

Annual accounts 2008-09

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 Secretary of State for the Department for Innovation, Universities and Skills has directed the Council to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Natural Environment Research Council of its income and 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 Department 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 the going concern basis.

The Department for Innovation, Universities and Skills 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 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 *Managing Public Money* (The Stationery Office).

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.

Statement of 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 Managing Public Money.

The powers, roles, responsibilities and membership of Council are defined in its Royal Charter. The nature of its relationship with its sponsor department, the Department for Innovation, Universities and Skills, is defined in the DIUS/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 DIUS/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 2009 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 on 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 Operations, 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 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 reflected in the NERC Strategic Management Tool and DIUS scorecard.

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. carrying 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.)

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. 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 is 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 are identified and assessed. The Risk Management Network, supported by the Risk Management Co-ordinator, will be responsible for identifying specific risk management training needs and making proposals to management at appropriate levels about how such training should be provided. The Network will periodically review the delivery and take-up of such training and include a commentary in the annual report to NEB.

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.

NEB 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).

NEB 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 activities reflected in the NERC Strategic Management Tool and DIUS scorecard. 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 Council (NERC Top Risks), NEB (NERC Top Risks /NERC Strategic Management Tool and DIUS scorecard activities progress report) and the NERC Audit Committee (NERC Top Risks / Business Critical Projects status report). STAR also provides the quarterly report to DIUS that details progress towards completing activities that feature in the DIUS scorecard.

The seven Research Councils have agreed to establish a Shared Services Centre (SSC), to be based in Swindon. The SSC will provide finance, grants, human resources, procurement and some aspects of information systems services to each of the Councils and their Institutes. The Councils are setting up the SSC with the aim of reducing spending on administration through sharing and standardising processes. The SSC was incorporated last year as RCUK Shared Services Centre Ltd and is in the process of establishing itself to be ready for the transfer of services. There is a phased implementation plan for transferring the Councils' services that commenced during 2008-09 with the transfer of some procurement and information services functions and will continue during 2009-10 with the transfer of finance and human resources functions.

The British Antarctic Survey are involved in a substantial project to replace the Halley Antarctic research station. The project is intrinsically risky, all materials for the new base have to be shipped from the UK or South Africa and assembled on site during the three months of Antarctic 'summer'. The project is tightly controlled employing PRINCE2 project methodology and a project assurance process styled on the OGC Gateway approach. However, despite these controls, the project has encountered substantial contractual issues that are currently being worked through with the contractor. The project delivery remains on target and it is expected that the costs can be controlled within the range approved by Council.

As a stakeholder in the project NERC has established a team to manage its participation in the project and the associated risks. The NERC SSC project's overall risk status is reported to every meeting of the NERC Executive Board and the NERC Audit Committee.

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 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 a representative from corporate Health and Safety and the NERC Security Adviser. The Network is chaired by the NERC Health and Safety Adviser on behalf of the Director Responsible for Risk and meets twice a year, ad hoc meetings may be convened to discuss and prepare advice on issues of urgency. Whilst the Health and Safety Adviser is acting as Chair of the Network, responsibility for representing the NERC Health and Safety community is passed to a representative from Corporate Health and Safety, thereby preserving the independence of the Chair. A member of the NERC Audit Committee attends Network meetings as an observer.

As part of its governance responsibilities, NEB undertakes a monthly review of top risks and receives an annual risk management report from the Risk Management Network. This report sets out for NEB details of the more significant risk management activity undertaken in the preceding year. The report also considers the issues NERC will need to address in managing risk going forward.

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 the 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 NEB, the Audit Committee and the Director Responsible for Risk. Plans to address weaknesses identified and measures to ensure continuous improvement of the system of internal control are in place.

6. Significant internal control problems

My review did not identify any significant internal control weaknesses.

Professor Alan J Thorpe

Chief Executive & Accounting Officer

Date: 24 June 2009

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 Natural Environment Research Council for the year ended 31 March 2009 under the Science and Technology Act 1965. These comprise the Statement of Net Expenditure, the Balance Sheet, the Cash flow Statement, Statement of 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 being audited.

