



Economic and Social Research Council  
**Annual Report and Accounts 2015-16**





# Economic and Social Research Council

## **Annual Report and Accounts 2015-16**

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# Contents

<b>Performance Report</b>	
Overview	7
Performance Analysis	9
<b>Accountability Report</b>	
Corporate Governance Report	25
Remuneration and Staff Report	38
Parliamentary Accountability and Audit Report	47
<b>Financial Statements</b>	
Statement of Comprehensive Net Expenditure	54
Statement of Financial Position	55
Statement of Cash Flows	56
Statement of Changes in Taxpayers' Equity	57
Notes to the Accounts	58

# Foreword

## by Chair

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The ESRC has shown how its focused funding of economic and social science research can offer independent, impartial evidence on the issues that matter most.

The Annual Report highlights the ESRC's activities over the past year; where it is focusing its priorities, and how it is helping us understand society to meet the challenges of the future.

As the ESRC celebrated 50 years of funding social science, I was particularly impressed with two events that highlighted the value of that science, and the impact that it has on society.

First, the ESRC World in 2065 writing competition. To celebrate its 50th anniversary, the ESRC launched an essay competition, in partnership with SAGE, that challenged PhD students to look towards the future and predict what big challenges society will face, and how their own research may influence that future world. In a high-quality competition there were many excellent essays, and the overall winner was James Fletcher for his piece *City Inc* that imagines London 50 years from now, where social science and finance has transformed the capital into a fifth state.

Second was the Celebrating Impact Prize that champions the continued and future contributions of ESRC-funded researchers through promoting the outstanding economic and social impacts of their research. The prize is an annual opportunity to recognise and reward ESRC-funded researchers. It celebrates outstanding ESRC research and success in interdisciplinary, collaborative working, partnerships, engagement and knowledge exchange activities that have led to significant impact.

Winners this year included research on diverse subjects including: stimulating business angel investment; violence against women, 'honour' crimes and forced marriage; and helping the social housing sector foster social change in deprived communities. It was fitting that the 2015 Impact Champion was Professor Charlie Jeffery who was instrumental in the success of the Future of the UK and Scotland project's work on the Scotland referendum.



This was, of course, an election year and it is heartening that ESRC-funded academics and experts from the British Election Study appeared regularly in the UK and world media, offering measured information on the election process, political landscape and likely outcome, backed up by rigorous methodology and analysis. And that economic research by the Institute for Fiscal Studies (IFS), in particular, was quoted so widely by political and economic commentators, and the political parties themselves.

Now, in the year of the EU referendum, ESRC-funded political experts are doing the same, offering clear and unbiased guidance on the workings of the European Union, and the UK's highly complicated relationship with it.

As I enter my last full year as Chair I am proud of the work the ESRC has done in its 50th year. The ESRC's Strategic Plan 2015, developed from a 2014 consultation, was put into action and has already been producing concrete results, focusing on those areas where it can add the most value and collaborate with a range of partners to maximise the value of its investments.

I would like to take this opportunity to thank the ESRC staff, Directors, Council and committee members for making this a successful year and look forward to the coming years where social science will undoubtedly prove its value in helping us understand the challenges that arise.

Dr Alan R Gillespie  
Chair, ESRC

# Statement by Chief Executive

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The ESRC funds excellent social science research that provides evidence on issues across the public policy agenda, contributes to debates and helps to improve individual lives, institutions and societies.

Once again, this year has been challenging with uncertainty, change, and continuing funding pressures. But it has also been a highly productive year with new research in key areas, good progress on existing initiatives, and new and exciting research partnerships.

In a general election year, the work of the British Election Study (BES) was to the fore, with experts from the study contributing to and informing media debates, and through their data playground also making survey resources available to researchers and others to carry out their own analysis. The face-to-face BES poll correctly predicted the final result and the BES methodology was cited as one way to avoid survey bias by Professor Patrick Sturgis (also the Director of our National Centre for Research Methods), who undertook an independent review for the British Polling Council of the 2015 election poll inaccuracies.

With the referendum on membership of the EU approaching, the UK in a Changing Europe project is making similar strides as the BES, with experts and fellows becoming the de facto source of independent, impartial information and analysis on the referendum, including the impact of membership on employment, growth and prosperity, and the effect of changes in governance and policies, as well as in social and political attitudes within both the EU and the UK. We have expanded the programme of activities to include 16 senior fellows and funded over 20 small-scale projects. The ukandeu project website, launched in June 2015, hosts over 230 blogs and by the end of 2015-16 had recorded over 20,000 users.

During 2015-16 we announced the Centre for the Evaluation of Complexity Across the Nexus (CECAN), funded with the Natural Environment Research Council in collaboration with the Department for Environment, Food and Rural Affairs, the Department of Energy and Climate Change, the Environment Agency and the Food Standards Agency. CECAN is a new national research hub, to pioneer, test and promote evaluation approaches and methods across the energy, environment and food nexus where complexity is a challenge to policy interventions, and to contribute to more effective policymaking.



In partnership with the UK security and intelligence agencies, we also launched the UK's Centre for Research and Evidence on Security Threats (CREST), bringing together world-leading researchers from across England to deliver a national hub for independent research, training and knowledge synthesis.

It is essential that social science is able to respond rapidly to current and topical issues, and in 2015 the unprecedented challenges around migrations to Europe featured prominently across the media and society. We responded through our collaboration with the Department for International Development (DFID) to jointly fund six projects on Mediterranean Migration, which were delivered using our urgency grants mechanism. Agility to respond to urgent and pressing societal challenges is essential and I am pleased that we could support these projects, which are already starting to report initial findings on the migration crisis.

Innovate UK remains a key partner, and in 2015-16 we continued to co-fund a portfolio of activities including the Enterprise Research Centre, and 66 existing and 13 new Knowledge Transfer Partnerships. To support the UK innovation ecosystem we also jointly funded a novel approach to knowledge exchange bringing together thought leaders from the social science researchers and Innovate UK (the Innovation Caucus). We continued to support and enable impact with universities through 24 ESRC-funded Impact Acceleration Accounts, which have already reported engagement with UK and multinational businesses, legal firms, consultancies, professional bodies, media and creative arts, and the financial and banking sector.

Of keen interest to all our partners are our success rates for grant applications and demand for our schemes. At the end of 2015 we achieved the target of 50% fewer applications submitted by universities as compared with the 2011 data, and also saw an increase in the quality of applications with

# Statement by Chief Executive

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nearly half of all applications being within the fundable range. Although heartening, this has placed a strain on success rates, which have fallen on occasions for some of our schemes to just above 10%. This remains a challenge for us and an area of focus for our Council.

To develop our support for postdoctoral social science researchers we launched the online Early Career Social Scientists Survey to gather information about the experiences and issues faced by early-career social scientists, as well as information on the diversity of roles, opportunities and support available for researchers. The survey was carried out by UCL Institute of Education and was open to early career researchers and those who recently graduated with a doctorate in the social sciences, working in academia and beyond.

Supporting and enabling use of our world leading data and infrastructure remained a priority, and the Secondary Data Analysis Initiative (SDAI) – set up to support high-quality research that has an impact on policy and practice, focusing on the use of existing data resources – has continued to prove popular. Since 2012 nearly 100 projects have been funded, with 17 new awards in the latest round. From next year the scheme will become an open call, allowing applicants to apply at any time.

We are also pleased that the Administrative Data Research Network (ADRN) and Business and Local Government Data Research Centres are now fully operational, not only enabling improved use of data but also developing innovative methodologies for mining both administrative and business data sources. We also continued to explore public acceptability of the use of data through a series of dialogues focused on commercial data for research.

Less positively, despite significant efforts by all parties, in September 2015 we agreed with the Medical Research Council (MRC) that the Research Councils' funding for Life Study would be discontinued from early 2016 due to the serious challenges encountered in recruiting participants. Life Study was an ambitious, complex and innovative study led from University College London (UCL) that aimed to track the development, health and wellbeing of around 80,000 UK babies and their parents. We have been working with our partners to learn the lessons from Life Study and will use these in our development and management of other large projects.

The year 2015 marked the ESRC's 50th anniversary and an opportunity to celebrate the achievements of social sciences and the insights they have given to society. The year began with the anniversary launch event with politicians and business leaders and some of the country's leading social

scientists at the House of Commons. The celebrations were rounded off with a question and answer event with a panel of the UK's leading social scientists at the Royal Society in London in December. This event gave 150 guests the opportunity to hear and debate social science issues ranging from equity in education, migration, urban transformations and constitutional change, to effective economic and social policies, population change and the challenges of ageing.

In the autumn the Government's spending priorities for UK research were outlined in the Comprehensive Spending Review. This included the launch of the new £1.5-billion Global Challenges Research Fund (GCRF), for which I am the RCUK Champion, to be delivered over the next five years to help meet social, environmental and health challenges across the world.

The key aim of the GCRF is to promote the welfare and economic development of people in developing countries and is part of a new Official Development Assistance (ODA) strategy for the UK. This offers exciting new opportunities to work across disciplines and with access to an unprecedented level of funding. For the ESRC the GCRF will benefit from the continuing relationship with DFID, which continues to thrive through the ESRC-DFID Growth Programme and the Joint Fund for Poverty Alleviation Research.

We are looking forward to implementation of the Nurse Review recommendations to create UK Research and Innovation (UKRI) – a body that will bring together the seven Research Councils, Innovate UK and HEFCE's quality-related research funding under a single strategic umbrella. This will enable the Research Councils to provide a unified voice for UK research and innovation, to strengthen our collective and strategic approach to future challenges, and maximise the value of Government's investment.

Over the coming years, we will deliver an ambitious programme of social science with direct benefit to the UK economy and society, covering our initial priority areas for investment: Productivity, Understanding the Macro-Economy, Mental Health and Wellbeing, Housing and Ways of Being in a Digital Age.

These are just some of the highlights of our 2015-16 activities. Further detail can be found in the following pages and also on our website where we set out to showcase the breadth of ESRC activities and their impact on UK society and beyond.

**Professor Jane Elliott**  
Chief Executive, ESRC



# Overview

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## **Brief History and Statutory Background**

The Economic and Social Research Council (ESRC) is an independent organisation, established by Royal Charter in 1965, and funded mainly by the Government through the Department for Business, Innovation and Skills (BIS). It is the UK's largest funder of social and economic research, supports the development and training of the UK's future social scientists and also funds major studies that provide the infrastructure for research.

## **Nature of the Organisation**

The ESRC spends approximately £190 million on research and training, supports over 4,000 researchers and students, and has around 140 staff. The ESRC also works collaboratively with the six other UK Research Councils, RCUK and Innovate UK to fund cross-disciplinary research and innovation addressing major societal challenges. ESRC-funded research informs policymakers and practitioners and helps make businesses, voluntary bodies and other organisations more effective. We are an international leader in the social sciences fostering collaboration with a wide range of international partners.

## **Performance and Position of the Organisation**

ESRC is the UK's largest organisation funding research on economic and social issues, supporting independent, high quality research, which influences business, the public sector and the charity and voluntary sector.

**Quality:** All ESRC research awards are made in open competition, subject to transparent peer assessment at the outset and evaluation on completion. Rigorous standards are applied to all the training we support. Our research often involves multidisciplinary teams and collaboration with other councils. Our datasets, longitudinal and panel studies are internationally acclaimed resources.

**Impact:** Our research makes a difference: it shapes public policies and makes businesses, voluntary bodies and other organisations more effective as well as shaping wider society. Our knowledge exchange schemes are carefully devised to maximise the economic and social impacts of the research that we fund.

**Independence:** Although publicly funded, our Royal Charter emphasises the importance of independence and impartial research. We have no in-house researchers, but allocate funds to academics in universities and other institutes throughout the UK.

## **Future Priorities**

The past 50 years have seen a marked increase in global interdependencies with many of the current challenges we face having a global reach, and increasingly the best work is being done by research teams working across national boundaries. The international dimension of our work therefore needs to be an even stronger focus in the years to come. We will work with international funding partners to enable UK researchers to collaborate with the best scholars in their field across the globe, and support research that is world class and informs prosperity, wellbeing and justice on an international scale.

The research we support is all peer-reviewed and only the highest quality work is supported. Decisions about what and who to fund are independent from government and sectional interests of any kind. Maintaining the excellence of the social sciences in the UK is vital to maximising its impact and encourages international collaborations and investment.

We are committed to driving innovation and maximising the impact of all the work that we support, ensuring research outcomes are open and accessible to research users and the public. Impact can be immediate or realised over the longer term, but it is most effective where social scientists are supported to build relationships with relevant stakeholders from the earliest stages of the research process.

Much social science requires high-quality data and a robust infrastructure. We will continue to support a coherent portfolio of data resources, including our world-class longitudinal studies, to allow researchers to answer the fundamental questions facing our society. The ESRC will also play a key role in making new sources and forms of data available to researchers. Analysis of data in real time will dramatically increase the pace of both discovery and application, enabling researchers to respond quickly to new challenges and opportunities.

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Excellent social science needs people with the skills, curiosity and creativity to be truly innovative. It also requires people with the ability to work in interdisciplinary teams and to communicate research ideas and findings clearly. We are committed to working with universities and other research organisations to develop the next generation of social scientists. Together we will ensure that they are equipped to undertake high-quality analytical work, to handle different forms of data, and to collaborate with others.

Over the coming years we will continue to collaborate closely with a wide range of stakeholders – including the other research councils and Innovate UK, learned societies, universities and other research organisations, and those from business, government and the third sector. Together we will identify key priorities for social science research and work to maximise the benefits of that research for society.

