NERC Research Grants

Equipment purchased by an Institution with research grant funds supplied by the NERC belong to the Institution and are not included in NERC's tangible fixed assets. Through the Conditions of Grant applied to funded Institutions, NERC reserves the right to determine the disposal of such equipment and how any disposal proceeds are to be utilised.

d. Government grants receivable and other income

Grant-in-Aid for revenue and general capital purposes is credited to the Income and Expenditure Reserve and grant-in-aid for the purchase of specific assets is credited to the Government Grant Reserve and released to the Statement of Net Expenditure over the useful life of the asset in amounts equal to the annual depreciation charge (see note 2 and 14). Where other income is received and there is no exchange transaction, this is also treated as financing and credited to the Income and Expenditure Reserve.

e. Research and Development

As an organisation wholly engaged in research, NERC does not classify research and development expenditure separately in the accounts. It is reported under operating costs in the Statement of Net Expenditure.

Intellectual property rights arising from the Council's research and development have not been included in these accounts as their market value cannot be readily estimated. The anticipated annual income generated from such rights is not material in value and is credited to the Statement of Net Expenditure on receipt.

f. Insurance

In line with Government policy, NERC carries its own risks in respect of employment of staff, buildings, equipment, stocks, etc except where there exists a statutory requirement to insure or where commercial insurance represents better value for money.

g. Foreign Currencies

Assets and liabilities denominated in foreign currencies are expressed in pounds sterling at the rate(s) of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the Statement of Net Expenditure.

h. Value Added Tax

As NERC is partially exempt for VAT purposes, irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input tax is recoverable the amounts are stated net of VAT.

i. Stocks, work-in-progress and long term contracts

The net realisable value of stocks is minimal and the costs of additions to stock are charged to the Statement of Net Expenditure in the year of purchase. Amounts recoverable on long term contracts are stated at cost plus attributable profits less provision for any known or anticipated losses and payments on account.

j. Pension and Early Retirement Costs

Payments are made to the Research Councils' Pension Scheme in respect of superannuation benefits for Council staff. The cost of early retirements are charged to NERC's accounts in the year in which the decision is taken to release staff and a provision for early retirement cost created. This provision is released to fund early retirement costs when they are paid.

The provision for these costs is discounted at the HM Treasury rate of 2.8% (2005/06: 2.8%). The unwinding of the discount is charged to the Statement of Net Expenditure.

Payments by the Council of early retirement lump sums are recoverable from the Research Councils' Pension Scheme when recipients achieve normal retirement age. Recoverable amounts are recognised as debtors in these accounts and offset against annual staff restructuring costs.

k. Notional Costs

In line with HM Treasury requirements, a notional interest charge is included in the accounts to reflect a charge for the use of capital in the business in the year, as the Council has no specific interest bearing debt. In accordance with Treasury guidance, the calculation is based on a 3.5% rate of return on average net assets employed (2005/06: 3.5%) less amounts held with Paymaster General and donated asset reserve.

l. Provisions

Provisions are recognised when it is probable that NERC will be required to settle a present obligation and a reliable estimate can be made of that obligation. The obligation is normally the amount that NERC would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time.

This may require estimating the future cash flows in current-year prices (i.e. at the price level prevailing in the year covered by the accounts) and, where the time value of money is material, discounting them at the standard public sector real rate set by HM Treasury- currently 2.8% for pension provisions and 2.2% for all other provisions.

m. Finance Lease

NERC has the use of a ship for which substantially all risks and rewards of the asset are transferred to the Council. The asset is capitalised and is subject to the same revaluation policy as other tangible fixed assets and is depreciated over the shorter of its estimated useful economic life or the lease period with the outstanding lease obligations (net of interest) shown in creditors. Finance charges are charged to the Statement of Net Expenditure over the period of the agreement in accordance with the interest rate within the contract.

n. Operating Leases

Operating lease rentals are charged to the Statement of Net Expenditure on a straight line basis over the period of the lease.