Respective responsibilities of the Council, Chief Executive and Auditor

The Council, and Chief Executive as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report and the Financial Statements, in accordance with the Science and Technology Act 1965 and Secretary of State 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 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 the Department of Innovation, Universities and Skills directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Delivering the strategy section, included within the Annual Report, 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'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 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. This other information comprises the Next generation science for planet Earth, The year in review, Climate system, Biodiversity, Sustainable use of natural resources, Natural hazards, Environment, Pollution and human health, Earth system science, Technologies, Knowledge exchange, People, National capability, Partnerships and the unaudited part of the Remuneration Report, the Chief Executive's Introduction and the Chairman's Foreword. 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 Accounting Officer 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 the Department for Innovation, Universities and Skills, of the state of the Natural Environment Research Council's affairs as at 31 March 2009 and of its net expenditure, recognised gains and losses and cash flows 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 directions made thereunder by the Secretary of State for the Department for Innovation, Universities and Skills; and
- information, which comprises of the Delivering the Strategy section included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office, 151 Buckingham Palace Road, Victoria, London, SW1W 9SP

Date: 6 July 2009

Statement of net expenditure for the year ended 31 March 2009

	Notes	2009 £000	2008 £000
Expenditure			
Staff costs	4(b)	105,457	108,153
Staff early retirements	5	1,762	2,422
Grants and training	6	143,923	128,409
Other operating costs	7	157,687	139,382
Depreciation	9(a)	23,746	23,510
Impairment of fixed assets	9(a)	1,082	5,359
Total expenditure		433,657	407,235
Income	3	(52,683)	(48,337)
Net operating costs		380,974	358,898
Notional cost of capital	13	10,156	8,933
CEH restructuring	12	(642)	(2,269)
Finance lease interest		1,170	1,320
Interest receivable	8	(12)	(56)
Unwinding of discount	12	505	650
Loss/(Profit) on disposal of fixed assets		149	(1,928)
Net expenditure for the year	14	392,300	365,548

Accumulated Income and Expenditure reserves are shown at note 14.

All activities are continuing.

The notes on page 60 to 76 form part of these accounts.

Balance sheet as at 31 March 2009

	Notes	£000	31 March 2009 £000	31 March 2008 £000
Fixed assets				
Tangible assets	9	353,000		333,444
Investments	9 (c)/(d)	1,623		47
			354,623	333,491
Current assets				
Debtors	10	53,070		40,643
Cash at bank and in hand		14,602		8,872
		67,672		49,515
Current liabilities				
Creditors falling due within one year	11 (a)	(73,000)		(60,707)
Net current liabilities			(5,328)	(11,192)
Total assets less current liabilities				
			349,295	322,299
Other liabilities				
Creditors falling due after more than one year	11 (b)		(15,618)	(16,767)
Provisions for liabilities and charges	12		(19,277)	(24,731)
Net Assets				
			314,400	280,801
Capital and Reserves				
Government Grant Reserve	14		2,824	3,313
Revaluation Reserve	14		106,492	97,200
Accumulated Income and Expenditure Account	14		204,814	179,980
Donated Asset Reserve	14		270	308
Total Government Funds				
	14		314,400	280,801

The notes on page 60 to 76 form part of these accounts.

Professor Alan J Thorpe

Chief Executive & Accounting Officer

Date: 24 June 2009

Cash flow statement for the year ended 31 March 2009

	Notes	2009 £000	2008 £000
Net cash outflow from operating activities	15	(362,167)	(332,844)
Returns on investments and servicing of finance			
Interest received	8	12	56
Interest element of finance lease payments		(1,170)	(1,320)
		(1,158)	(1,264)
Capital expenditure			
Payments to acquire tangible fixed assets		(30,614)	(36,950)
Payments to acquire investments		(1,623)	-
Receipts from disposal of tangible fixed assets and investments		92	2,998
		(32,145)	(33,952)
Net cash outflow before financing		(395,470)	(368,060)
Financing			
Grant-In-Aid received	2	395,760	353,555
Funding received from other bodies	2	6,546	8,177
Capital element of finance lease payments		(1,106)	(1,014)
		401,200	360,718
Increase/(decrease) in cash	16	5,730	(7,342)

The notes on page 60 to 76 form part of these accounts.

Statement of recognised gains and losses for the year ended 31 March 2009

	2009 £000	2008 £000
Impairment of assets recorded through Revaluation Reserve	-	(4,530)
Gain on revaluation of fixed assets	13,964	32,882
Recognised gains and losses	13,964	28,352

The notes on page 60 to 76 form part of these accounts.

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 in accordance with the Financial Reporting Manual (FRM). The accounts, which give a true and fair view, have been prepared in accordance with The Science and Technology Act 1965 and with directions made by HM Treasury or the Department for Innovation, Universities and Skills.
- (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 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, ice stations in Antarctica, 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.

All land and buildings were valued by Powis Hughes & Associates in 2007-08 in accordance with the Statements of Asset Valuation Practice and Guidance prepared by The Royal Institution of Chartered Surveyors. 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, member of The Royal Institution of Chartered Surveyors in 2006-07.

The four research ships, RRS *Discovery*, RRS *James Clark Ross*, RRS *Ernest Shackleton* and RRS *James Cook*, were revalued in 2008/09 by E.A. Gibson Shipbrokers Ltd. All aircraft were also revalued in 2008-09 by the International Bureau of Aviation Group Limited.