### **Principal Risks and Uncertainties**

ESRC's risk management process is designed to manage risk and not eliminate it. The quarterly review process allows risk owners to comment on mitigation actions and provide assurance that risks are being managed.

Strategic risks are identified through the Executive Leadership Team and regularly reviewed by Audit and Risk Assurance Committee and Council, who pay particular attention to those highlighted as significant high-level risks. It is through this process that ESRC is able to manage the key headline risks that impact on the delivery of the ESRC's programmes and operations and enables mitigating actions to be agreed and implemented.

The principal operational risks for ESRC are the challenges posed by the current change agenda and the shared services environment (for more detail refer to the Governance Statement page 29) while the principal strategic risks are those involving ESRC's need to provide an appropriately robust evidence base of the value of current activities and the sustained impact of previously funded work and the need to enable researchers to deliver their full potential for excellent research and wide benefits to society and the economy.

### **Going Concern**

The financial statements have been prepared on a Going Concern basis. For full disclosure please refer to Note 1(a) of the accounts.

# Performance Analysis

The ESRC's performance is measured against objectives across a large number of areas, helping the Council to provide funding across the range of disciplines within the social sciences to academics carrying out excellent research at every stage of their career. Our Delivery Plan ensures that ESRC funding supports an outstanding portfolio of activities to achieve our objectives of delivering scientific excellence whilst promoting growth, maximising efficiency and increasing value for investment in research through leveraging co-funding from partnerships with a range of organisations, with a particular focus on continuing to expand our portfolio of work with the private sector.

Our annual review of developments under each of our Delivery Plan objectives shows that we have made excellent progress in addressing many of the key themes. This is presented in the table below.

<b>Delivery Plan Objective: Invest in selected priority areas: Big Data and Business Innovation, Urban Transformation, Social Science of Environmental Change, Epigenetics, Education, Europe</b>	
<b>Main Activities/Achievements</b>	<b>Update/Impact</b>
1. Establishment of the Big Data Network; working with other Research Councils (RCs) and Innovate UK to maximise use of the business and local government data; and support for innovation activities	The Administrative Data Research Network (ADRN) and Business and Local Government Data Research Centres (the first two phases of the Big Data Network) are now fully operating. The Centres have been developing innovative methodologies for mining administrative and business data sources. A series of dialogues were completed with the Phase 2 Centres to understand public acceptability of the use of commercial data for research. Funding for a Centre for Real-Time Analytics (phase three of the Network) was announced this year, subject to an approved business case. A further two years' funding has been secured for the Enterprise Research Centre as a result of working in partnership with Innovate UK and BIS. In addition, the ESRC Impact Acceleration Accounts (IAAs) held at 24 universities have enabled engagement with: UK and multinational businesses; legal firms; consultancies; professional bodies; media and creative arts; and the financial and banking sectors. <i>Example of impact case study: Opening up census data for research (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/opening-up-census-data-for-research">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/opening-up-census-data-for-research</a>).</i>
2. Further investing in environmental change	ESRC funded seven awards on Healthy Urban Living and the Social Science Food-Water-Energy Nexus, with matched resource from a number of Brazilian State Funding Agencies (FAPs), and awarded funding for the Centre for Understanding Sustainable Prosperity. Working in partnership with the Natural Environment Research Council (NERC), and collaborating with the Department of Energy and Climate Change, the Department for Environment, Food and Rural Affairs, the Environment Agency and the Food Standards Agency, we funded £2.45 million Centre for the Evaluation of Complexity Across the Nexus. The Centre will contribute to more effective policy-making by pioneering, testing and promoting evaluation approaches and methods across the energy, environment and food nexus, where complexity presents a challenge to policy interventions.

Main Activities/Achievements	Update/Impact
3. Developing our portfolio in Urban Transformations	<p>We have extended our investment in our Urban Transformation portfolio through four new project awards and five pilot projects awarded through the Urban Living initiative (a partnership between all seven RCs and Innovate UK). Working through the Newton Fund, we have co-funded three urban projects with China, four each with Brazil and South Africa. In addition, we have entered into co-funding partnerships with other funding agencies through the Joint Programme Initiative (JPI) Urban Europe Smart Urban Futures call, and will reach funding decisions in May 2016. We have also consulted stakeholders to inform the development of an evidence centre for UK Housing. To provide coordination and leadership, we have extended the role of our Urban Transformations Co-ordinator to 2018, appointed a Knowledge Exchange fellow to work jointly with our portfolio and with the BIS Future Cities Foresight team, and plan to appoint a second fellow to strengthen our work with the Future Cities catapult.</p> <p><i>Example of impact case study: Cutting costs with white street lighting (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/cutting-costs-with-white-street-lighting">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/cutting-costs-with-white-street-lighting</a>).</i></p>
4. New collaboration in epigenetics	<p>ESRC and the Biotechnology and Biological Sciences Research Council (BBSRC) have worked together to fund eight new projects to study the impact of early life experiences on lifelong health, with over £3m of funding awarded to researchers across the UK.</p>
5. Investing in new partnerships in our education portfolio	<p>Working in partnership with the Higher Education Funding Council for England (HEFCE) we have funded a major new research centre focused on higher education and its future development, with central themes being the global and international aspects of Higher Education (HE), and the global position, engagements and impacts of UK HE. A further eight projects have been funded as part of the highly acclaimed DFID Raising Learning Outcomes Programme. In partnership with the South African National Research Foundation we launched a call on HE in Africa and we will be making funding decisions in August 2016 when we expect to fund up to six awards.</p>
6. Leading the debate about the UK in a Changing Europe	<p>Since its establishment in 2013, the ESRC initiative on the UK in a Changing Europe has positioned itself as a reliable and impartial source of information on the relationships between the UK and the EU. We have expanded the programme of activities to include 16 senior fellows and funded over 20 small-scale projects. The website, launched in June 2015, hosts over 230 blogs and by the end of 2015/16 had recorded over 20,000 users.</p>

**Delivery Plan Objective: Build capacity and capability to ensure widespread use of our growing UK data infrastructure**

Main Activities/Achievements	Update/Impact
<p>7. Invest in our Secondary Data Analysis Initiative (SDAI) as a scheme to provide funding for research drawing on our UK data resources, with a focus on policy and practitioner impact</p>	<p>The SDAI was set up to support high-quality research that has an impact on policy and practice, focusing on the use of existing data resources. Since 2012 nearly 100 projects in total have been funded. From 2016-17 the SDAI scheme will become an open call, allowing applicants to apply at any time. Through the ADRN, at the end of 2015-16 there were 86 projects in the approval pipeline, primarily from the research community, all at different stages of development and access to data. The Phase 1 SDAI projects have now been completed and have produced an impressive range of impacts on policy and practice (<a href="http://www.esrc.ac.uk/files/news-events-and-publications/publications/themed-publications/sdai-phase-1-research-impacts">www.esrc.ac.uk/files/news-events-and-publications/publications/themed-publications/sdai-phase-1-research-impacts</a>).</p>
<p>8. Invest in developed Data Science skills and capacity in partnership with other funders</p>	<p>The National Centre for Research Methods (NCRM) Methodological Research Projects call was launched in March 2015. The decisions were announced in October 2015 and six projects were awarded. These projects are developing cutting-edge methodologies in the context of substantive research problems, and are supporting training and capacity building programmes through the delivery of short courses and production of online learning resources. A total of £5m was allocated to the call (fEC, £4m) of which DFID provided £400k co-funding to support the 'GRADE Extension for Complex Social Interventions' project based at the University of Oxford.</p>
<p>9. Work closely with other RCs in areas of mutual interest to develop joined up provision for doctoral training in areas of cross-cutting priority; and focus on skill development at all career stages from doctoral training through to mid-career stage, with the aim of matching up those skilled people with business needs through the Business Data Research Centres</p>	<p>We have received five applications for the Centre for Doctoral Training (CDT) in Biosocial Research, which BBSRC have agreed to co-fund. Seven applications were received for the CDT in Data Analytics, and all involve substantial user engagement and collaborative funding. A funding decision will be made in June 2016 once proposals have been externally peer reviewed. In addition, the Big Data Network Centres have been supporting capacity building in data analytics through programmes of training and accreditation. We have commenced a review of our support for early career researchers, and as part of this we have completed a survey of the experiences and issues faced by early career researchers in the social sciences. This alongside other sources of evidence will inform our future developments in this area.</p>
<p>10. Continue to work in collaboration with other partners to tackle skills shortages (for example, the Q-Step initiative, which we have co-funded with HEFCE and the Nuffield Foundation, aims to build quantitative training for social science undergraduates)</p>	<p>The Q-Step Centres are now fully operational and 53 new academic staff have been appointed across the 15 Centres. In total, 48 degree courses have been either newly created or modified, and 136 quantitative degree modules have been developed. In 2016 the Nuffield Foundation, ESRC and HEFCE will conduct a mid-term review of the programme and establish a Q-Step Strategic Impact Advisory Board to ensure the aims of the programme are fully realised.</p>

**Delivery Plan Objective: Increase our engagement with business through delivery of a new, more effective approach to knowledge exchange**

Main Activities/Achievements	Update/Impact
11. Improve our understanding and increase our collaboration with businesses	<p>IAAs have led our engagement with business, reporting collaborations with a range of businesses and sectors. These include: IBM, Unilever, Arup, Atkins, Ericsson, and many more media and theatre organisations, banking sector and law firms. We have also supported further analysis of data, collected by the Centre for Business Research, to improve our understanding of social science academics' knowledge exchange and external interactions.</p> <p><i>Example of impact case study: Knowledge Transfer Partnership (KTP) leads to five-fold growth for market research agency (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/ktp-leads-to-five-fold-growth-for-market-research-agency">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/ktp-leads-to-five-fold-growth-for-market-research-agency</a>).</i></p>
12. Reinforce our partnership with DFID by continuing to develop collaborative opportunities in new areas	<p>Working in partnership with DFID we commissioned a third round of the ESRC DFID Growth Programme; we will be awarding a £2m large grant on Finance in low-income countries; and we made 15 awards under Phase 3 of the Joint Fund for Poverty Alleviation Research. We convened a major conference in March 2016 in South Africa, which brought together award holders, policymakers and practitioners to share learning on maximising research impact from the programme. We negotiated a further collaboration with DFID to jointly fund six projects on Mediterranean Migration via our Urgency Grants mechanism.</p> <p><i>Example of impact case studies are: Secure water supply with smart hand pumps (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/secure-water-supply-with-smart-hand-pumps">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/secure-water-supply-with-smart-hand-pumps</a>) and Mangrove protection gives local boost (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/mangrove-protection-gives-local-boost">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/mangrove-protection-gives-local-boost</a>).</i></p>
13. Develop and extend the 'What Works' Network	<p>A review of ESRC's role in the 'What Works' agenda has been conducted to inform our investment strategy. A new 'What Works Centre' (on Wellbeing) was established in 2015 bringing the total of ESRC co-funded centres to seven out of the nine that constitute the What Works Network. ESRC has engaged in early discussions to explore options for a centre in Northern Ireland.</p>
14. Ensure widespread use of our UK data infrastructure	<p>An increase in use of the UK Data Service (UKDS), with the new users accessing the UKDS website from across the world. They have recorded: 32,570 data collections downloads (for period April–September 2015) and 22,000 registered users. CLOSER (The Cohort and Longitudinal Studies Enhancement Resources) aims to maximise their use, value and impact both at home and abroad. Bringing together nine leading studies, the British Library and the UK Data Service, CLOSER works to stimulate interdisciplinary research, develop shared resources, provide training and share expertise. The ESRC has enhanced the UK's infrastructure through Discovery, which will address some key barriers to data use and thus boost use of their data assets even further.</p>

Main Activities/Achievements	Update/Impact
15. Implement effective mechanisms to support social science knowledge exchange and impact activity through Impact Acceleration Accounts (IAAs)	<p>In the first year of funding, the 24 ESRC IAAs engaged 663 staff in knowledge exchange and impact projects; secured partner contributions worth £1.4m for collaborative social science projects; reported 34 outputs of early stage commercialisation, which included IP and tools, as well as 11 Continuing Professional Development programmes; enabled 55 secondments between universities and non-academic settings, which led to 26 further collaborations, 23 joint publications and further leveraged funding; engaged user with 391 collaborative social science projects gaining IAAs 360 new partners; and through their IAA funding the hosting universities have engaged with 104 other institutions.</p> <p><i>Example of impact case study: Effective teaching with Learning Designer (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/effective-teaching-with-learning-designer">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/effective-teaching-with-learning-designer</a>).</i></p>
16. Deliver a wide-ranging programme of knowledge exchange activity to create impact from existing and recent investments around our three key priorities	<p>Our knowledge exchange activity is primarily delivered through our devolved funding to IAAs; however, we have also collaborated with the Association for University Research and Industry Links (AURIL) and the Arts and Humanities Research Council (AHRC) to better understand what business engagement means for the social sciences and humanities and what indicators are best used to capture the engagement. A high-level round table was held in March 2016 discussing these questions, with a follow-up seminar planned for autumn 2016.</p>
17. Maximise the impact from Understanding Society	<p>Understanding Society provides high quality longitudinal data to answer research and policy questions. In 2015-16 impact generating activities focused on the areas of finance, housing and social capital. The study brought together academic experts and financial sector organisations (including the Financial Conduct Authority, European Central Bank, Dutch Central Bank and Kantar World panel) to examine how to better measure full accounting identities and develop innovations in survey measurement. Understanding Society is also working with the Money Advice Service and Citizens Advice Bureau to develop their use of Understanding Society data and strengthen their evidence base on tackling indebtedness. Other activities included policy events in the areas of housing and social capital.</p>