2. Restatement of Accounts

Prior Year Adjustment

In 2006/07, the accounting treatment for grant-in-aid has changed such that the NDPBs should regard grants and grant-in-aid received for revenue purposes as contributions from controlling parties giving rise to a financial interest in the body. As a result, grant-in-aid received for revenue purposes is credited to the Income and Expenditure Reserve rather than being recognised as income in the Income and Expenditure Account for the year. As a result the Income and Expenditure Account now shows net expenditure for the year rather than a surplus or deficit and has subsequently been renamed "Statement of Net Expenditure". Grant-in-aid for capital purposes is only credited to the Government Grant Reserve if it is for the purchase of a specific asset with all other capital grant-in-aid credited to the Income and Expenditure reserve. Where other income is received and there is no exchange transaction, this is also treated as financing and credited to the Income and Expenditure Reserve.

The table below shows the movement of grant-in-aid income from the old Income and Expenditure Account. Note 14 provides further details of the movement and the amalgamation of the Government Grant Reserve with the Income and Expenditure Reserve.

	Income and Expenditure as reported in 05/06 accounts £000	Statement of Net Expenditure £000	Acc. Income and Expenditure Reserve £000
Income			
Revenue Grant in Aid	263,937	-	263,937
Release of Government Grant Reserve	17,720	-	17,720
Other income	54,700	48,254	6,446
	336,357	48,254	288,103
Expenditure for year	(364,223)	(364,223)	
Notional interest	(7,272)	(7,272)	
CEH Restructuring	(21,379)	(21,379)	
Financing Lease Interest	(1,475)	(1,475)	
Interest receivable	22	22	
Unwinding of discount	(462)	(462)	
Change in Discount Rate	(855)	(855)	
Loss on disposal of fixed assets	(146)	(146)	
	(395,790)	(395,790)	
Deficit for the year/Net Expenditure for the Year	(59,433)	(347,536)	

The presentation of the comparative figures has been restated as a result and a prior year adjustment made to transfer capital grant-in-aid for general purposes from the Government Grant Reserve to the Income and Expenditure Reserve (see note 14).

3. Income

	2007 £000	2006 Restated £000
(a) Income from Government Departments		
Department for Environment Food and Rural Affairs	3,067	4,319
Department of Trade and Industry	644	641
Ministry of Defence	-	288
Department for International Development	1,617	1,532
Environment Agency	2,783	2,713
Department of Enterprise, Trade and Investment Northern Ireland	2,959	2,536
Other Departments	691	17
Total Income from Government Departments	11,761	12,046
(b) Income from Other Bodies		
European Community	3,108	2,686
Other Research Councils	1,872	2,140
Other Public Sector	2,693	3,065
Private Sector	14,471	16,251
Total Income from Other Bodies	22,144	24,142
(c) Other Operating Income		
Software and data sales	2,624	1,694
Scientific publications	458	522
Library and administrative services	1,108	1,021
Property and equipment rentals	1,034	1,251
Sales of products	80	77
Lecture fees, seminars and training courses	267	118
Promotional items	296	173
Royalties and licence fees from intellectual property	1,987	1,804
Reimbursement of expenditure	3,088	2,827
Other income	1,732	2,579
Total Other Operating Income	12,674	12,066
(d) Release of Government Grant Reserve	540	-
Total Income	47,119	48,254

4. Salaries and Wages

(a) Staff Numbers

Staff numbers that have been capitalised during the year have been estimated as 16 full-time equivalents for those staff employed by NERC that are adding value to assets such as NERC Estates and those engaged in project managing or building of assets. In addition, the total amount capitalised for staff costs in 2006/07 is £707,000 (2005/06: £697,837).