Two large value assets transferred from Southampton University in 2006-07 were valued by Hydroid Europe in 2007-08. All other Plant and Equipment and Motor Vehicles are revalued using relevant indices.

Any 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 modified reducing balance 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
Antarctic ice stations	-	up to 35 years or valuer's estimates of remaining useful life
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
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 belongs to the Institution and is 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. 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 14).

Other operating income is shown net of trade discounts, value added tax and other taxes. Contributions from other government bodies and contributions and grants from other bodies are treated as financing and credited to the general reserve in the same way as Grant-in-Aid.

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. NERC has charitable status for VAT purposes.

i. 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 3.2% (2007-08: 2.5%). 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.

j. 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 (2007-08: 3.5%) less amounts held with Paymaster General and donated asset reserve.

k. 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 3.2% for pension provisions and 2.2% for all other provisions.

l. 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.

m. Operating leases

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

n. Investments

Investments are stated at cost less any provision for impairment.

2. Grant-in-Aid and income from other bodies

Under the Financial Reporting Manual, NDPBs 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 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 a summary of the Grant-in-Aid income and income from other bodies that are treated as financing inflow and have been transferred to the Income and Expenditure reserve during 2008-09 (see note 14):

	2009 £000	2008 £000
Grant-in-Aid received	395,760	353,555
Funding received from other bodies	6,546	8,177
Total	402,306	361,732

3. Income

	2009	2008
	£000	£000
a. Income from Government departments		
Department for Environment Food and Rural Affairs	4,738	4,995
Department of Business Enterprise & Regulatory Reform	920	858
Ministry of Defence	292	269
Department for International Development	152	885
Environment Agency	1,860	1,004
Department of Enterprise, Trade and Investment Northern Ireland	1,472	1,190
Foreign and Commonwealth Office	1,122	988
Department for Communities and Local Government	263	402
Other departments (i)	2,199	2,651
Total income from Government departments	13,018	13,242
b. Income from other bodies		
European Community	4,326	3,490
Other Research Councils	956	1,308
Other Public Sector	3,857	3,088
Private Sector	13,041	12,307
Total income from other bodies	22,180	20,193
c. Other operating income		
Software and data sales	2,176	2,041
Scientific publications	426	472
Library and administrative services	960	1,189
Property and equipment rentals	1,410	1,675
Sales of products	69	76
Lecture fees, seminars and training courses	249	144
Promotional items	195	306
Royalties and licence fees from intellectual property	2,151	2,768
Reimbursement of expenditure	7,371	3,406
Other income	1,951	2,307
Total other operating income	16,958	14,384
d. Release of Government Grant Reserve	527	518
Total income	52,683	48,337

(i) Other Government Departments includes £1m Meteorological Office (2007-08: £1.6m).

4. Salaries and wages

a. Staff numbers

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

	2009 No.	2008 No.
Administrative	531	604
Scientific	1,210	1,260
Professional and technical	363	376
Marine and Antarctic contract	257	266
Staff on inward secondment/loan	3	3
Agency/temporary and contract staff	84	126
	2,448	2,635

Note: The total number of staff reported in the Annual Report are calculated based on head count as at the 31 March 2009, whereas the above figures are average FTE's for the year.

Not included in the figures above are staff transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE Regulations) to RCUK Shared Services Centre Limited (SSC Ltd). On 1 April 2008 95.0 FTEs were transferred under the TUPE Regulations to SSC Ltd and immediately seconded back to NERC. During the year the average number FTEs transferred under TUPE Regulations to SSC Ltd and seconded back to NERC was 72.5 FTEs. All those staff were previously included under the Administrative category.

b. Staff costs

	2009 £000	2008 £000
Salaries and wages	82,756	84,965
Social Security costs	6,602	6,690
Other pension costs (note 4d)	16,099	16,498
	105,457	108,153

In 2008/09 temporary and contract staff costs total £4,813,688 (2007-08: £5,316,079) and are included in the figures above.

Agency costs of £2,206,214 (2007-08: £1,527,622) and charges by SSC Ltd in respect of staff transferred under TUPE Regulations and seconded back to NERC of £2,308,113 (2007-08: nil) have been included in operating costs.

The total amount capitalised for staff costs in 2008/09 is £453,718 (2007-08: £626,322). This relates to an estimated 9.5 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.

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.

	2009 £000	2008 £000
Council members' fees	111	113
Committee members'/Peer Review	331	300
Other emoluments	112	108
	554	521

Committee members may receive £166 (2007-08: £160) per day.

Committee Chairman may receive £223 (2007-08: £215) per day.