**Delivery Plan Objective: Work closely with other Research Councils (RCs) across a wide range of areas of mutual interest, and to develop joined up provision for greater efficiency**

Main Activities/Achievements	Update/Impact
18. Implement a new approach to engaging with universities	We have introduced a new strategic approach to engaging with the 32 universities that receive the majority of ESRC funding. This new approach seeks to build strategic relationships and support ESRC engagement with the universities on issues of shared concern. The strategic approach is to be reviewed in 2016-17.
19. Monitor levels of demand and the impact of our demand management strategy, taking action as appropriate	We have continued to record and report on grant application numbers and monitor the impact of our demand management strategy. At the end of 2015 we achieved the target of 50% fewer applications submitted by universities as compared with the 2011 data. We also saw an increase in the quality of applications, and the proportion of applications of poor quality dropped from 42% in 2011 to 25% by the end of 2015-16 reporting period. Nearly half of all applications are now within the fundable range. This has placed a strain on success rates which have fallen on occasions for some of our schemes to just above 10%.
20. Continue to refine and streamline our approach to grant processing, working in tandem with our sister RCs to deliver increased efficiency	We have restructured and expanded our peer review college in order to improve our peer review response rates and decision times for applicants. Response rates have increased by 10% to 57% in the last reporting year making them comparable with other RCs. We have improved our systems to identify and remove low quality applications at an earlier point in the review process and we are actively engaged in working with other RCs to look at our processes and deliver increased efficiency.
21. Implement a new Committee structure to ensure effective and streamlined policy advice	In September 2015 we introduced our streamlined Committee structure, establishing two Advisory Committees (Research and Capability) to provide advice to ESRC Office and Council in support of the development of strategy, policy and activity and to support the Office in delivering our Strategic Plan 2015.
22. Continue with the implementation of a harmonised system across all RCs to capture evidence of Research Outcomes using Research Fish	Early in 2016 the second data submission period for Research Fish was held and for the first time RC funded students were also asked to submit. 88% of eligible ESRC researchers' submitted data, as compared with 71% in the previous submission period in November 2014, and 81% of ESRC funded students submitted data, which compared well with other RC rates. We are using the evidence captured to inform policy and to identify examples of impact.
23. Implement recommendations arising from the Triennial Review and BIS Strategic Review to enable greater consistency across RCs	This was superseded by the Nurse Review and the RCUK Change Programme. ESRC has been fully and positively involved in all cross-Council developments during this period.



Main Activities/Achievements	Update/Impact
24. Further develop our use of strategic evaluation to ensure that we are better able to learn lessons from existing and previous initiatives to inform future development	We used our flexible strategic evaluation mechanism to complete four evaluations of our large investments (Peterborough Adolescent and Young Adult Development (PADS+); Technology Enhanced Learning (TEL) Programme; ESRC Genomics Network; Rural Economy and Land Use (RELU) Programme), two major impact evaluations (Economic Impact; ESRC/DFID Joint Fund for Poverty Alleviation Research) and two evaluations of our funding schemes (Transformative Research Scheme (Evaluation Phase 1); Review of ESRC Funding Modes) to inform future direction of policy. The findings have been received by our Advisory Committees and are informing developments and decisions.
25. Develop a common approach with our RCUK partners to International PhD Partnering and international Centre partnerships.	We led on the development of the RCUK/Newton Fund PhD Partnering Scheme working with colleagues across RCs. In 2015 the first funding opportunity was announced for partnerships with South Africa resulting in 11 awards being funded that involve NERC, Medical Research Council (MRC), Engineering and Physical Sciences Research Council (EPSRC), Science and Technology Facilities Council (STFC), and ESRC PhD students. ESRC led on producing the brochure 'Transatlantic Research: The Power of UK-US Partnerships' highlighting impacts of UK-US research collaborations ( <a href="http://www.rcuk.ac.uk/international/offices/us">www.rcuk.ac.uk/international/offices/us</a> ).

**Delivery Plan Objective: Strengthen the contribution of social science to Innovate UK activities, increasing our commitment for joint work**

Main Activities/Achievements	Update/Impact
26. To continue to develop a portfolio of co-funded activities with Innovate UK	We continue to fund a portfolio of activities with Innovate UK including: the Enterprise Research Centre; 66 ongoing and 13 new KTPs funded in the 2015-16 reporting year; and in April 2015 we jointly funded a novel approach to knowledge exchange between social science researchers and Innovate UK (the Innovation Caucus), which brings together six experts from the social sciences to support the UK innovation ecosystem. We maintained co-funding level at £1.1m with Innovate UK. <i>Examples of impact case studies are: Risk assessment model reveals high-risk trading (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/risk-assessment-model-reveals-high-risk-trading">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/risk-assessment-model-reveals-high-risk-trading</a>) and Increasing charity support and impact for mental health (<a href="http://www.esrc.ac.uk/news-events-and-publications/impact-case-studies/increasing-charity-support-and-impact-for-mental-health">www.esrc.ac.uk/news-events-and-publications/impact-case-studies/increasing-charity-support-and-impact-for-mental-health</a>).</i>
27. To identify potential partners and collaborators for the research priorities	We identified five research priority areas for development, and during autumn 2015 engaged a range of stakeholders and potential partners in their scoping and development. Discussions around the research priority areas have led to engaging almost 30 potential partners in discussions including: government departments, the Office for National Statistics, the Joseph Rowntree Foundation, and National Housing Federation, and we expect a number will partner with us and offer co-funding for the research projects.

**Delivery Plan Objective: Extend our partnerships to a wider range of UK and international partners in priority areas, including playing an active role in developing science and innovation partnerships with emerging partners through the Newton Fund**

Main Activities/Achievements	Update/Impact
<p>28. Extend partnerships through Newton Fund calls</p>	<p>Through the Newton Fund we have supported collaborations with both new and existing partners and successfully funded the first joint call with the South African National Research Foundation for an international centre to enhance existing relationships between centres of excellence, and the first call for substantive research projects on Urban Transformations. With BBSRC and DFID we co-funded a new collaboration with the Indian Department of Biotechnology, which led to a joint RCUK agreement outlining collaboration plans for the next five years focusing on Climate Change and Agriculture, Antimicrobial Resistance, and Vaccine Development. Working with the AHRC we funded new joint projects with the Chinese Academy of Social Sciences through the International Centre Partnerships call. The four new UK-China partnerships funded in September 2015 were: Adapting the Health and Welfare System to a Context of Rapid Change; Behavioural Compatibility between Individual Choice and Collective Action; Urban Development, Migration, Segregation and Inequality; and Sustaining Ethno-Cultural Significance of Products through Urban Ecologies of Creative Practice. We further enhanced our relationship with the Chinese National Natural Science Foundation through a call on Urban Transformations.</p>
<p>29. Support new research with European partners through the Joint Programming Initiative (JPI) on Urban Europe</p>	<p>We have partnered with NordForsk (Norway, Sweden, Finland and Iceland) and NWO (Netherlands) in an international collaboration to fund projects that explore research questions on society, integrity and cyber-security. In total, 25 out of 28 projects submitted had UK components and successful projects will start in autumn 2016.</p>

## Financial Highlights

A more detailed analysis of the financial highlights noted below can be found in the financial statements on pages 54-57.

Statement of Comprehensive Net Expenditure	2015-16 £000	2014-15 £000
Administration	4,279	4,836
Programme	186,348	207,543
<b>Net Expenditure</b>	<b>190,627</b>	<b>212,379</b>
<b>Other Comprehensive Net Expenditure</b>		
Net Gain of Revaluation of Non-Current Assets	(1,233)	-
<b>Total Comprehensive Net Expenditure</b>	<b>189,394</b>	<b>212,379</b>

Statement of Financial Position	As at March 2016 £000	As at March 2015 £000
Total Non-Current Assets	3,188	2,032
Total Current Assets	15,000	9,706
Total Current Liabilities	(23,527)	(24,228)
<b>Total Taxpayers' Equity</b>	<b>(5,339)</b>	<b>(12,490)</b>

Statement of Cash Flows	2015-16 £000	2014-15 £000
Net Cash Outflow from Operating Activities	(190,115)	(211,633)
Net Cash Flows from Financing Activities	196,545	208,255
<b>Net Increase/(Decrease) in Cash and Cash Equivalents in the period</b>	<b>6,430</b>	<b>(3,378)</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>1,813</b>	<b>5,191</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>8,243</b>	<b>1,813</b>

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## **Performance Against Key Performance Indicators (KPIs)**

The ESRC's performance is measured against objectives across a large number of areas, helping the Council to provide funding across the range of disciplines within the social sciences to academics carrying out excellent research at every stage of their career. Our KPIs ensure that ESRC funding responds to the requirements of the research community and results in research that fosters new collaborations with non-academic partners, informs public policy and ensures UK researchers are key players on the international stage.

In 2015-16, 19% of the grants awarded by ESRC included non-academic partners, falling from 28% during the previous year. During this period, authorised research grants leveraged £6.5m from 171 different organisations. The total amount leveraged from all of the research grants which were active at the end of the 2015-16 financial period stood at over £21m from over 416 different organisations. In total, 43% (of those who disclosed their gender) of all funded researchers on research grants (PIs and Co-Is) are female, of which 48% of PIs are female.

ESRC provides funding for 600 studentships per annum, with co-funding from both academic and non-academic partners: this results in 837 new studentships being awarded each year. The amount of co-funding leveraged by our Doctoral Training Centres has increased every year since they were introduced in 2011; for studentships starting in October 2015 this was in the region of £7.5 million (please note that this is only indicative as the data used is not necessarily a true reflection of what all of the DTCs have been doing in this area). At any one time ESRC funds approximately 2,900 studentships in total. Over 50% of ESRC studentships with funding starting in 2015-16 went to female award holders (465 awards).

Ensuring equality and diversity across the social science community is of key importance to the Council. In 2015-16 there were 1,790 female and 2,287 male applicants (Principal/Co-Investigators), which is a 28% increase in total female applicants compared to the previous year.

## **Financial Performance**

ESRC is financed through its Grant in Aid settlement from BIS, which is based on the annual DEL (Departmental Expenditure Limit) allocation (outlined on page 19). Income is primarily generated through co-funding arrangements with a variety of third parties that may consist of central Government bodies.

DEL Grant in Aid received from BIS for 2015-16 showed a decrease of 5%. The majority of the reduction was within the capital budget although both programme and administration allocations were also decreased. External funding rose by 31% from £19.3m (2014-15) to £25.3m for the current year, showing ESRC's commitment to maintain a high level of research investment.

The accounts for the year ended 31 March 2016 recorded net expenditure of £190.6m compared with £212.3m for 2014-15, which is an overall decrease of 10% and consistent with the overall reduction in funding from BIS. The overall decrease is attributable to a reduction in expenditure of £15.7m and an increase in income of £6.0m.

Expenditure on Research, Postgraduate and Fellowships equates to 94% of ESRC's total expenditure, which is aligned with 2014-15. The ratio of postgraduate to research spend has also been maintained to that of the preceding year.

Net Administration expenditure fell from £4.8m (2014-15) to £4.3m (2015-16), representing a reduction of 12%. Whilst over the last three years the administration budget has been around 2% of the total BIS allocation, ESRC continue to try to make efforts to minimise back-office costs but at the same time ensuring the provision of front line research services is maintained.

## **Financial Position**

ESRC's non-current assets consist of their share in the land and building premises in Swindon. A professional revaluation of these assets was undertaken by an independent organisation in February 2016, which resulted in a 60% increase in carrying value. For further details refer to Note 8 page 70 in Financial Statements.

As at 31 March 2016 the value of current assets was £15m, which is a 55% increase from the restated value for the preceding year. This movement is due to the increased cash balance held at the end of the financial year. An additional £2m was requested from BIS to cover potential timing differences arising from grant commitments, and this is included in the balance.

Trade receivables and trade payables have remained consistent with the balances held at 31 March 2015, which can be seen in the Statement of Financial Position. ESRC's current assets are now far more closely aligned with their liabilities.

### Allocation Analysis

Section 1	Resource £000	Capital £000	Total £000
Allocation	156,409	37,000	193,409
Total Expenditure	155,884	33,405	189,289
<b>In Year Under / Overspend</b>	(525)	(3,595)	(4,120)

Section 2	2015-16
<b>BIS Allocation £000</b>	
Administration	3,040
Programmes	153,189
Capital	37,000
Depreciation	180
<b>Total Allocation</b>	193,409
Administration Expenditure	2,924
Programme Expenditure	152,906
Capital Expenditure	33,405
Depreciation Expenditure	54
<b>DEL Expenditure</b>	189,289
Capital additions	-
Notional Charges	1,316
Reserve Movement	22
<b>Total Comprehensive Expenditure in Statutory Accounts</b>	<b>190,627</b>

The table is divided into 2 sections. Section 1 illustrates the distribution of expenditure against allocation in respect of resource and capital. Underspend (the excess of allocation over expenditure) for the period totals £4.1m with the majority of the underspend occurring in capital expenditure.

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Section 2 analyses the allocation and corresponding expenditure in terms of high-level budget reporting classes, and illustrates the specific areas where underspend has occurred. The total spend figure (not including underspend) corresponds to the Statement of Comprehensive Net Expenditure.

Capital underspend of £3.6m occurred during the year; the majority of which can be attributed to the closure of the Life Study Programme. Resource underspend by £525k, which equates to 3.8% of the original allocation.

### **Creditor Payment policy**

ESRC observes HM Treasury Guidance and makes every effort to pay creditors within five days of receipt of invoice. Where this is not possible, ESRC observes the CBI's Prompt Payers' Guide, and adheres to the Principles of the Prompt Payers' Code, endeavouring to ensure compliance with the agreed terms of payment of creditors' invoices and to pay them within 30 days of receipt of goods and services. During 2015-16 an average of 89.1% of payments were made within 5 days (2014-15 91%).