The average number FTE's (Full time equivalent) staff employed during the year was made up as follows:

	2007 No.	2006 No.
Administrative	648	647
Scientific	1,299	1,324
Professional and Technical	371	372
Marine and Antarctic Contract	266	275
Staff on inward secondment/loan	4	5
Agency/temporary and contract staff	101	87
	2,689	2,710

Note: The total number of staff reported in the Annual Report on page 33 is calculated based on a head count as at the 31 March 2007, whereas the above figures are average FTE's for the year.

(b) Staff Costs

In 2006/07 staff on secondment/loan/temporary and contract staff totals £4,164,000 (2005/06: £4,000,000) and are included in the figures below. Agency costs of £851,000 (2005/06: £1,118,000) have been included in operating costs.

	2007 £000	2006 £000
Salaries and wages	84,273	82,259
Social Security costs	6,840	6,713
Other pension costs (note 4d)	16,205	17,668
	107,318	106,640

(c) Remuneration to Council and Committee Members/Peer Review College

The following are included in Staff Costs, note 4(b), Other Operating Costs, note 7 and Staff Costs, note 4(d) (pensions):

	2007 £000	2006 £000
Council Members' fees	103	103
Committee Members'/Peer Review	289	335
Other emoluments	78	114
Pensions	-	2
	470	554

Committee members may receive £160 (2006: £160) per day.

Committee Chairman may receive £215 (2006: £215) per day.

British Geological Survey Programme Board members receive £3,000 per annum (2006: £3,000).

British Geological Survey Programme Board Chairman receives £4,000 per annum (2006: £4,000).

British Antarctic Survey Independent Board members receive £5,000 per annum (2006 : £5,000)

Chairmen of Boards of Council receive £8,370, £8,540 with effect from 1/10/06 (2006: £8,370).

All emoluments are non-pensionable.

Peer Review College members receive honoraria of £1,000 per annum. The Peer Review College Associate members receive honoraria of £500 per annum.

Peer Review College Members are initially employed for 1 year commencing 1 June.

Average number of Council, Committee and Board Members

	2007 No.	2006 No.
Council Members*	16	18
Committee/Peer Review		
College and Board Members	305	267
	321	285

* includes Chief Executive and Chairman

Council/Committee and Peer Review College Members' emoluments fell into the following bands:

	2007 No.	2006 No.
£0 to £5,000	311	273
£5,001 to £10,000	8	10
£10,001 to £15,000	2	2
	321	285

(d) Superannuation

Pension scheme payments

	2007 £000	2006 £000
Payments in respect of the Research Councils' Pension Scheme (RCPS)	16,175	15,963
Payments to pension schemes other than the RCPS:		
Merchant Navy Officers' Pension Fund	115	143
Merchant Navy Officers' Pension Plan	6	6
Merchant Navy Ratings' Pension Fund	(207)	1,476
Merchant Navy Ratings' Pension Plan	5	5
Partnership Pensions	111	75
	16,205	17,668

Most employees of NERC are members of the Research Councils' Pension Scheme (RCPS) which is a defined benefit scheme funded from annual grant-in-aid on a pay-as-you-go basis. The pension scheme is non-contributory and the benefits are analogous to the Principal Civil Service Pension Scheme, except that while the scheme provides retirement and related benefits based on final emoluments, redundancy and injury benefits are administered and funded by the Council. The pension scheme is administered by the Research Councils' Joint Superannuation Services, and the finances administered by the Biotechnology and Biological Sciences Research Council (BBSRC). The scheme is a multi-employer scheme, for which a separate Research Councils' Pension Scheme Account is published. The Council is unable to identify their share of the underlying assets and liabilities.

From 1 April 1996 the Council has paid employer's contributions to the Research Councils' Pension Scheme, at a percentage of scheme members' pensionable pay as assessed by the Government Actuary's Department on a periodical basis. The current contribution rate is based on an assessment for the year ending 1997/98. An actuarial valuation for the scheme was carried out on 31 March 2002 and reported a required increase from 10.1% to 21.3% effective from 1 April 2005. NERC paid costs in the year of £16,174,870.