British Geological Survey Programme Board members receive £3,000 per annum (2007-08: £3,000).

British Geological Survey Programme Board Chairman receives £4,000 per annum (2007-08: £4,000).

British Antarctic Survey Independent Board members receive £5,118 per annum (2007-08: £5,000).

Chairmen of Boards of Council receive £8,970 per annum with effect from 1/10/2008 (2007-08: £8,750).

All emoluments are non-pensionable.

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

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 and associate members are initially employed for 1 year commencing 1 June.

Average number of Council, Committee and Board members

	2009 No.	2008 No.
Council members*	17	15
Committee/Peer Review		
College and Board members	395	366
	412	381

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

	2009 No.	2008 No.
£0 to £5,000	399	368
£5,001 to £10,000	11	11
£10,001 to £15,000	1	1
£15,001 to £20,000	1	1
	412	381

* includes Chief Executive and Chairman

d. Superannuation
Pension scheme payments

	2009 £000	2008 £000
Payments in respect of the Research Councils' Pension Scheme (RCPS)	15,868	15,947
Payments to pension schemes other than the RCPS:-		
Merchant Navy Officers' Pension Fund	45	409
Merchant Navy Officers' Pension Plan	3	5
Merchant Navy Ratings' Pension Plan	5	5
Partnership Pensions	178	132
	16,099	16,498

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 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 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 its share of the underlying assets and liabilities.

From 1 April 1994 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 actuarial valuation for the scheme was carried out as at 31 March 2006 by a qualified independent actuary. The draft report is available and discussions have commenced about a possible increase in the employers contribution rate from 21.3% to 26%, effective from 1 April 2010. The employers' contribution rate of 21.3% therefore applies to these accounts. NERC paid costs in the year of £15,867,782.

With effect from 30 July 2007, in line with arrangements throughout the civil service, a new career average RCPS pension arrangement called NUVOS was introduced with a 2.3% accrual rate. All new employees with effect from this date were given the option of joining the NUVOS 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
Merchant Navy Officers' Pension Fund [^]	11.9%	2004
Merchant Navy Officers' Pension Plan	5.1%	2000
Merchant Navy Ratings' Pension Fund*	2.0%	2008
Merchant Navy Ratings' Pension Plan	5.1%	2000

[^] No current liability outstanding.

* The Merchant Navy Ratings' Pension Fund closed on 31st May 2001. A new actuarial valuation was undertaken in March 2008. Although the preliminary results of the valuation were published in December 2008, the trustees have not yet decided upon their preferred funding option and the discussions with the members, led by Stena, continue.

The Fund has a deficit, the liability for which is shared between members' employing organisations. We currently hold a provision for our share amounting to £2,449,582. This relates to an increased deficit for the Fund based on more prudent actuarial assumptions than the previous valuation (such as increased life expectancy and greater uncertainty in the market). The funding schedule is anticipated to be 15 years. The provision also relates to the additional liability arising from the withdrawal of two of the voluntary contributors.

On closure of the fund members transferred to the RCPS or the new Merchant Navy Ratings' Pension plan which is a money purchase scheme. For members who opted for section 148 revaluation of accrued pension, 2% of the residual employer's contributions are still paid to the closed scheme.

5. Staff restructuring/early retirements

	2009 £000	2008 £000
Annual compensation payments	228	9
Redundancy compensation payments	346	484
Early retirement lump sums	271	735
Provision for early retirement liability (Note 12)	1,349	1,999
Recoverable early retirement lump sums	(432)	(805)
	1,762	2,422

6. Grants and Training

	2009 £000	2008 (i) £000
a. Research Grants – analysis by theme		
Climate systems	14,235	12,331
Biodiversity	17,549	15,202
Sustainable use of natural resources	8,008	6,937
Earth system science	16,639	14,414
Natural hazards	6,756	5,852
Environment, pollution and human health	5,418	4,693
Technology	2,266	1,963
	70,871	61,392
b. Research Contracts – analysis by theme		
Climate systems	9,012	7,441
Biodiversity	6,616	5,463
Sustainable use of natural resources	4,317	3,565
Earth system science	7,439	6,143
Natural hazards	3,934	3,248
Environment, pollution and human health	3,816	3,151
Technology	4,658	3,846
	39,792	32,857

	2009	2008 (i)
	£000	£000
c. Post Graduate training awards		
Research students	22,965	23,041
Research masters	4,006	4,003
Research fellows	6,289	7,116
	33,260	34,160
Total grants and training awards	143,923	128,409

Note (i) The 2007-08 figures have been restated in line with NERC's strategic and scientific priorities as set out in 'Next Generation Science for Planet Earth'.