### **Efficiency**

As set out as part of the 2010 Spending Review settlement, the Research Councils have been implementing an efficiency programme to drive down the costs and overheads associated with research. The efficiency savings derived from this programme are being re-invested in research.

For further details on the RCUK Efficiency Programme, please refer to the Governance Statement on page 30.

### **UK Shared Business Services (UK SBS)**

UK SBS provides operational and transactional services to ESRC covering Finance, Human Resources, Information Systems, Procurement and Payroll. A review of UK SBS service delivery and the associated assurance issues are covered elsewhere within the Governance Statement.

### **Environmental Policy**

The Natural Environment Research Council (NERC) has developed a cross-Council Environment Policy, which is supported by ESRC, who continues to work with other Research Councils and tenants of Polaris House, Swindon in ensuring the building's impact on the environment is as limited as possible. Currently 87.44% of waste is recycled – paper, metal, plastic, wood, food waste, old PCs and printers, mobile phones, toner cartridges, batteries and spectacles are all routinely recycled. An environmental plan for the site contains a number of objectives including ongoing waste reduction, introducing solar electricity and water heating, promoting and encouraging a site culture of recycle, reduce and reuse and enhancing the natural environment on site through introducing flora and fauna.

A Green Travel Plan for Polaris House has also been written and endorsed by RCUK's Executive Group to promote sustainable travel and reduce the environmental and social impacts of travel – both commuting and business travel. The plan outlines a number of short, medium and long term objectives, including promoting car share schemes and working with Swindon Borough Council to open park and ride schemes and improve bus facilities.

Due to its headcount and the floor area it occupies ESRC is out of scope and has received an exemption from BIS for reporting against the Greening Government and Sustainability requirements.



Professor Jane Elliott  
Accounting Officer  
30 June 2016

# Accountability Report

# Corporate Governance Report

## Directors' Report

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### Council and management board

The following Council Members were appointed by the Secretary of State for Business, Innovation and Skills and normally serve for terms of two to six years. The dates given show their term of appointment.

**Dr Alan Gillespie CBE**

Chair, ESRC,  
2009-2017

**Professor Jane Elliott**

Chief Executive, ESRC,  
2014

**Professor Dame Glynis Breakwell**

Vice Chancellor, University of Bath,  
2011-2017

**Martin Coleman**

Head of Competition Law Group, Norton Rose LLP,  
2010-2016

**Professor Simon Collinson**

Dean, Birmingham Business School, Professor of  
International Business and Innovation,  
2011-2018

**Professor Tara Fenwick**

Professor of Education at the University of Stirling,  
2013-2016

**Professor David Martin**

Professor of Geography, University of Southampton,  
2010-2016

**Dr James Richardson**

Director, Fiscal and Deputy Chief Economic Adviser,  
2013-2017

**Mark Robson**

Head of Statistics and Regulatory Data, Bank of England,  
2015-2019

**Martin Rosenbaum**

BBC Executive Producer,  
2012-2018

**Professor Judith Squires**

Pro-Vice Chancellor for Education and Students,  
University of Bristol,  
2014-2018

**Professor Alan Winters**

Professor of Economics, University of Sussex,  
2015-2019

**Professor Linda Woodhead**

Professor of Sociology of Religion, Lancaster University,  
2013-2016

**Karin Woodley**

Chief Executive, Cambridge House,  
2015-2019

**Paul Grice** left in July 2015

Council members' remuneration is listed in the Remuneration Report (page 39) along with their remuneration for 2015-16

The ESRC Council delegates day-to-day responsibility for administration and strategy to the Directors Group, whose members are listed below.

Chief Executive – Jane Elliott

Director, Policy and Research, and Deputy Chief Executive – Phil Sooben

Deputy Director, Capability – Fiona Armstrong

Directory Director, Research and International – Jeremy Neathey

Deputy Director, Evidence, Impact and Strategic Partnerships – Vanessa Cuthill

Director, PSU – Graham Raikes



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## Members of Committees 2015-16

### Research Committee

Professor L Alan Winters (Chair), University of Sussex

Professor Hilary Graham (Vice Chair),  
University of York

Professor Jagjit Chadha, University of Kent

Mr Martin Cooke, Angle PLC

Mr Daniel Corry, New Philanthropy Capital

Professor Katherine Homewood,  
University College London

Professor Diana Mitlin, The University of Manchester

Professor Paul Nightingale, University of Sussex

Professor Kathy Rastle, Royal Holloway,  
University of London

Professor Andrew Steptoe, University College London

Professor Gill Valentine, University of Sheffield

Professor Anna Vignoles, University of Cambridge

Professor Claire Wallace, University of Aberdeen

Professor Dan Wincott, Cardiff University

### Capability Committee

Professor Tara Fenwick (Chair), University of Stirling

Professor Edward Fieldhouse (Vice Chair),  
University of Manchester

Professor Svenja Adolphs, University of Nottingham

Professor Sayantan Ghosal, University of Glasgow

Professor John Goodwin, University of Leicester

Professor Irene Hardill, Northumbria University

Professor Gordon Harold, University of Sussex

Professor Andrew Henley, Aberystwyth University

Mr Steve Legg, IBM

Professor Susan McVie, University of Edinburgh

Professor Nyovani Madise, University of Southampton

Mr Steven Marwick, Evaluation Support Scotland

Professor Chris Taylor, Cardiff University

Professor Malcolm Williams, Cardiff University

Ms Carole Willis,  
National Foundation for Educational Research

### Audit Committee

Mr Martin Coleman (Chair), Norton Ross LLP

Ms Meryl Hayward, English Heritage

Mr John Headley, University of East London

Professor David Martin, University of Southampton

Mr Mark Robson, Bank of England

Professor Linda Woodhead, Lancaster University

**Allan Spencer (Audit)** left in September 2015

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### Conflicts of Interest

The potential conflicts of interest for ESRC are fully disclosed in Note 15 to the accounts on page 73.

### Personal Data Related Incidents

There were no protected personal data related incidents formally reported to the Information Commissioner's Office in 2015-16.

Please note that ESRC data security policy and controls are disclosed in the Governance Statement on page 37.

### Summary of other protected data related incidents in 2015-16.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	-
II	Loss of inadequately protected electronic equipment, devices or paper documents	-
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	-
IV	Unauthorised disclosure	5
V	Other	1

### Freedom of Information

ESRC is subject to the Freedom of Information Act. During 2015-16 ESRC provided information in response to 33 requests (2014-15 25 requests).

# Corporate Governance Report

## Statement of Accounting Officers Responsibility

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Under Section 2(2) of the Science and Technology Act 1965, the Secretary of State with the consent of HM Treasury has directed ESRC 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 ESRC and its net expenditure, changes in taxpayers' equity, 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 (<https://www.gov.uk/government/publications/government-financial-reporting-manual-2015-to-2016>) and in particular to:

- observe the Accounts Direction issued by the Secretary of State including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgments 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
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Council will continue to operate.

The Department for Business, Innovation and Skills has appointed the Chief Executive as Accounting Officer of ESRC. The responsibilities of an Accounting Officer, which include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding ESRC's assets, are set out in the NDPB Accounting Officers' Memorandum issued by HM Treasury and published in 'Managing Public Money'.

As far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that ought to have been taken to be made aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Annual Report and Accounts as a whole is fair, balanced and understandable and the Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgments required for determining that it is fair, balanced and understandable.

# Corporate Governance Report

## Governance Statement

### Headline

This Governance Statement sets out my assessment of ESRC's potential vulnerabilities and capability to deal with the challenges facing us in our operating environment.

### Scope of Responsibility

As Accounting Officer, I have personal responsibility for maintaining a sound system of governance and internal control, which supports the achievement of ESRC's policies, aims and objectives. I also safeguard the public funds and ESRC assets for which I am responsible, ensuring they are properly accounted for and used economically, efficiently and effectively, in accordance with 'Managing Public Money' and the requirements set out in the Management Statement and Financial Memorandum agreed between ESRC and its sponsoring department, the Department for Business, Innovation and Skills (BIS). I am supported in my role as Accounting Officer by a governance framework, which includes the Council, its Committees and Senior Management.

In forming my assessment I have examined the following sources of information:

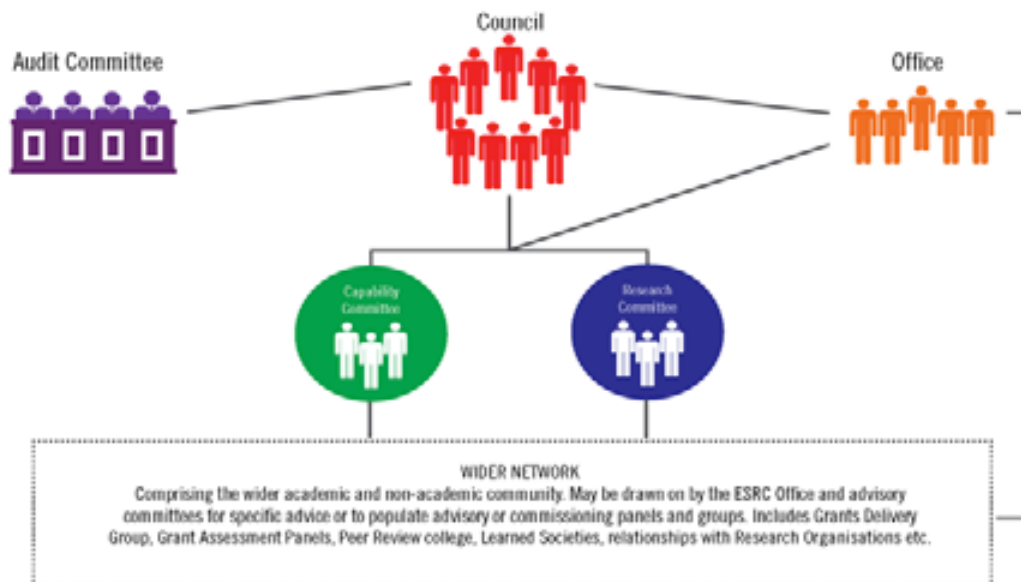
- all Council and committee meeting minutes
- the work of internal audit, including work undertaken to evaluate funding assurance in UK universities
- the assessment of my director as covered in his Stewardship Report.

### Governance Framework

ESRC is governed by its Council, which establishes and agrees the overall corporate strategy, key strategic objectives and deliverables of ESRC as set out in its Strategic and Delivery Plans. The responsibility for implementing the decisions of Council is delegated to me as the Chief Executive and Accounting Officer. The Council reviews regular reports on the management and performance of ESRC ensuring that appropriate action is taken to address any concerns identified, thus ensuring the good financial management of the ESRC. The Council also monitors the overall ESRC risk profile as well as individual risks carrying a high degree of threat.

In carrying out this work, the Council is advised by a structure of committees that work alongside a Peer Review College and grant assessment panels, and also by the Audit Committee. Our committees lead key aspects of our corporate strategy and oversee the development of our investments. All of these committees are chaired by Council members.

The Council sets the vision and strategic direction for ESRC. The responsibility for carrying out key strategy is delegated to me as the Chief Executive. A diagram of ESRC's current governance structure follows:



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In 2015-16 Council met four times and discussion, amongst other matters, included:

- **ESRC Strategic Plan 2015.** Council discussed delivery of the ESRC Strategic Plan.
- **Revised Governance Arrangements.** Council agreed the new Committee structure.
- **UK Shared Business Services Ltd.** Council discussed issues raised by the Audit Committee regarding the service provided by UK Shared Business Services Ltd and its future.
- **The Life Study.** On the basis of extensive evidence Council took the decision to cease funding for the Study.
- **Demand Management and Peer Review Efficiency.** Council continued to monitor application levels and success rates as part of its regular review of the ESRC's demand management strategy.
- **Major Investments.** Council received presentations covering:
  - *What Works* Centre for Crime Reduction
  - The Enterprise Research Centre
  - The Administrative Data Research Network.
- **Spending Review.** Council received and discussed updates on the Spending Review.
- **Understanding Society.** Council approved the commissioning of Waves 9–11.
- **Council Strategic Workshop.** Council discussed the outcome of the workshop, the issues raised and future actions.
- **Global Challenges Research Fund.** Council received updates and discussed the challenges created by the Fund.

Council members are recruited through advertisement in the national press, with oversight provided by the Office of the Commissioner for Public Appointments, and final appointments are subject to Ministerial approval. Members of Council and the ESRC's Audit Committee are listed on page 28.

Members undertook an annual review of Council effectiveness, which was finalised at the Council meeting in April. Comments from individual members suggest that the Council is discharging its duty effectively and that there has been notable improvement in the focus and openness of discussion at this year's meetings, with information provided generally being relevant and concise. Members note that the executive team is responsive and that secretariat support is effective. However, areas for improvement have also been discussed by Council, specifically around providing a clearer analysis of the current substantive and financial portfolio. These will be actioned in the coming months.

The Audit Committee, which includes independent members in addition to Council members, met four times during the year. Members are appointed by Council.

The Audit Committee provides assurance to Council and to me, as Accounting Officer, by reviewing the adequacy and effectiveness of ESRC's framework of governance, risk management and controls; reviewing the annual accounts, and accounting policies, on behalf of Council and overseeing the outcomes of work by the internal and external auditors. The Audit Committee also supports discussion at Council through updates and briefings from the Chair of Audit Committee.