With effect from 1 October 2002, in line with arrangements throughout the Civil Service, a new RCPS sub-scheme was introduced. Employees were given the option of remaining in the existing 'Classic' scheme with an employee contribution of 1.5% of pensionable pay; joining the new 'Premium' scheme with their existing pension entitlement converted into the new scheme with an employee contribution of 3.5%; or joining the 'Classic Plus' scheme for future service only, with an employee contribution of 3.5% of pensionable pay, with existing pension benefits prior to 1 October 2002 being broadly calculated on the 'Classic' scheme.

All new employees with effect from 1 October 2002 were given the option of joining the Premium scheme or alternatively a Partnership Pension Account. This is a stakeholder-type defined contributions scheme where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). NERC also contributes a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement).

The Council also paid contributions during the year to a number of other multi-employer Pension Schemes for specific groups of employees, details of these schemes are shown below:

Scheme	Rate of Contribution	Year of Last Valuation
Falkland Island's Government Service Pension#	£34 per week	N/A
Merchant Navy Officers' Pension Fund [^]	11.9%	2004
Merchant Navy Officers' Pension Plan	5.1%	2000
Merchant Navy Ratings' Pension Fund*	8% /2%	2002
Merchant Navy Ratings' Pension Plan	5.1%	2000

The Falkland Island's Government Service Pension is a coin of the realm scheme, for which contributions are set at defined levels rather than as a percentage of pensionable emoluments.

[^] The Merchant Navy Officers' Pension Fund was subject to an actuarial valuation in 2004/05 and was showing a deficit overall. NERC made a payment last year in full settlement of £497,733, and currently has no liability outstanding.

* The Merchant Navy Ratings' Pension Fund closed on 31st May 2001. This Fund has a deficit, the liability for which is shared between members' employing organisations, we currently hold a provision for our share amounting to £694,000. This is a decrease from £1,579,000 as at 31 March 2006, which had arisen from the requirement to fund the deficit identified by the 2005 actuarial valuation of the pension scheme, and from one of the voluntary employers declining to extend their contributions beyond 2005/06. A one off payment of £720,000 was made this year in full settlement of the NERC element, with the closing balance on the provision relating to the additional liability arising from the withdrawal of one of the voluntary contributors. A legal challenge has been made by one of the compulsory employers contesting the legality of the voluntary contributor withdrawing from the scheme, and payment of the additional liability is therefore dependant upon the ruling on the case. On closure of the fund members transferred to the RCPS or the new Merchant Navy Ratings' Pension plan which is a money purchase scheme. 2% of the residual employers contributions are still paid to the closed scheme for members who opted for section 148 revaluation of accrued pension.

5. Staff Restructuring/Early Retirements

	2007 £000	2006 £000
Annual Compensation Payments	844	39
Redundancy Compensation Payments	229	399
Early Retirement Lump Sums	461	563
Provision for Early Retirement Liability	687	1,353
Recoverable Early Retirement Lump Sums	(644)	(587)
	1,577	1,767

6. Grants and Training

	2007 £000	2006 £000
(a) Research Grants - Analysis by Scientific Area		
Atmospheric Science	12,923	15,064
Earth Science	8,787	8,754
Marine Science	10,405	12,041
Terrestrial and Freshwater Science	19,125	17,112
	51,240	52,971
(b) Research Contracts - Analysis by Scientific Area		
Atmospheric Science	9,578	8,148
Earth Science	2,544	1,847
Earth Observation Science	3,947	4,215
Marine Science	6,019	11,217
Terrestrial and Freshwater Science	1,318	2,898
Scientific Services	8,207	6,309
	31,613	34,634
(c) Post Graduate Training Awards		
Research Masters	3,740	3,518
Research Studentships	21,550	20,623
Research Fellowships	4,925	4,489
	30,215	28,630
Total Grants and Training Awards	113,068	116,235