7. Other operating costs

	Note	2009	2008
		£000	£000
Rent and rates		2,474	2,884
Maintenance, cleaning, heating and lighting		3,810	5,595
Office supplies, printing and stationery		4,532	4,276
Laboratory supplies, computing and field equipment		14,812	15,019
Postage, telephone and other telecommunications		1,693	1,489
Hospitality		698	657
Audit fee	(i)	61	54
Travel and subsistence		9,687	9,053
Ships and aircraft operations	(ii)	15,120	10,525
External training		1,087	1,206
SSC operating costs	(iii)	1,281	-
Professional and research services by outside bodies	(iv)	102,118	88,629
Operating leases		5	4
Increase/(decrease) in provision for bad debt		309	(9)
		157,687	139,382

Notes:

(i) The costs for Audit Fee include external audit fees for IFRS costs for trigger points 1 & 2 of £7.8k and statutory audit fee of £52k. There are no non-audit fees.

(ii) The cost for Ships and Aircraft Operations include £1.7m for the refit of the RRS Discovery and a £2.5m increase in bulk fuel costs due to a large increase in the costs of marine gas and aviation fuels during the year and the weakening of Sterling against the Dollar.

(iii) SSC Operating Costs include the costs for services which were transferred to SSC Ltd during the year, such as procurement, information technology and recruitment.

(iv) The cost for Professional and Research Services by Outside Bodies includes international subscriptions of £50.4m, bought in services of £33.2m (including SSC Ltd set up costs of £6.7m) and other services including consultancy, advertising, waste disposal and medical/legal costs.

8. Interest receivable

	2009	2008
	£000	£000
Interest on bank balances	12	56

9. a. Tangible fixed assets

Cost or valuation	Land, buildings and Antarctic stations (i) & (iv) £000	Plant and equipment (v) and (vi) £000	Ships and aircraft (iii) & (iv) £000	Motor vehicles (ii) £000	Total £000
At 1 April 2008	312,917	108,431	169,377	7,786	598,511
Additions	12,002	16,396	1,732	484	30,614
Revaluation	(1,188)	(352)	13,161	(211)	11,410
Disposals	(115)	(3,916)	-	(342)	(4,373)
Impairment	(267)	-	(815)	-	(1,082)
At 31 March 2009	323,349	120,559	183,455	7,717	635,080
Depreciation					
At 1 April 2008	108,453	68,147	82,816	5,651	265,067
Charge for the year	5,831	11,349	5,677	889	23,746
Revaluation	-	(2,306)	-	(467)	(2,773)
Disposals	(115)	(3,511)	-	(334)	(3,960)
At 31 March 2009	114,169	73,679	88,493	5,739	282,080
Net Book Value					
At 31 March 2009	209,180	46,880	94,962	1,978	353,000
At 1 April 2008	204,464	40,284	86,561	2,135	333,444

Notes:

- (i) Cost / Valuation includes £17,415,659 in respect of Freehold Land which is not depreciated (2007-08: £18,393,278).
- (ii) Including specialised Antarctic Vehicles.
- (iii) The NBV of the leased ship is £23,593,066 (2007-08: £22,424,234). The annual depreciation charge on this asset held under the finance lease was £1,818,586 for the year (2007-08: £1,971,735).
- (iv) The impairment costs of £1,081,720 relate to the reduction in value to below the depreciated historical costs of L&B properties of £266,629 following downwards indexation and a Dornier Aircraft of £815,091 following a professional valuation in 2008-09.
- (v) Includes donated assets with a value of £269,861 and is offset by a donated asset reserve. There is no restriction on the use of these assets.
- (vi) The Assets Under Course of Construction within Plant and Equipment include the Council's individual share of £7,721,164 (2007-08: £3,224,471) of the Shared Services Centre currently being developed by the seven Research Councils.

b. The net book value of land, buildings and Antarctic stations comprises:

	2009 £000	2008 £000
Freehold	48,025	48,625
Long leasehold	103,251	106,965
Short leasehold	767	560
Antarctic stations	14,143	15,192
Under construction	42,994	33,122
Total Net Book Value	209,180	204,464

c. Fixed asset investments

	2009 £000
Valuation as at 1 April 2008	47
Disposal	(47)
Valuation as at 31 March 2009	-

The Council disposed of its 252,000 shares in Evolutec Group PLC for £64k in December 2008.

The shares are publicly traded on the Alternative Investment Market of the London Stock exchange and had an open market value of 25.75 pence per share upon disposal. NERC's shareholding represented 0.97% of the issued capital of Evolutec Limited upon disposal.

d. Other investments

	2009	2008
	£	£
'A' share in RCUK Shared Services Centre Limited	1	1
'B' shares in RCUK Shared Services Centre Limited	1,622,660	-
	1,622,661	1

The Council owns one 'A' ordinary share of £1 in the SSC Ltd. Each of the seven Research Councils owns one share and they are all joint investors in the project. 'A' shares have voting rights. The investment has been classified as 'other investment' as each Council's individual share is 14%.