In September 2015 the Audit Committee undertook a self-assessment effectiveness review, the outcome of which was discussed at the October meeting of the Audit Committee. The outcome of the review concluded that the Audit Committee was working effectively with the office providing good support.

The attendance of members at Council and Audit Committee meetings, for which they were eligible to attend, can be found in the following table.

Name	Attendance at Council	Attendance at Audit Committee (AC)
Professor Dame Glynis Breakwell	3 out of 4	
Mr Martin Coleman (Chair of AC)	4 out of 4	4 out of 4
Professor Simon Collinson	3 out of 4	
Professor Jane Elliott	4 out of 4	
Professor Tara Fenwick	4 out of 4	
Dr Alan Gillespie	4 out of 4	
Mr Paul Grice	1 out of 2	
Ms Meryl Hayward		3 out of 4
Mr John Headley		1 out of 1
Professor David Martin	4 out of 4	4 out of 4
Dr James Richardson	4 out of 4	
Mr Mark Robson	3 out of 4	1 out of 2
Mr Martin Rosenbaum	3 out of 4	
Mr Allan Spencer		1 out of 1
Professor Judith Squires	3 out of 4	
Professor Alan Winters	4 out of 4	
Professor Linda Woodhead	4 out of 4	3 out of 4
Ms Karin Woodley	3 out of 4	
<b>Total 2015-16</b>	<b>88%</b>	<b>85%</b>
<b>Total 2014-15</b>	<b>90%</b>	<b>87%</b>

The Directors' Group comprises myself as Chief Executive, Directors and Deputy Directors and is the Executive body for ESRC. It meets regularly, at least monthly, with governance responsibilities to manage ESRC operations and finances in line with ESRC's 2015-16 delivery plan, as well as monitoring associated risks.

The Remuneration Committee is responsible for advising the Council on matters relating to the remuneration of Directors and other pay-related matters for senior staff. BIS determine my salary for my role as Chief Executive Officer.

ESRC's Committees lead key aspects of our corporate strategy and oversee the development of our research, infrastructure and training investments. They work together to help in the delivery of corporate objectives with an emphasis on delivering excellent social science with societal and economic impacts. The revised Committee structure, shown in the above diagram, was agreed in 2014-15 and introduced in 2015-16.

In 2015-16 a new governance model was agreed to cover the collective activities of the Research Councils. The RCUK Executive Group has been replaced by the RCUK Strategic Executive, with membership comprising of the seven Research Councils' CEOs plus the RCUK Executive Director. Work will continue in 2016-17 to develop the further tiers of governance to support the new group and its sub-boards.

ESRC continues to comply with the policies set out in the Cabinet Office 'Principles of Good Corporate Governance in Executive Public Bodies'.

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## **Approach to Risk Management**

In 2015-16 a new risk management policy and process was introduced across AHRC, EPSRC and ESRC (the three PSU Councils). This is based on the guiding principles of managing risk within the public sector; representing best practice whilst being proportionate to the level of risk exposure and risk appetite within the three PSU Councils.

ESRC's role is to support independent, high quality research and postgraduate training, as well as the impact that economic and social research can have in the business, public and third sectors. At any one time we support a significant number of researchers and postgraduate students in academic institutions and Independent Research Organisations. Some research, by its pioneering and innovative nature, carries risk, but we have a very low risk appetite in terms of the way we conduct our business. We work only with eligible research organisations and make our investment decisions using a transparent peer review process, details of which can be found at: [www.rcuk.ac.uk/funding/peerreview](http://www.rcuk.ac.uk/funding/peerreview).

ESRC's risk management process is designed to manage risk and not eliminate it. The quarterly review process allows risk owners to comment on mitigation actions and provide assurance that risks are being managed.

Strategic risks are identified through the Directors Group and reviewed by Audit Committee and Council at each meeting, who pay particular attention to those highlighted as significant high-level risks. It is through this process that ESRC manages the key headline risks that impact on the delivery of the ESRC's programmes and operations and enables mitigating actions to be agreed and implemented.

Overall, I am satisfied that, with effective input from Audit Committee and Council, risk is being managed successfully within ESRC.

## **Significant Risks in 2015-16 and Key Mitigating Factors**

This section covers the most significant risks faced in 2015-16 and the key mitigations in place. These risks are either of a long-term, ongoing nature and require continued risk management or have yet to be managed down sufficiently.

### **UK Shared Business Service (UK SBS)**

The announcement to transfer all services provided by UK SBS to other service providers and disband UK SBS within the next three years has created uncertainty around future service providers and the ability of UK SBS to continue to maintain service delivery during this period of change. If there is prolonged uncertainty and the ongoing issues regarding the stability, security and resilience of the 12.0.6 Oracle platform remain unaddressed then this may result in severe operational risks and directly impact on ESRC's ability to conduct its core business. The need to have in place processes and plans to cover any system failure is therefore required, which is dealt with in more detail under the UK SBS section. ESRC is also engaged with UK SBS at different levels and across various groups to help manage effectiveness and the stability of services.

### **Higher Education White Paper**

The ability of ESRC to continue to deliver its aims and objectives must be seen in the context of the wider change agenda faced by all Research Councils, with the most significant of these being the impact of the Higher Education White Paper, Success as a Knowledge Economy, which followed the Nurse Review. The White Paper sets out Government plans, through legislation, for the creation of a new organisation called UK Research and Innovation, to incorporate the functions of all seven Research Councils, Innovate UK and HEFCE's research and knowledge exchange functions. This will present significant governance challenges to all Research Councils over the next two years. ESRC will be fully engaged in this process, which will be reflected in future Governance Statements. We are working collaboratively with BIS to identify and actively mitigate any risks.

While announcements were awaited on the recommendations made in the Nurse Review, the Research Councils collectively looked at operational efficiency in 2015-16 through the Operational Cost Reduction Programme (OCRP), as covered later in this statement. This will continue into 2016-17 through the RCUK Change Programme, which has succeeded OCRP. The risk remains that uncertainty may affect staff and place additional demands on resource. This may in turn make it difficult to maintain 'business as usual' in the transition leading to the new structure unless mitigations are in place. ESRC is fully engaged in the RCUK Change Programme at both strategic and operational levels and will continue to influence the agenda where possible.

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## **Funding**

With a reduction to programme budgets and stretched administrative resources the risk of delivery pressures exists. There is also the reputational risk that the rationale for difficult funding decisions taken in response to the Spending Review is not sensitively communicated to the wider ESRC community. Steps have been taken to develop commitment plans to accommodate revised budgets with a clear widespread communication strategy to reach out to the research community and the wider stakeholder base.

## **Life Study**

In October 2015 it was announced that the ESRC and MRC had agreed to discontinue the funding of the Life Study project from early 2016.

Considered to be an ambitious, complex and innovative study led from University College London, the Life Study was one of ESRC's Business Critical Projects. The Study was an interdisciplinary longitudinal research study tracking the social, health and biological information of up to 80,000 UK babies and their families from all walks of life through pregnancy, birth and their early years. The Study was developed by an interdisciplinary group of leading UK scientists to collect extensive information on the health, development and life circumstances of a new generation of children born in the UK. Engagement with policymakers, practitioners and users would ensure that new knowledge gained would improve the lives of children now and in the future. The study was intended to create a rich longitudinal data resource comprising social and biological measures, and biological samples, and linked routine health and administrative data that could be used to address hypotheses regarding early life origins of health and disease, and of physical, psychological and social wellbeing.

The Study encountered serious challenges in respect of recruiting participants and at the Council meeting held on 10 July 2015 the office presented a number of options to determine the future of the Study and Council agreed that ESRC funding should be stopped. An independent Scientific Audit panel was commissioned to inform the means and timing of the closure, such that scientific value could be maximised.

An update on developments was presented to the Council meeting held on 16 October 2015 where Council reflected on the strategic reputational risk in relation to the discontinuation of funding. Council was satisfied that it was able to demonstrate close oversight and scrutiny of the Study from its inception, including formal Gateway Reviews, with the decision to fund the Study being sound, as was the decision to discontinue funding.

The closure of the Study was overseen by the Life Study Transition Board, who were informed by the findings of the Scientific Audit panel. An independent financial audit has been undertaken on three of the Life Study grants. The audit concluded that the expenditure was in accordance with the offer letters and additional funding agreements, and that adequate records had been maintained. Taking the Final Expenditure Statements into account, ESRC's final eligible costs for the Life Study were £8.5m.

An independently led lessons learned exercise has been conducted. The outcome of the exercise will be considered in the context of managing innovation and risk and help inform future projects.

## **Efficiency**

Since 2010 in response to Sir William Wakeham's report *Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions* the Research Councils have been implementing an efficiency programme to drive down the costs and overheads associated with research. The efficiency savings derived from this programme are being re-invested in research.



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The combined savings, yielded by the research base, across all Research Councils for the four-year period up to March 2015 were £396m against the target of £428m. In May 2014 the original four-year programme was extended by one additional year and so will now continue until April 2016. Incomplete data for the savings in 2015-16 indicate that the four-year target was met within 4½ years from the start of the programme. The 2015-16 results will be published in 2016-17. Details can be found in the RCUK Efficiency Programme Annual Reports 2011-15 available at: <http://www.rcuk.ac.uk/Publications/policy/Efficiency2011>.

### **RCUK Change Programme, formerly the Operational Cost Reduction Programme (OCRP)**

The Research Council Chief Executives have agreed to take a collective, Research Council-wide, programme approach to operational efficiency through an Operational Cost Reduction Programme (OCRP) targeting savings over a three year period.

In March 2016 the RCUK Strategic Executive, comprising the Research Council Chief Executives and the RCUK Executive Director, agreed for the programme to include wider change. The focus would now be on centralising and moving to single operating models in identified functional areas alongside the Grants Delivery Platform and the safe transition of UK SBS services and building works. The Strategic Executive agreed the programme should be called the RCUK Change Programme, building on the existing OCRP team and board members in order to resource and support the wider change programme and would move to a two-year programme.

The programme has been in mobilisation phase during 2015-16 with outline business cases covering the nine constituent projects submitted to the Programme Board in February. After review these cases were subsequently reviewed and agreed by the RCUK Strategic Executive in March.

### **Professional Support Unit (PSU)**

The PSU, hosted by the Arts and Humanities Research Council, provides professional services to AHRC, Engineering and Physical Sciences Research Council and ESRC (the PSU Councils) in: Finance; Human Resources; Information Technology (hosts services on behalf of non-PSU Councils); Project Management; and Reprographics. The Head of PSU received the appropriate 2015-16 delegations from the PSU Councils, which allowed the services to be delivered.

During 2015-16 the Head of PSU attended Audit Committee and Directors Group, which allowed governance issues to be discussed and challenged. The PSU is overseen by a Management Board comprising the Chief Executive Officers (CEOs) and a Director from each of the PSU Councils which meets quarterly. The Management Board received regular reports and an annual report from the Head of PSU, which provided assurance on the level of service being delivered, the financial position and the risks being managed.

The Head of PSU produced an Annual Assurance Statement covering 2015-16. The statement provides assurance to the CEOs that the PSU has in place appropriate systems and controls to support the services being delivered.

In 2015-16, the PSU Finance function undertook a Financial Management Review by way of a self-assessment using the CIPFA Financial Management Model in accordance with BIS and HM Treasury best practice. Overall the PSU Finance function scored well against best practice with strong governance arrangements in place. The finance support provided to the PSU Councils was found to be generally strong with recognition of the efforts invested in developing a strong common financial reporting and final accounts process. The creation of the PSU was also seen as a commitment by the PSU Councils to collaborate to develop better and more value-for-money solutions to the provision of their services.

The PSU recognises that future developments in respect of the RCUK Change Programme and the implementation of the Nurse Review will impact on its future. This is reflected in the PSU Risk Register with the Head of PSU fully engaged in the wider Research Council discussions.

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## **Other Key Governance Activities**

### **Pay Remit**

Pay setting arrangements throughout the civil service are set out in guidance issued by HM Treasury. However in respect of the 2015-16 pay remit the cross council pay consortium's (AHRC, BBSRC, ESRC, EPSRC and STFC) staff structure was slightly different to that modelled in the HMT-approved pay remit submission. Although within the overall pay envelope, the implementation resulted in the cross council pay consortium exceeding the approved Consolidated Pay limit by less than 1%, an immaterial value to these accounts. Retrospective approval has therefore been sought from BIS and HM Treasury and is awaited at the time the Accounting Officer signed these accounts. We will again review the internal processes over the management and regularity of pay remits to ensure compliance in the future.

### **Information Management**

The PSU Information Management Team is responsible for:

- Records Management
- Freedom of Information
- Data Protection
- Information Security.

This service is provided for ESRC alongside the other PSU Councils, providing a common approach and a body of expertise.

ESRC is committed to safeguarding information and personal data. During 2015-16, there were no incidents where a lapse in the security of personal data resulted in the need to report an incident to BIS or the Information Commissioner's Office.

During 2015-16 AASG conducted an audit on Information Security which identified a number of weaknesses in dealing with potential data breaches. The identified areas have now been strengthened by the PSU Information Team.

ESRC has in place a system of control for Information Risk, which is reflected in the annual Information Security Health Check submitted to BIS. The health check requires organisations to have plans in place to deliver full compliance with mandatory security outcomes. AASG reviewed the health checks of all Research Councils prior to submission to BIS and were satisfied that the appropriate plans were in place.

ESRC is committed to safeguarding information and personal data. In 2015-16 there were no significant incidents where a lapse in the security of personal data resulted in the need to report an incident to the Information Commissioners Office.

During 2015-16 e-learning training covering Information Assurance has been rolled out to all ESRC staff.

### **Health and Safety**

PSU have produced a health and safety report for 2015-16, which contains no issues that need to be reported in this statement.