7. Other Operating Costs

	Note	2007 £000	2006 £000
Rent and Rates		3,086	3,330
Maintenance, Cleaning, Heating and Lighting	(i)	8,802	(539)
Office Supplies, Printing and Stationery		2,922	3,018
Laboratory Supplies, Computing and Field Equipment		13,465	13,312
Postage, Telephone and Other Telecommunications		1,467	1,549
Hospitality		680	731
Audit Fee		58	50
Travel and Subsistence		8,422	7,777
Ships and Aircraft Operations		10,298	9,208
External Training		1,285	966
Professional and Research Services by Outside Bodies	(ii)	79,934	80,744
Operating Leases		119	153
(Decrease) in provision for bad debt		(65)	(150)
		130,473	120,149

Note:

(i) In 2005/06 the balance included a write back of BAS Decommissioning provision of £5,838,000.

(ii) The cost for Professional and Research Services by outside Bodies includes international subscriptions of £49m, bought in services of £18m and other services including consultancy, advertising, waste disposal and medical/legal fees. NERC was the host Council for the Joint Training Section and also host to the Research Councils' Procurement Organisation. The total operating expenses for these services are included within the Other Operating Costs above. The contributions from other Councils, which exclude any RCPO and JTS staff costs met directly by each Council, were £764,159 (2006:£753,354). These receipts are included under Other Operating income at note 3c.

8. Interest Receivable

	2007 £000	2006 £000
Interest on bank balances	137	22

9(a). Tangible Fixed Assets

Cost or Valuation	Land and Buildings ⁽ⁱ⁾ & ^(vi) £000	Plant and Equipment ^(v) £000	Ships and Aircraft ⁽ⁱⁱⁱ⁾ & ^(iv) £000	Motor Vehicles ⁽ⁱⁱ⁾ £000	Total £000
At 1 April 2006	254,704	85,206	162,481	5,940	508,331
Additions	12,034	8,435	14,523	1,780	36,772
Revaluation	13,548	4,834	(778)	57	17,661
Disposals	(182)	(2,083)	(14,355)	(325)	(16,945)
Impairment	-	-	(318)	-	(318)
At 31 March 2007	280,104	96,392	161,553	7,452	545,501
Depreciation					
At 1 April 2006	99,969	52,878	86,493	4,642	243,982
Charge for the year	4,658	10,558	4,695	700	20,611
Revaluation	-	162	-	9	171
Disposals	(211)	(1,970)	(14,152)	(311)	(16,644)
Impairment	-	-	(6)	-	(6)
At 31 March 2007	104,416	61,628	77,030	5,040	248,114
Net Book Value					
At 31 March 2007	175,688	34,764	84,523	2,412	297,387
At 1 April 2006	154,735	32,328	75,988	1,298	264,349

Notes:

(i) Cost / Valuation includes £14,278,252 in respect of Freehold Land which is not depreciated (2006: £13,083,146)

(ii) Including specialised Antarctic Vehicles.

(iii) The NBV of the leased ship is £23,286,947 following revaluation (2006: £26,252,498). The annual depreciation charge on this asset held under the finance lease was £1,882,045 for the year (2006: £2,125,840). In addition the RRS Charles Darwin was disposed of with a NBV gain of £2,578,900.

(iv) The impairment cost of £286,000 in the Statement of Net Expenditure relates to the impairment following a professional revaluation of a BGS airplane. In accordance with FRS11 the balance of £26,000 has been debited to the revaluation reserve and has been included in the Statement of Total Recognised Gains and Losses.

(v) Includes donated assets with a value of £ 358,941 and is offset by a donated asset reserve. There is no restriction on the use of these assets.

(vi) Includes assets transferred to NERC from Southampton University with a NBV of £3,059,000.