During the year the Council acquired 1,622,660 'B' shares of £1 in the SSC Ltd. These shares represent 20.54% of total shares issued of 7,900,000 and have no voting rights. The investment has been classified as 'other investment' as NERC's individual share is 20.54%, while the other six Research Councils own the remaining 79.46% or 6,277,340 shares.

SSC Ltd was incorporated on 1 August 2007 to set up the Shared Services Centre. In 2008-09 implementation of procurement services and information technology services for all seven Research Councils took place, as well as the human resources services for two Councils. For the period ended 31 March 2009 the draft financial statements of RCUK Shared Services Centre Limited shows revenue of £25.8m (2007-08: £1.2m) and administration costs of £27.2m (2007-08: £1.2m) resulting in a loss for the year of £1.4m (2007-08: nil). The balance sheet totals are £7 'A' shares and £7,900,000 'B' shares issued to the Research Councils and £7.1m cash.

10. Debtors

	£000	2009	£000	2008
		£000		£000
<i>a. Amounts falling due within one year:</i>				
Trade debtors		5,527		4,693
Intra Government				
Central Government bodies	15,715		5,531	
Local authorities	198		205	
		15,913		5,736
Other debtors		3,261		4,930
Early retirement lump sum repayments		1,360		1,352
Pre-payments		18,259		13,490
Accrued income		5,733		6,560
Provision for bad debts		(448)		(139)
		49,605		36,622
<i>b. Amounts falling due after one year:</i>				
Early retirement costs in respect of former employees due from Pension Fund on normal retirement date.		3,465		4,021
Total debtors		53,070		40,643

11. Creditors

	£000	2009 £000	£000	2,008 £000
<i>a. Amounts falling due within one year:</i>		3,929		4,795
Intra Government				
Central Government bodies	336		192	
Local authorities	3		227	
		339		419
Taxation and Social Security		26		1,175
Other creditors		21,962		18,943
Early retirements		1,847		1,762
Accruals and deferred income		40,532		31,413
Obligation under finance leases		1,198		1,101
Monies held on behalf of EC Programme Collaborators		3,167		1,099
		73,000		60,707
<i>b. Amounts falling due after more than one year:</i>				
Obligation under finance leases	13,005		14,208	
Early retirements	2,613		2,559	
		15,618		16,767
Total creditors		88,618		77,474

12. Provisions for liabilities and charges

	Antarctic Treaty costs ² £000	Shared Services Centre ⁴ £000	Early retirements £000	Other liabilities ³ £000	CEH restructuring £000	Total £000
At 1 April 2008 ¹	7,829	788	3,553	2,604	9,957	24,731
Change in discount rate	-	-	(45)	(11)	-	(56)
Write back of provisions not required	(2,227)	(132)	(93)	-	(1,491)	(3,943)
Amounts provided in year	-	227	1,349	1,987	849	4,412
Unwinding of discount	172	-	48	61	224	505
Provision utilised in year	(183)	(70)	(1,671)	(1,019)	(3,429)	(6,372)
Provision at 31 March 2009	5,591	813	3,141	3,622	6,110	19,277

Notes :

- The discount rate used is 3.2% for pension provisions and 2.2% for all other provisions (2007-08: 2.5% 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 include Merchant Navy Ratings' Pension Fund, 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.
- The Research Councils and RCUK Shared Services Ltd are in the process of developing a Shared Service Centre to carry out the central functions of Human Resources, Finance, Procurement and Information Technology across the Councils. As a result some Research Councils will incur redundancy costs, particularly where existing staff live a distance away from Swindon where the Centre will be situated. The Research Councils have collectively agreed that they will be jointly liable for all necessary redundancies. The Councils have calculated their likely redundancy liabilities in order to make a provision. A funding allocation model was developed and agreed by all the Research Councils and this identified the proportion of SSC project spend and liability that each individual Council would incur. The total provision for redundancies has been apportioned using this model. The table below shows, for each Council the amount that they need to provide for redundancies of their own staff in accordance with FRS 12 as determined at 31 March 2009. Some Councils will incur a cost for terminating their existing systems, and these costs are being shared between the Councils. The provision for all seven Councils are then split and shared in accordance with an agreed predetermined ratio as detailed in the table below. Each Council takes their agreed share of their own liability and then contributes or receives contributions from the other Research Councils to reach the provision which is recorded in their own balance sheet.