### **Transparency**

ESRC is committed to the transparency agenda introduced by the Government to allow visibility of how public funds are used and managed. I can confirm compliance with all the disclosure requirements that are made on our website and that are referenced on the data.gov.uk website. The transparency disclosure made by ESRC covers:

- ESRC organisation structure
- Salary bands and senior posts
- Government Procurement Card transactions
- All expenditure.

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### **Ministerial Directions**

There were no Ministerial Directions given in 2015-16.

### **Tax Arrangements for Public Sector Appointees**

The Alexander Review, published in May 2012, made a number of recommendations to ensure that the highest standards of integrity could be demonstrated in the tax arrangements of senior public appointees. I can confirm that all of ESRC's senior staff are paid through a formal payroll facility and that arrangements are in place through retained HR to provide assurance that appropriate tax arrangements are in place to cover any other appointees covered by the report.

In 2015-16, ESRC identified no contractors who fell within the Alexander Review criteria.

Council members are 'office holders' as defined within HMRC guidance and their remuneration is subject to Pay As You Earn with income tax and employee National Insurance Contributions deducted through the payroll.

As such, ESRC is in compliance with the recommendations in HM Treasury 'Review of the tax findings of public sector appointees', published in May 2012.

### **MacPherson Review**

The review of quality assurance of Government analytical models undertaken by Sir Nicholas MacPherson, published by HM Treasury in March 2013, made a number of recommendations for government departments and their Arm's Length Bodies. To comply with the review and the BIS requirements, ESRC has reviewed their use of analytical modelling in 2015-16 and have not identified any that were considered to be business critical.

### **Austerity Measures**

ESRC has robust control processes, checks and reporting arrangements in place to review and manage expenditure in keeping with the austerity measures introduced by Government in May 2010. This includes all expenditure being approved through a formal process of delegated authority and monthly reporting to budget holders.

### **Regularity and Propriety**

ESRC requires all staff and groups within the governance structure to act honestly and with integrity and to safeguard the public resources for which they are responsible.

ESRC follows the harmonised Counter Fraud and Bribery policy, which was adopted by all seven Research Councils in 2014-15 and which is subject to annual review by the PSU Head of Risk and Governance. All staff are reminded of the policy on an annual basis, which is available to all staff through the PSU portal, thus ensuring that there is an awareness of their responsibilities to report fraud and the process by which to do so. All staff are also required to undertake the annual e-learning awareness training covering counter fraud and bribery and in 2015-16 this was completed by 100% of staff.

The PSU Head of Risk and Assurance also attends the BIS Counter Fraud Working Group where best practice is shared and current fraud issues discussed.

Consistent with the other Research Councils ESRC has established a harmonised Whistleblowing Policy. The Whistleblowing Policy encourages and enables employees to speak out when they encounter or suspect malpractice. It guarantees whistleblowers protection consistent with the Public Interest Disclosure Act and facilitates whistleblowing through a number of routes.

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I can confirm that for 2015-16:

- With the exception of the two items described below, neither I nor my staff authorised any course of action, the financial impact of which is that transactions infringe the regulatory requirements as set out in Managing Public Money
- As part of their audit NAO identified two payments which required retrospective approval from BIS:
  - a) A research grant payment made in advance of need (approval awaited)
  - b) A special severance payment to a former director (approval not given)In respect of the severance payment, BIS have classified this as an irregular payment and this has been reported to NAO. These amounts are not considered to be material to the accounts. There were no other novel, contentious or repercussive transactions that required BIS or Treasury approval and controls will be reviewed in 2016-17 to ensure that advance approval is sought for any such future payments.
- there were no cases of whistleblowing
- there were no instances of fraud identified within ESRC or within UK SBS which impacted on ESRC.

### **Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of governance, risk management and other internal controls at the ESRC to ensure a sound system of internal control is being maintained. In 2015-16 this review has been informed by the work of the ESRC's Director; the Audit Committee, the internal audit service provided by AASG, the work of the external auditors and cross-Council assurance programmes. The conclusion of my review is covered overleaf.

### **Stewardship Reporting**

As part of the annual assurance process I receive a report from the Director for Policy & Research on the governance and internal control framework which has been in operation. Whilst some issues have been raised in respect of UK SBS, which will be addressed during 2016-17 and covered later in this statement, I am content that the 2015-16 report provides me with reasonable assurance that a sound framework has operated throughout the year.

### **Audit Committee**

I have examined the reports of ESRC Audit Committee meetings including their review of internal controls, governance and risk management processes. I attended Audit Committee meetings and other than the UK SBS issues, which are covered below, no issues have been raised with me by the Committee.

### **Internal Audit**

Internal Audit is provided by AASG. The Director of AASG is required to provide me with an opinion on the overall adequacy and effectiveness of the ESRC's framework of governance, risk management and internal control. This opinion is informed by the internal audit work completed during the year, in line with the internal audit plan agreed by management and the Audit Committee. The work of AASG provides assurance in two areas: core ESRC activities and cross-Council activities with an ESRC involvement.

In 2015-16, based on the audit work covered below, AASG was able to provide ESRC with an overall Moderate Level of assurance on the adequacy and effectiveness of ESRC's controls and governance processes. The definition is:

- some improvements are required to enhance the adequacy and effectiveness of the framework of Governance, Risk Management and Control.

During the year a number of audits and assurance work were undertaken within the two areas of core and cross-Council activities. The implementation of recommendations that relate specifically to ESRC are monitored by PSU with progress reports presented to each Audit Committee meeting.

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### Core ESRC Audits

The Core audits undertaken in 2015-16 were:

- Independence in Strategy Development
- Governance of Business Critical Projects: Reporting
- Budget Management
- Office for National Statistics: Collaborative Activity
- PSU – Disaster recovery and Business Continuity
- PSU – Information Security – Policy and Action Planning
- Follow up of Audit Recommendations.

All accepted recommendations in relation to the above audits have implementation plans in place. The most significant issue raised in the Disaster Recovery and Business Continuity audit was the lack of an adequate disaster recovery plan within UKSBS. The activities of the Research Councils in respect of Disaster Recovery and Business Continuity are covered within the UKSBS section. The issues raised within the Information Security audit are covered above within the section on Information Management.

### Cross-Council Audits

In 2015-16, AASG carried out 19 cross-Council activities that were relevant to ESRC.

Where recommendations relate specifically to ESRC, their implementation is closely monitored by PSU. The implementation of recommendations of a cross-Council nature is monitored through the cross-Council Risk & Assurance Network or through the appropriate functional governance group within the Councils.

The control frameworks for business continuity, disaster recovery and the prevention and detection of cyber security threats have been subject to audits. Whilst controls already exist these areas should always be subject to a plan of continuous improvement and as such resilience will be strengthened. Work took place in 2015-16 to take this forward and will continue into 2016-17.

### Cross Research Council Funding Assurance Programme (FAP)

Across the RCUK community research funding in the 2015-16 draft accounts totals £2.9Bn of which £203.718m relates to ESRC. The ESRC funding landscape has two cash funding streams: firstly, grants administered through the SIEBEL system (£183.3m) and awarded to eligible Research Organisations (ROs) and secondly, funding distributed outside the SIEBEL system (c£18m) including Strategic Partnerships.

### SIEBEL Grants

I am assured on the regularity of spend within the community through a range of mechanisms:

- The Funding Assurance Programme (FAP) is a common activity which all Research Councils place reliance upon in relation to the use of grant funding;
- ISA260 reports from Russell Group Universities and other top ranked HEIs. To date 22 institutions have provided a return and no major errors or concerns in relation to Research Council funding have been identified;
- A letter from HEFCE providing an Annual Assurance Statement confirming that they have reviewed 24 institutions during the year and provide assurance on:
  - o the financial stability of the institutions;
  - o the absence of material threats to Research Council funds;
  - o that HEIs work within sound governance frameworks; and
  - o that they are unaware of any improper or irregular expenditure in the use of Research Council funds.
- Final Expenditure Statements submissions – each grant holder is required to submit a Final Expenditure Statement at the end of the grant. These are checked and reconciled (100%) by UK SBS. These did not raise any significant or material issues.

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The FAP methodology provides assurance on the control environment in operation within Research Organisations and vouches a targeted sample of transactions to confirm compliance with grant terms and conditions. The results (ie very low level of current and historic errors identified) are for all Councils consistent with our key assertion regarding the robustness of the overall Research Council funding system. In his report the Head of Funding Assurance provides 'Moderate Assurance' based upon the programme of work undertaken in 2015-16 and the previous 2 years. In 2015-16 the main outcomes of this programme were:

- 20 assurance assignments covering 54 ESRC grants.
- c£31m of ESRC expenditure reviewed.
- ineligible expenditure of £3,755 identified on the funding reviewed in 2015-16.
- no payments in advance of need were identified

Combined with the other layers of assurance such as the processes around grant application, approval and payment plus the independent ISA 260 audit reports for Universities (reinforced by the HEFCE framework for control of HEIs), I am able to make positive assertions around the regularity of spend by Research Organisations.

#### **Non-SIEBEL awards/funding**

Collaborative research to BIS and BIS Partner Organisations represents the major part of ESRC non-SIEBEL-funding (£12m) and these organisations already have a well-managed control and audit regime in accordance with *'Managing Public Money'*. No issues were identified in 2015-16.

The remaining expenditure is covered by contracts with specific conditions and agreements. No issues were identified in 2015-16.

Again when I reflect on the aggregation of all these sources of assurance I conclude on a strong framework that provides adequate assurance on the efficient and effective expending of public resources. In conjunction with the other Research Councils, AHRC will be considering a programme of improvement for 2016-17 and future years.

#### **UK SBS Assurance**

The UK SBS provides processing services in human resources, procurement, payroll, finance, grants and IT to all seven Research Councils.

#### **2015-16 Performance**

The Executive Director of UKSBS has written to me stating that the overall assurance status for UKSBS at the end of Quarter 4 was Amber. This mainly reflects the position on Disaster Recovery which UKSBS have classified with Red within their own Internal Control Assurance and which is covered below.

To compensate for the weaknesses in UK SBS, ESRC has been operating a system of additional controls to identify and rectify service failings. AASG has examined this additional control system, the outcomes of which were:

- Payroll – Moderate Assurance
- GPC & iExpenses – Moderate Assurance
- Purchase to Pay – Moderate Assurance
- Strategic Procurement – Limited Assurance.

The accepted recommendations in these areas will be taken forward in 2016-17.

#### **Cyber Security**

ESRC recognises the ongoing and increased Cyber Security threats and the challenges to managing them. We have a commitment to continually improve our controls, training and awareness. There were no cyber incidents involving data loss or classed as high risk.

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ESRC receives IT Infrastructure services in support of common key business services from UK SBS. These are subject to governance arrangements and regular audits as covered above. These arrangements allow us to continuously assess and challenge performance including the review of cyber security threats and management of security incidents.

ESRC remains committed to assessing our cyber security controls against the Cyber Security Essentials scheme and the Cyber Security Ten Steps to identify any improvements that are required, based on the risk appetite agreed with our Audit Committee.

### **Business Continuity and Disaster Recovery**

In 2015, the Research Councils and UK SBS collectively started a number of initiatives to mitigate the most serious risks that were faced around the fragility and resilience of the Oracle system. In this context it was recognised that the business systems employed by the Research Councils and UK SBS are currently out of support. Additionally, UK SBS is entering into a transition period over the next two years, as new business systems are implemented and UK SBS is disbanded. These factors pose a significant risk to the Research Councils, which materialised with the loss of systems for a period of up to two weeks towards the end of 2015-16. This resulted in business continuity plans being successfully activated by UK SBS, the Research Councils and the RCUK Executive.

The RCUK community has introduced a number of measures to maintain oversight of ongoing performance, including further monitoring of services, setting up a Finance Rapid Response Group and, in the case of Business IT, the Research Councils have significant ICT in-house capability. UK SBS, in liaison with the Research Councils, will also carry out a lessons learned exercise for the most recent loss of service.

To date, there have been no material errors or omissions reported to me, although the risk of error has increased. Whilst the resolution of the above system issues could be seen as a positive outcome, I am concerned there is a need to assess and stabilise the platform in order to minimise the risk of further disruption. ESRC, the other Research Councils and the RCUK Executive will continue to strengthen the business continuity plans already in place, taking into account the above lessons learned exercise.

The Chair of RCUK Executive Group has written to the BIS Principal Accounting Officer alerting him of the collective concerns of the Research Councils regarding the ongoing vulnerability and fragility of UK SBS systems.

### **Future Operations**

BIS have announced that UK SBS is to be disbanded within the next three years, which will require ESRC to move to an alternative provider/s within that time. BIS have indicated that these providers will be a combination of private sector, other parts of government or retained functions within BIS organisations. UK SBS acknowledges risks to continued resilience including reliance on legacy systems, capacity and capability. The ability of UK SBS to maintain service delivery, prepare for and transfer services over the next three years will be highly dependent on capacity and capability. Decisions on the BIS Shared Service strategy and other programmes will impact on their ability to manage change and retain key skills.

### **External Audit**

The ESRC Annual Report and Accounts are audited by the National Audit Office, who produce an Audit Completion Report.

### **Conclusion**

The conclusion of my review is that ESRC's overall governance risk management and internal control structures are sound and ensure that public money is properly accounted for and used economically, efficiently and effectively. I can provide assurance that the governance and control structures in place support the achievement of the ESRC's policies, aims and objectives and that effective plans for continuous improvement are in place.