9(b). The net book value of land and buildings comprises:

	2007 £000
Freehold	40,283
Long leasehold	99,982
Short leasehold	1,798
Antarctic buildings	11,603
Under Construction	22,022
Total Net Book Value	175,688

9(c). Fixed Asset Investments

	2007 £000
Valuation as at 1 April 2006	362
Revaluation	(318)
Valuation as at 31 March 2007	44

Notes:

The Council holds 252,000 shares in Evolutec Group PLC, a company engaged in the commercial development of NERC inventions and know-how. This equity provision was received in return for company access to NERC intellectual property. The shares are publicly traded on the Alternative Investment Market of the London Stock exchange and had a current open market value of 17.5 pence per share at 31 March 2007. NERC's shareholding represented 1.07% of the issued capital of Evolutec Group PLC at 31 March 2007. The sharp fall in the share price is attributable to the failure of drugs trials.

10. Debtors

	£000	2007 £000	£000	2006 £000
(a) Amounts falling due within one year:				
Trade debtors		5,103		4,607
Intra Government				
Central Government bodies	4,426		4,745	
Local Authorities	102		114	
		4,528		4,859
Other debtors		4,730		588
Early retirement lump sum repayments		1,444		1,231
Pre-payments		10,747		11,950
Accrued income		6,092		5,570
Provision for bad debts		(148)		(213)
		32,496		28,592
(b) Amounts falling due after one year:				
Early retirement costs in respect of former employees due from Pension Fund on normal retirement date.		3,940		4,322
Total Debtors		36,436		32,914

11. Creditors

	£000	2007 £000	£000	2006 £000
(a) Amounts falling due within one year:				
Trade Creditors		5,028		7,451
Intra Government				
Central Government bodies	458		1,640	
Local Authorities	1,036		585	
		1,494		2,225
Other Creditors		19,367		20,115
Early Retirements		1,604		1,869
Accruals & Deferred Income		21,916		10,477
Obligation under finance leases		1,013		933
Monies held on behalf of EC Programme Collaborators		2,322		2,204
		52,744		45,274
(b) Amounts falling due after more than one year:				
Obligation under finance leases	15,310		16,322	
CEH Early Retirements	768		-	
		16,078		16,322
Total Creditors		68,822		61,596

12. Provisions for Liabilities and Charges

	Note	Antarctic Treaty Costs ² £000	Early Retirements £000	Other Liabilities ³ £000	CEH Restructuring ⁴ £000	Total £000
At 1 April 2006	1	7,245	3,953	5,043	19,358	35,599
Write back of provisions not required		-	-	(653)	(2,100)	(2,753)
Amounts provided in year		1,831	1,602	649	3,058	7,140
Unwinding of discount		159	111	109	97	476
Provision utilised in year		(831)	(1,631)	(1,240)	(2,629)	(6,331)
Provision at 31 March 2007		8,404	4,035	3,908	17,784	34,131

Notes:

- The discount rate used is 2.8% for pension provisions and 2.2% for all other provisions.
- Antarctic Treaty Costs represents the Council's Liability to remove the items no longer used from the Antarctic.
- Other liabilities includes claims made against NERC and commitments to onerous operating lease payments, these have been estimated on the likelihood of the leases being assigned during the remainder of their term.
- CEH Restructuring provision movements this year and new provisions are reported in the Management Commentary in the Annual Report in detail. The opening balances for CEH provisions have been separated in order to aid understanding of the provision.

13. Notional Cost of Capital

	2007 £000	2006 £000
Notional cost of capital	7,686	7,272

In accordance with Treasury guidance the reversal of the cost of capital charge has been written back to the Income and Expenditure reserve (note 1k refers).