NERC SSC provision	£000
At 1 April 2008	1,620
Change in discount rate	-
Write back of provisions not required	(396)
Amounts provided in year	-
Unwinding of discount	-
Provision utilised in year	(315)
Provision at 31 March 2009	909

	AHRC £000	BBSRC £000	ESRC £000	EPSRC £000	MRC £000	NERC £000	STFC £000	Total £000
Opening provision required for Council's own redundancies	68	152	-	-	999	1,620	-	2,839
Opening provision system termination fee	-	-	-	-	1,000	-	-	1,000
Opening total provisions	68	152	-	-	1,999	1,620	-	3,839
Net movement in provisions	-	279	-	-	31	(711)	520	119
Closing total provisions	68	431	-	-	2,030	909	520	3,958
% of total provision to be borne by the Council	1.33%	20.54%	1.83%	8.24%	26.98%	20.54%	20.54%	100.00%
Net provision required for each Council	53	813	72	326	1,068	813	813	3,958

13. Notional cost of capital

	2009 £000	2008 £000
Notional cost of capital	10,156	8,933

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

14. Government funds

	Government Grant Reserve ⁽ⁱ⁾ £000	Accumulated Income Expenditure Reserve £000	Revaluation Reserve £000	Donated Asset Reserves ⁽ⁱⁱ⁾ £000	Total Government Funds £000
Balance at 1 April 2008	3,313	179,980	97,200	308	280,801
Grant-In-Aid received	-	395,760	-	-	395,760
Funding received from other bodies	-	6,546	-	-	6,546
Revaluation in year	-	-	13,964	-	13,964
Reversal of notional cost of capital	-	10,156	-	-	10,156
Expenditure for year	-	(392,300)	-	-	(392,300)
Release to net expenditure	(489)	-	-	(38)	(527)
Transfer between reserves	-	4,672	(4,672)	-	-
Balance at 31 March 2009	2,824	204,814	106,492	270	314,400

Notes:

(i) The Government Grant Reserve relates to assets transferred from Southampton University to NQCS. The reserve is released to the Statement of Net Expenditure over the asset lives to match depreciation.

(ii) The donated reserve relates to assets which were donated in 2005/06 and were valued at current value on receipt and included in note 9.

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

	2009	2008
	£000	£000
Net operating expenditure	(380,974)	(358,898)
Depreciation charge	23,746	23,510
Release from Government Grant and Donated Asset Reserve	(527)	(468)
Impairment charged to Statement of Net Expenditure	1,082	5,359
Decrease in provisions	(5,317)	(7,781)
Increase in debtors	(12,427)	(4,207)
Increase in creditors	12,250	9,641
Net cash outflow from operating activities	(362,167)	(332,844)

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

	2009	2008
	£000	£000
Increase/(Decrease) in cash	5,730	(7,342)
Capital element of finance lease payment	1,106	1,014
Change in net funds/(debt) resulting from cash flows	6,836	(6,328)
Net debt at 1 April	(6,437)	(109)
Net funds /(debt) at 31 March	399	(6,437)

Analysis of net funds/(debt)

	At 1 April	Cash	At 31 March
	2008	Flows	2009
	£000	£000	£000
Cash at bank	8,872	5,730	14,602*
Finance Lease	(15,309)	1,106	(14,203)
	(6,437)	6,836	399

Note: * Figure includes £8,775,501 which relates to balance held at Office of Paymaster General as at 31 March 2009 (2008: £5,529,807).

17. Forward commitments on approved Research Grants, Research Contracts and Studentships

	2009
	£000
2009-2010	127,976
2010-2011	77,624
2011-2012	40,196
2012-2013	19,096
2013-2014	7,563
2014-2015	854
Total	273,309

18. Amounts payable under Finance Lease Obligations

	2009	2008
	£000	£000
Within one year	1,198	1,101
Within two to five years	5,812	5,444
Greater than five years	7,193	8,764
	14,203	15,309

19. Related party transactions

The Natural Environment Research Council (NERC) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Innovation, Universities and Skills (DIUS).

The DIUS is regarded as a related party. During the year, NERC has had various material transactions with the DIUS and with other entities for which the DIUS is regarded as the parent Department, viz: Engineering and Physical Sciences Research Council, Biotechnology and Biological Sciences Research Council, Science and Technology Facilities Council, Medical Research Council, Economic and Social Research Council, the Arts and Humanities Research Council and the Technology Strategy Board.

In August 2005, DIUS 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 DIUS at an annual peppercorn rent. The property remains on DIUS's balance sheet. NERC are responsible for maintaining and running the Core Store and have received full year funding of £420,000 from the DIUS.

In addition NERC has had various material transactions with other Government departments and other central Government bodies. NERC has also entered into various material transactions with the RCUK Shared Services Centre Ltd.