# Remuneration and Staff Report 2015-2016

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## **Council Chair and Council Members except Chief Executive**

### **Unaudited Information**

#### **Policy**

The Chair and Council Members receive a letter of appointment from the Department for Business, Innovation and Skills (BIS) and are not employees of the ESRC although remuneration is made through the ESRC payroll. The terms of appointment allow for Members to resign from office by notice in writing to the Secretary of State. Members may also be removed from office by the Secretary of State on grounds of incapacity or misbehaviour or a failure to observe the terms and conditions of appointment.

Remuneration rates for Council Chair and Council Members are the same across Research Councils. BIS advise Research Councils of the rates they are required to pay following an annual review.

Council Chair and Council Member appointments are Ministerial Appointments made by the Secretary of State for BIS. The process for new appointments to the Council Chair and Council Members is in accordance with guidelines set out by the Cabinet Office Centre for Public Appointments (<https://publicappointments.cabinetoffice.gov.uk/>) and follows the best practice outlined in the Code of the Commissioner for Public Appointments. This is available at <http://publicappointmentscommissioner.independent.gov.uk>. In accordance with the Code, vacancies are advertised nationally and a panel, including independent members, oversees the process. The panel reviews all applications, shortlists and interviews then forwards names of appointable candidates to the Secretary of State for selection. Once the Secretary of State has made a final decision, an offer of appointment is issued by BIS on his behalf to the successful candidate.

Council Chair and Council Members are defined as Office Holders. They are not employees nor civil servants. Appointments are made for four years. In exceptional cases Members may be offered the possibility of re-appointment for a further four years. Appointments are non-pensionable and there is no compensation for loss of office.

As well as an honorarium in recognition of their service to ESRC, Council Members are refunded for reasonable expenses. Members of Council who are civil servants are not entitled to receive an honorarium. The remuneration of ESRC's Council Members and Chair is reviewed annually by BIS.



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## Remuneration

### Audited Information

Council Chair and Council Members	Period of Appointment	2015-16 Remuneration £000	2014-15 Remuneration £000
Dr Alan Gillespie – Chair of Council	10-06-09 – 09-06-17	15–20	15–20
Professor John Beath	01-08-09 – 31-07-14	-	0–5
Professor Stuart Croft	01-08-11 – 31-07-14	-	0–5
Mr Paul Grice	26-10-09 – 31-07-15	0–5	5–10
Mr Martin Coleman	01-04-10 – 31-07-16	5–10	5–10
Professor David Martin	01-08-10 – 31-07-16	5–10	5–10
Professor Linda Woodhead	01-08-13 – 31-07-16	5–10	5–10
Professor Tara Fenwick	01-08-13 – 31-07-16	5–10	5–10
Dr James Richardson*	01-08-13 – 31-07-17	-	-
Professor Dame Glynis Breakwell	01-08-11 – 31-07-17	5–10	5–10
Professor Simon Collinson	01-04-11 – 31-03-18	5–10	5–10
Mr Martin Rosenbaum	01-08-12 – 31-07-18	5–10	5–10
Professor Judith Squires	01-09-14 – 31-08-18	5–10	0–5
Ms Karin Woodley	01-02-15 – 31-01-19	5–10	-
Professor L Alan Winters	01-02-15 – 31-01-19	5–10	-
Mr Mark Robson	01-03-15 – 28-02-19	5–10	-

\* Remuneration not payable as member works in the Civil Service.

### Chief Executive and ESRC Directors

The remuneration of the Chief Executive of ESRC is decided by a Remuneration Panel chaired by the BIS Director General of Knowledge and Innovation and approved by the BIS Permanent Secretary.

The performance of ESRC Directors is assessed annually by the Directors Remuneration Committee. This Committee is chaired by the Chair of Council and other membership comprises the Chief Executive and the Chair of Audit Committee. Assessments are made using ESRC's Staff Performance Management process taking into account the following:

- benchmarking against comparators in other Research Councils
- annual increases agreed for other staff pay grades within ESRC
- BIS and Government pay policy guidelines and constraints.

There is no separate Remuneration Committee that considers the pay of other members of staff. All remuneration increases are subject to a satisfactory performance assessment. The amount of any non-consolidated one-off bonus payment is determined by the level of performance rating within the year.

## Contracts of Employment

### Unaudited Information

#### Chief Executive

The Chief Executive is contracted for the period 1 October 2014 to 30 September 2018. This is a part-time appointment at 0.95 FTE but will increase to 1 FTE in April 2016.

#### Directors

All Directors are employees of the ESRC. The Chief Executive and all Directors are subject to a notice period of three months and any compensation awarded for early termination is subject to the terms and conditions of the Research Councils' Joint Superannuation Early Severance Scheme.

### Audited Information

Remuneration	2015-16				2014-15			
	Salary (£000)	Bonus (£000)	Pension benefits* (£000)	Total (£000)	Salary (£000)	Bonus (£000)	Pension benefits* (£000)	Total (£000)
Prof B J Elliott, Chief Executive <sup>1</sup>	110-115	-	44	155-160	55-60	-	21	75-80
Mr P Sooben, Director	75-80	0-5	29	105-110	70-75	0-5	31	105-110
Prof P Boyle, Chief Executive <sup>2</sup>	-	25-30	-	25-30	50-55	5-10	-	55-60
Mr A Alsop, Director <sup>3</sup>	40-45	0-5	102	145-150	70-75	0-5	28	100-105

\* The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

<sup>1</sup> The full year equivalent salary is 120-125. From 1 Apr 2016, Professor Elliott moves to 1 FTE.

<sup>2</sup> Professor Boyle left on 31-08-14. His 2014-15 bonus was paid in 2015-16.

<sup>3</sup> Mr Alsop left on 31-05-15 and the salary for 2015-16 includes a payment in lieu of notice of £25k and holiday pay of £4.2k. His full year equivalent salary is in the salary band 70-75.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. The median excludes the pension benefits disclosed above.

	2015-16	2014-15
Banded Remuneration of highest paid Director (£000)	120-125	120-125*
Median Remuneration of ESRC workforce (£)	31,238	30,901*
Range of Staff Remuneration (£)	18,661-120,000	18,404-120,000
Ratio	3.92	3.96*

\* restated 2014-15.

Salary paid in 2015-16 includes gross salary, overtime, recruitment and retention allowances, responsibility allowances and any other allowance to the extent that it is subject to UK taxation.

It does not include severance payments, re-imbursment of expenses, employer pension contributions and the cash equivalent transfer value of pensions. There has been an increase to the average annual earnings (excluding bonuses) for these members of staff of 1.72% between 2014-15 and 2015-16.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind paid to any of the ESRC Executive in 2015-16. In 2015-16 no employees received remuneration in excess of the highest-paid director (2014-15, 0).

Decisions on whether to award non-consolidated performance awards to Directors are made by the CEO in conjunction with the Remuneration Committee. Decisions are strictly performance based and made in accordance with Cabinet Office Guidance 'Senior Civil Service pay 2013-14' document published in March 2013 and Non-Consolidated Performance Related Pay (NCPRP) guidance set out in the Government's announcement in May 2010. Directors were awarded non-consolidated awards based on how well they achieved or exceeded their personal objectives given to them at the beginning of the appraisal period by the CEO and approved by the Remuneration Committee.

The Professional Support Unit (PSU) was created in the year 2013-14. The Head of the PSU, Mr G Raikes, is the Director responsible to each Research Council for all PSU services provided to that Council, and he reports to the CEO of each of the Councils supported by PSU. Mr Raikes' salary is paid by his employing Council (AHRC) and is disclosed in its Annual Report. A proportion of Mr Raikes' salary is recharged across the PSU Councils as part of the agreed charging process. The Remuneration of the Head of PSU is determined by their employing Council's Remuneration Committee. A PSU recharge is necessary to ensure each of the Council's costs fairly reflect the services received.

## Pension Benefits

Chief Executive and Directors	Accrued pension at pension age as at 31/3/16 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31.3.16 £000	CETV at 31.3.15 £000	Real increase in CETV £000
Prof Bj Elliott Chief Executive	0-5 No lump sum	2.5-5 No lump sum	49	15	24
Mr P Sooben Director	30-35 Plus lump sum 35-40	0-2.5 Plus lump sum 0-2.5	504	439	22
Prof P Boyle Chief Executive*	-	-	-	13	-
Mr A Alsop Director**	35-40 Plus lump sum 110-115	2-2.5 Plus lump sum 12.5-15	824	715	98

\* Professor Boyle left the ESRC 31/08/14.

\*\* A payment for added pension and buy out on retirement was effective from 31 March 2015.

## Unaudited Information

### Pension Schemes

The employees of ESRC are automatically enrolled to the Research Councils' Pension Scheme (RCPS), which is an unfunded defined benefit scheme paid for by employee and employer contributions as well as annual grant-in-aid on a pay-as-you-go basis. The RCPS is in all respects 'by-analogy' to the Principal Civil Service Pension Scheme (PCSPS), except that the employer's contribution is determined separately. The scheme provides retirement and related benefits based on final or average emoluments. Redundancy and injury benefits are administered and funded by the Council. The scheme is administered by the Research Councils' Joint Superannuation Service (JSS) with the associated grant-in-aid managed by BBSRC.

Employees may be in one of four defined benefit scheme arrangements; either a 'final salary' scheme (Classic, Classic Plus or Premium); or a career average scheme (Nuvos). Pensions payable are increased annually in line with changes in the Consumer Prices Index (CPI). The employer contribution rate is agreed by the RCPS Board of Management on the recommendation of the scheme actuary, the Government Actuary's Department (GAD), and is set at 26.0% of pensionable pay.

Employee contribution rates and the method for calculating the rates for the RCPS changed on 1 April 2015 through the

by-analogy arrangement with the PCSPS. The new method is based on the employees 'annualised earnings', which is the actual earnings in the month multiplied by 12. The employee contribution rate is tested against the 'annualised earnings' each month with the employee paying the appropriate contribution. The rates for the period 1 April 2015 to 31 March 2016 were as follows:

Annualised pensionable earnings	Classic % contribution rate before tax relief	Classic Plus, Premium & Nuvos % contribution rate before tax relief
Up to £15,000	3.00	4.60
£15,001 – £21,000	4.60	4.60
£21,001 – £47,000	5.45	5.45
£47,001 – £150,000	7.35	7.35
£150,001 and above	8.05	8.05

A Partnership Pension Account was made available to new staff from 1 October 2002, based on the portable Stakeholder Pension introduced by the Government in 2001. This is a defined contribution scheme. The employers pay the RCPS 0.8% of pensionable pay to cover death in service and ill health benefits. The employers pay the balance to the employee's private pension provider. The employer contribution for 2015-16 was £14,164.86 (2014-15 £962.30).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pensionable age. Pensionable age is 60 for members of Classic, Classic Plus and Premium and 65 for members of Nuvos.

On 1 April 2015 PCSPS launched a new pension scheme called Alpha. This scheme is similar to the Nuvos career average scheme but with the retirement age aligned to the state pension age. The RCPS cannot operate by analogy to the new Alpha scheme as the legislation does not permit this. Reform options are being discussed with HM Treasury and BIS have given permission for RCPS to continue 'as is' beyond April 2015.

Further details about the RCPS pension arrangements can be found at the website: <http://jsspensions.nerc.ac.uk>

Contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period with future benefits earned during the current period to be paid out of future contributions. The assets of all schemes are held separately from those of ESRC in an independently administered scheme. It is not possible to identify the ESRC's share of the underlying assets and liabilities of any of the pension schemes. In RCPS, ESRC has no legal or constructive obligation to pay those future benefits. Its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of RCPS, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, RCPS is treated as a defined contribution plan as stated in IAS 19.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years.

Formal actuarial valuations are used to determine employer and employee contribution rates. The last actuarial valuation undertaken for the RCPS, as at 31 March 2006, was completed in 2008-09. An actuarial valuation as at 31 March 2010 was initiated but not completed due to HM Treasury suspending all public sector pension scheme valuations whilst reform policies were being developed. HM Treasury has since concluded their reform policy, which enabled the Government Actuary Department to start the process of completing a revised scheme valuation. This valuation will be as at 31 March 2012 in accordance with HM Treasury revised scheme valuation directions. The conclusion of the scheme valuation is directly linked to

the reform outcomes of the RCPS. It is likely that the reform process will be complete by June 2016 and any resulting changes to contribution rates likely to be effective from April 2017.

For 2015-16, employer's contributions of £1,114k were payable to RCPS (2014-15 £1,109k) at 26% of pensionable pay for all the salary bands.

### 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 that the individual has transferred to the Research Councils' pension arrangements and for which the RCPS 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. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

### The real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It does not include 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.

## Audited Information

### ESRC Staff Report

#### Staff Numbers & Related Costs

Staff Costs	2015-16 Total £'000	2014-15 Total £'000
Wages and Salaries	4,944	4,779
Social Security Costs	359	320
Other Pension Costs	1,128	1,109
Temp Staff	69	264
Secondment Expenditure	49	71
<b>Total Staff Costs as per Statement of Comprehensive Net Expenditure</b>	<b>6,549</b>	<b>6,543</b>
Less recoveries in respect of outward secondments	(271)	(344)
<b>Total Staff Costs after deduction of income received for secondments</b>	<b>6,278</b>	<b>6,199</b>

Income in respect of outward secondments is included in ESRC's operating income (Note 7 page 69).

All of ESRC's senior staff are paid through a formal payroll facility and arrangements are in place through HR to provide assurance that appropriate tax arrangements are in place to cover any other appointees.

## Consultancy

ESRC spent £29k on consultancy during 2015-16. This was predominantly in support of Programme Delivery.