14. Government Funds

	Government Grant Reserve ² £000	Accumulated Income & Expenditure £000	Revaluation Reserve £000	Capital Land Reserve £000	Donated Asset Reserves ¹ £000	Total Government Funds £000
Balance at 1 April 2006	183,313	(39,030)	62,301	4,075	412	211,071
Prior Yr Adj - see note 2	(183,313)	187,388	-	(4,075)	-	-
Revised balance as at 1 April 2006	-	148,358	62,301	-	412	211,071
Grant-in-aid received	-	340,630	-	-	-	340,630
Funding Received from Other Bodies	-	5,137	-	-	-	5,137
Revaluation in year	-	-	17,193	-	(54)	17,139
Transfer of assets	3,599	-	(3,599)	-	-	-
Impairment of fixed assets	-	-	(26)	-	-	(26)
Reversal of notional cost of capital	-	7,686	-	-	-	7,686
Expenditure for year	-	(333,969)	-	-	-	(333,969)
Release to Net Expenditure	(540)	-	-	-	-	(540)
Transfer between reserves	-	2,758	(2,758)	-	-	-
Balance at 31 March 2007	3,059	170,600	73,111	-	358	247,128

Notes:

- The Donated Asset Reserve relates to assets which were donated as at 31 March 2006 and were valued at current value on receipt and included in note 9. All capital grant-in-aid received in previous periods and credited to the Government Grant Reserve was received for general capital purchases and has therefore been transferred to the Income and Expenditure Reserve via a prior year adjustment.
- The Government Grant Reserve addition in year relates to the inclusion of four assets that had previously been funded from NERC and have been transferred to NOCS from Southampton University. The reserve will be released to the Statement of Net Expenditure over the asset lives to match depreciation.

15. Reconciliation of the operating costs before financing to net cash outflow from operating activities

	2007 £000	2006 £000 Restated
Net Operating Costs Before Financing	(326,214)	(315,969)
Depreciation charge	20,611	18,840
Transfers from Government Grant Reserve	(540)	-
Impairment	286	592
(Decrease) in provisions	(2,902)	(3,843)
(Increase)/Decrease in debtors	(3,522)	1,191
Increase in creditors	8,158	14,546
Net cash outflow from operating activities	(304,123)	(284,643)

16. Reconciliation of movements in cash to movements in net funds/(debt)

	2007 £000	2006 £000
Increase/(Decrease) in cash	5,574	(16,522)
Capital element of finance lease payment	932	861
Change in net debt resulting from cash flows	6,506	(15,661)
Net (debt)/funds at 1 April	(6,615)	9,046
Net debt at 31 March	(109)	(6,615)

Analysis of net debt

	At 1 April 2006 £000	Cash Flows £000	At 31 March 2007 £000
Cash at bank	10,640	5,574	16,214*
Finance Lease	(17,255)	932	(16,323)
	(6,615)	6,506	(109)

Note* Figure includes £11,325,000 which relates to balance held at Office of Paymaster General as at 31 March 2007 (£6,895,000 : 2006).

17. Forward Commitments on Approved Research Grants ,Research Contracts and Studentships

	£000
2007-2008	111,202
2008-2009	73,175
2009-2010	37,161
2010-2011	8,167
2011-2012	4,844
2012-2013	392
Total	234,941

18. Amounts Payable under Finance Lease Obligations

	2007 £000	2006 £000
Within one year	1,013	933
Within two to five years	5,011	4,611
Greater than five years	10,299	11,711
Total	16,323	17,255

19. Related Party Transactions

The Natural Environment Research Council (NERC) is a Non-Departmental Public Body (NDPB) sponsored by the Department of Trade and Industry (DTI).

The DTI is regarded as a related party. During the year, NERC has had various material transactions with the DTI and with other entities for which the DTI is regarded as the parent Department, viz: Engineering and Physical Sciences Research Council, Biotechnology and Biological Sciences Research Council, Particle Physics and Astronomy Research Council, Council for the Central Laboratory of the Research Councils, Medical Research Council, Economic and Social Research Council and the Arts and Humanities Research Council.

In August 2005, DTI transferred to NERC the responsibility for the National Core Store (located at Gilmerton, Edinburgh). There is a minimum 5 year lease agreement in place where NERC lease the property in Edinburgh from the DTI at an annual peppercorn rent. The property remains on DTI's balance sheet. NERC are responsible for maintaining and running the Core Store and have received full year funding of £420,000 from the DTI. In addition NERC has had various material transactions with other Government departments and other central Government bodies.