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

Council Member	Number of awards or contracts	Amount £
Professor A Fitter	2	196,990
Professor A Watson	8	365,947

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	Amount £000
Professor A Glover	University of Aberdeen	2,709
Professor P Curran	University of Bournemouth	114
Professor M Wilson	University of Leeds	11,937
Professor A Halliday	University of Oxford	5,898
Professor C Godfray		
Professor A Thorpe	University of Reading	11,804
Professor M Lockwood	University of Southampton	3,284
	Science and Technology Facilities Council	3,552
Professor T Meagher	University of St Andrews	3,343
Professor T Davies	University of East Anglia	8,598
Professor A Watson		
Professor A Fitter	University of York	3,335
Mrs K Morgan	University of the West of England	66

20. Losses and special payments

During the year there were 36 losses totalling £25,112 including a release of £12,643 re unidentified pre-1999 trade creditors.

21. Shareholdings

Other than shareholdings shown in note 9(c) and 9(d), 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 2009 NERC's shareholding represented 24.9% of the issued share capital of Wallingford Hydrosolutions Ltd;

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. In December 2008 Cybersense Biosystems Ltd was taken over by Severn Trent Water and its name changed to Gordons 1 Ltd, the holding company that will remain in existence for 5 years during which shareholders will receive payment based on sales of the new business unit. The shares are not publicly traded and currently have no open market value. At the time of take-over NERC's shareholding represented 0.06% of the issued share capital of Cybersense Biosystems Ltd;

54,000 shares in Microbial Solutions Ltd, a company set up to commercialise innovative wastewater treatment technology, which uses a collection of non-pathogenic bacteria to cleanse toxic metal working fluids from the engineering industry. The shares are not publicly traded and currently have no open market value. At 31 March 2009 NERC's shareholding represented 23.49% of the issued share capital of Microbial Solutions Ltd; and

21,900 shares in Oxford Expression Technologies Ltd. The company is best known for producing a technology called 'flashBAC' that enables researchers in both academia and industry to produce proteins more easily and more cost-effectively using automated, high throughput techniques. The proteins can then be used for a variety of purposes such as in the development of new drugs and for more targeted research on understanding how proteins work in health and disease. The shares are not publicly traded and currently have no open market value. At 31 March 2009 NERC's shareholding represented 15.12% of the issued share capital of Oxford Expression Technologies Ltd.

22. Capital and lease commitments

Capital commitments

As at the date of these accounts, NERC is committed to a sum of £24,887,340 in respect of capital contracts. This includes the building of the Antarctic base Halley VI for £10,044,000 due to be completed in 2010-11, the building at CEH Wallingford for £10,510,000 due to be completed in 2010-11, the William Smith Building in BGS Keyworth for £821,000 due to be completed in 2009-10, and the NERC share of the Shared Services Centre development of £3,512,340.

The SSC capital commitment represents the Council's individual share of the future committed spend on the Shared Services Centre. Costs incurred to 31 March 2009 have been recognised through the Statements of Net Expenditure account and the SSC Assets in the Course of Construction.

Lease commitments

The commitments under non cancellable operating leases are as follows:-

	2009	2008
	£000	£000
Operating leases which expire		
- in under 1 year	-	3
- in two to five years	32	-

Bonds and guarantees

The Council has a number of bonds and guarantees that are lodged with Lloyds Bank and relate to overseas contracts, amounting to £1,667,680 at 31 March 2009 (2007-08: £1,296,560).

23. Contingent liabilities

There are no outstanding contingent liabilities at this time.

24. Post balance sheet events

On 5 June 2009, the Government announced the creation of a new Department for Business, Innovation and Skills (BIS) whose key role will be to build Britain's capabilities to compete in the global economy. The Department was created by merging the Department for Business Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS). The sponsorship responsibility for the Council passed to BIS on that date.

There is no reason to believe that the expected government funding underlying the Council's going concern assertion will be affected by this change.

There were no other post balance sheet events between the balance sheet date and 6 July 2009, the date when the Accounting Officer approved the accounts. The financial statements do not reflect events after this date.

25. Financial instruments

FRS 25 Financial Instruments - Disclosure and Presentation, FRS 26 Financial Instruments – Recognition and Measurement and FRS 29 Financial Instruments – Disclosures have been introduced this year. There have been no adjustments to the financial statements in either the current nor prior year. They require 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 25, 26 and 29 mainly apply. 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(I), 9(a) and 18) 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 Department for Innovation, Universities and Skills. 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 therefore not 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. Foreign currency risk specific to the European Space Agency contract is being managed with its sponsor department, the Department for Innovation, Universities and Skills.