During the year, NERC entered into the following material transactions with a Council member in respect of payments under awards or contracts funded by NERC.

Council Member	Number of Awards or Contracts	Amount £
Professor A Fitter	1	22,838

None of the above mentioned related parties were involved in the approval of awards to the Institution where he/she is a senior member of the staff.

In addition, NERC made the following aggregated payments in respect of NERC-funded awards or contracts to Institutions where Council members are also senior members of staff.

Related Party	Institution	Number of Awards or Contracts	Amount £000
Mrs K Morgan	Plymouth Marine Laboratory	29	1,153
Professor A Glover	University of Aberdeen	26	1,034
Professor M Anderson	University of Bristol	67	2,502
Professor T Davies	University of East Anglia	73	2,723
Professor A Halliday	University of Oxford	74	2,194
Professor A Thorpe	University of Reading	60	2,229
Professor A Fitter	University of York	32	1,046
Professor M Lockwood	University of Southampton	75	2,656
	CCLRC	18	566
Professor M Wilson	University of Leeds	79	3,160

20. Losses and Special Payments

During the year there were 33 losses totalling £36,084, including a compensation payment of £14,693.

21. Shareholdings

Other than shareholdings shown in note 9(c), the council holds 249 shares in Wallingford Hydrosolutions Ltd, a specialist technology transfer company. Wallingford Hydrosolutions Ltd is a leading research centre in the area of hydrology, water resources and environmental modelling. The shares are not publicly traded and currently have no open market value. At 31 March 2007 NERC's shareholding represented 24.9% of the issued share capital of Wallingford Hydrosolutions Ltd.

The council holds 1,000 shares in Cybersense Biosystems Ltd, a biosensor company based at Oxford's Centre of Ecology & Hydrology, which is adapting the latest bioluminescent biosensor technology for industrial applications. The shares are not publicly traded and currently have no open market value. At 31 March 2007 NERC's shareholding represented 0.25% of the issued share capital of Cybersense Biosystems Ltd.

22. Capital and Lease Commitments

Capital Commitments

As at the date of these accounts, NERC is committed to a sum of £17,750,000 in respect of capital contracts. This includes the building of the Antarctic base Halley VI for £17,200,000 due to be completed in 2010/11, the Environmental Centre for Wales for £166,000 due to be completed in 2007/08 and A-F blocks in BGS Keyworth for £318,000 due to be completed in 2008/09. It is anticipated that the remaining capital contracts will be completed in 2007/08.

Lease Commitments

NERC have an operating lease for the hire of an aircraft and for hire of scientific equipment. The annual commitments under non-cancellable operating leases are as follows :-

	2007 £'000	2006 £'000
Operating leases which expire		
- in under one year	21	119
- in two to five years	24	43

23. Contingent Liabilities

There are no outstanding contingent liabilities at this time.

24. Post Balance Sheet Events

There have been no events between the Balance Sheet date and 17 July 2007, the date when the accounting officer despatched the accounts to the Office of Science and Innovation. The financial statements do not reflect events after this date.

25. Financial Instruments

Financial Reporting Standard Number 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way it is financed, the Council is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Council has limited powers to borrow or invest funds and except for the finance lease contract (details of which are given in notes 1(m), 9(a) and 20) and relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Council in undertaking its activities.

Liquidity risk

The Council's net revenue resource requirements are largely financed by grant-in-aid from its sponsor department. The capital expenditure, with the exception of the ship financed under the Finance Lease referred to above, is also financed through grant-in-aid. The Council is not therefore exposed to significant liquidity risks.

Interest rate risk

The Council is not exposed to any interest rate risk.

Foreign currency risk

The Council's exposure to foreign currency risk is not currently significant.



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