The average number of full time equivalent persons employed during the year was as follows:

Staff Numbers 2015-16	2015-16		2014-15		Total	
	ESRC	PSU	ESRC	PSU	2015-16	2014-15
Directly employed/core staffs	132	5	133	7	137	140
Seconded in	1	-	1	-	1	1
Temp Staff	2	-	1	2	2	3
<b>Staff Numbers</b>	<b>135</b>	<b>5</b>	<b>135</b>	<b>9</b>	<b>140</b>	<b>144</b>
Less Seconded Out	(5)	-	(4)	-	(5)	(4)
<b>Staff Numbers</b>	<b>130</b>	<b>5</b>	<b>131</b>	<b>9</b>	<b>135</b>	<b>140</b>

Staff Numbers 2015-16	2015-16		2014-15		Total	
	Male	Female	Male	Female	2015-16	2014-15
Directors	1	1	3	2	2	5
Senior Managers	5	12	4	11	17	15
Other employees	30	88	32	88	118	120
<b>Total directly employed/core staff</b>	<b>36</b>	<b>101</b>	<b>39</b>	<b>101</b>	<b>137</b>	<b>140</b>

The AHRC hosts the PSU on behalf of ESRC, EPSRC and AHRC, providing HR, Finance, Project, Reprographics and Information Services to the three Councils. A cost recharge across the functions relating to the support provided was applied in the year. All new staff appointments across these functions are recruited to AHRC.

ESRC currently supports eight annual graduate placements. They are included in the permanently employed figure for 2015-16 (2014-15, 11).

Civil service compensation scheme analysis	Compulsory Redundancies		Other Departures		Total Departures		Total Packages	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16 £000	2014-15 £000
<b>Value</b>								
<£10,000	-	-	-	-	-	-	-	-
£10,000 – £24,999	-	-	1	-	1	-	24.6	-
£25,000 – £49,999	-	-	-	-	-	-	-	-
£50,000 – £99,999	-	-	-	-	-	-	-	-
£100,000 – £149,999	-	-	-	-	-	-	-	-
£150,000 – £200,000	-	-	-	-	-	-	-	-
<b>Total number of exit packages</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>24.6</b>	<b>-</b>

This is 4 month's pay in lieu of notice on staff exit, one month of which constitutes a special payment. For more information please refer to the Governance Statement on page 34

## Unaudited Information

### Staff Policies

#### Sickness Absence

PSU HR and the Research Council management monitor staff sickness absences on an ongoing basis with all sickness absences followed up by a return to work interview in line with the harmonised Research Council Sickness Absence Policy. Short-term and long-term absences are managed on a case-by-case basis with appropriate support from an Occupational Health Physician.

	2015-16	2014-15
Average number of staff during year	137	140
Total days lost to sickness	1,549	1,123
Average working days lost	11	8
Days lost to long-term absences	763	465

Common causes of absence	2015-16	
	Days lost	%
Anxiety/Stress Related	486	31
Cough/Cold/Flu	170	11
Heart, Cardiac and Circulation	159	10
Fractured/Broken Bones	99	6
Dizziness/Fainting	84	5
<b>Totals</b>	<b>998</b>	<b>63</b>

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## **Diversity and Equality**

ESRC policy on recruitment and selection is based on the Equality Act 2010 and focuses on the ability of the candidate to perform the job regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. If disability should occur during employment, the Research Council would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

ESRC holds 'two ticks' Positive About Disabled People status, which is awarded to employers who have made a commitment to employ, keep and develop the abilities of disabled staff. The annual review was successful and retention of the award was confirmed for a further year.

ESRC has agreed to embrace the Mindful Employer initiative. PSU HR attends seminars and networking events involving other organisations. The initiative indicates a positive attitude about mental health, and demonstrates ESRC's commitment to improving the working lives of its employees.

## **Employee Engagement**

Employee involvement in management and policy matters continues through ongoing dialogue between all colleagues within ESRC. The PSU, which was formed in 2013-14 and hosted by AHRC, continues to engage with colleagues to facilitate management and policy matters for HR, Finance, IT and Project work in support of AHRC, ESRC and EPSRC.

ESRC continues to recognise, and consults with, the Public and Commercial Services Union and Prospect on issues relating to pay and terms and conditions of employment. Consultation takes place through the Joint Negotiation Consultative Committee meeting on a quarterly basis. During the year the move to a harmonised set of non-pay employment terms and conditions has continued.

In 2015, ESRC joined the Civil Service People Survey for the first time and achieved an employee engagement index of 68, 6 points above the average for the Civil Service and ensuring a place in the upper quartile. Findings are discussed with all employees and there is a continuous dialogue to ensure that employees are engaged on issues that affect them at work.

## **Health and Safety**

ESRC is a joint member of a cross-Research Council Health and Safety Committee. This committee considers and manages health and safety for EPSRC, ESRC and AHRC, and is supported and managed by PSU HR. The committee has developed and implemented a common health and safety policy across the three Research Councils and has a continuous programme of inspections and engagement with employees in the three Research Councils. Joint Building and Office Services continues to provide health and safety support and administration across the seven Research Councils, relating to induction of new starters, first aid and fire safety.



# Parliamentary Accountability and Audit Report

## Audited Information

### Regularity of Expenditure

During the reporting period there were two transactions that were referred to BIS for approval. For full details refer to page 33 of the Governance Statement. All other transactions complied with the requirements of regularity as defined by the Treasury document 'Managing Public Money' (Revised August 2015).

### Special Payments and Losses

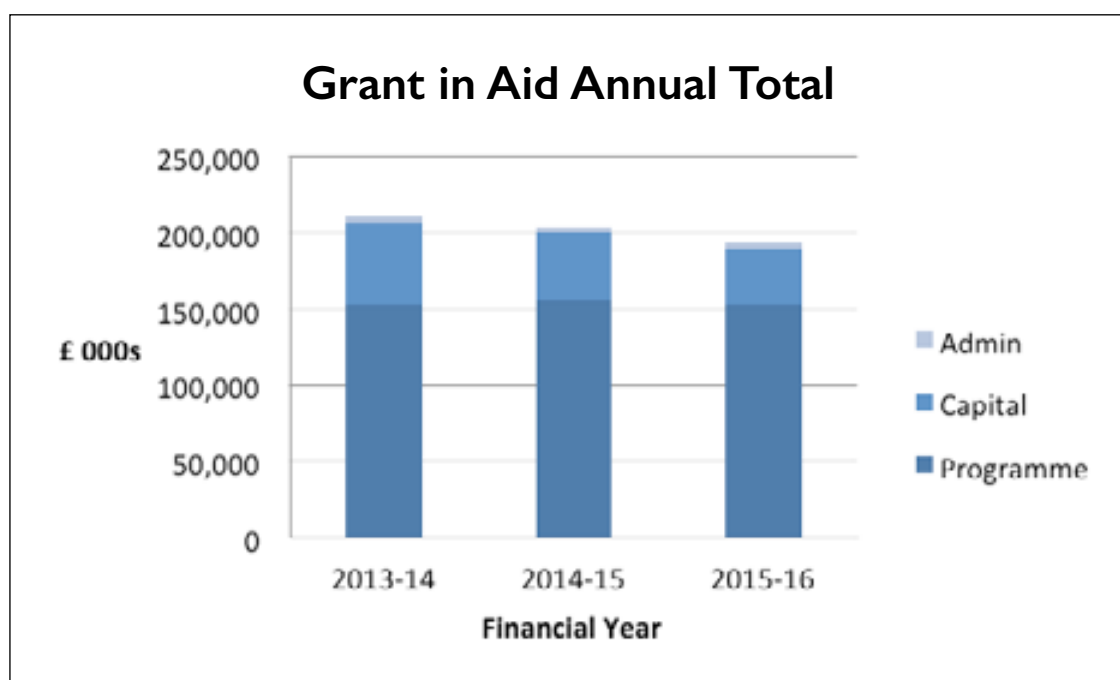
ESRC made one special payment in 2015-16 in respect of the exit of Mr Adrian Alsop. For details refer to page 45.

### Contingent liabilities

ESRC has no contingent liabilities as at 31 March 2016.

### Long Term Expenditure Trends

This section provides analysis of a number of individual areas of performance. Figures for the accounting period and the two previous years are illustrated by graphs, which are accompanied by discussion of potential future trends.

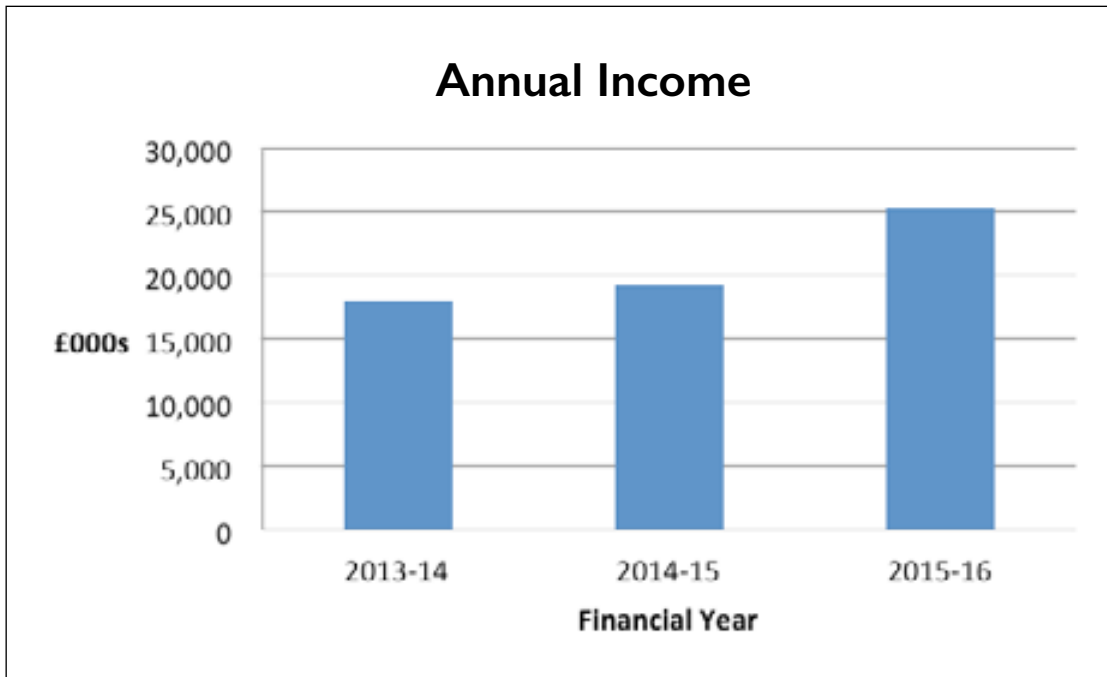


Budget allocation letters have been received that cover the period 2016-17 and 2017-18. Total DEL allocation for the period 2016-17 had been increased to £195.434m (2015-16 £193.229m excluding depreciation). Within this total the budget for administration spend has reduced to £2.826m (2015-16 £3.04m). Indications are that future total budget figures will remain at broadly the same level, with a continuing reduction in the administrative total.

In response to the European System of Accounts 2010 changes, from 2016-17 onwards virtually all of the Council's Grant in Aid budget will be allocated under Capital DEL as opposed to Resource DEL.

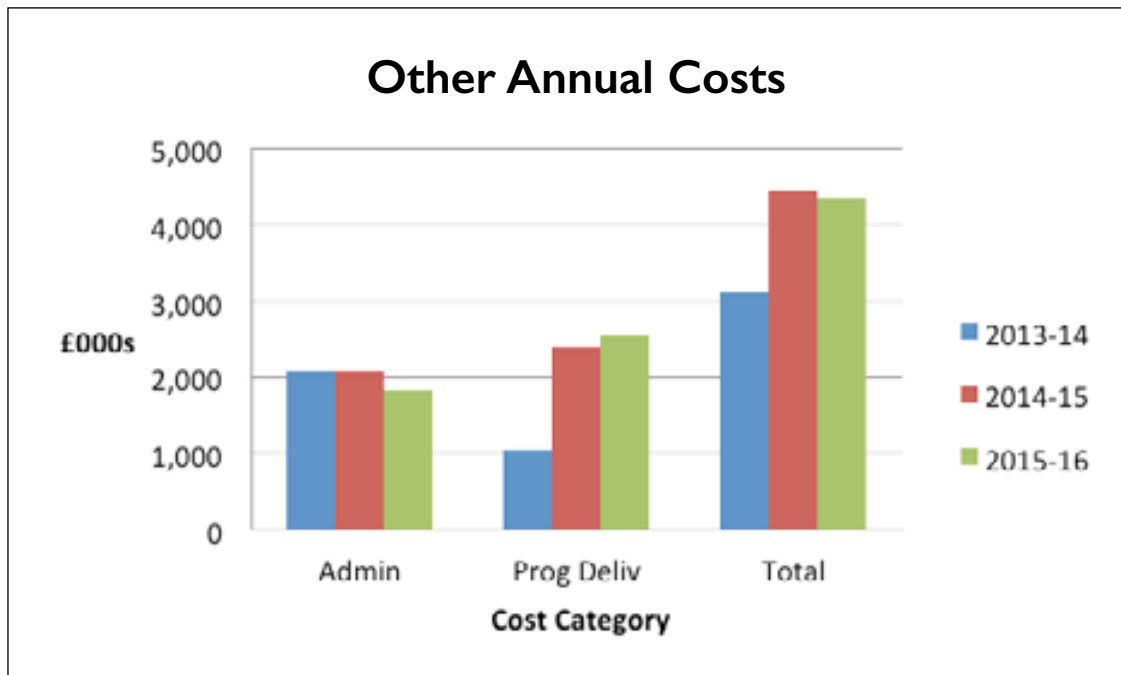
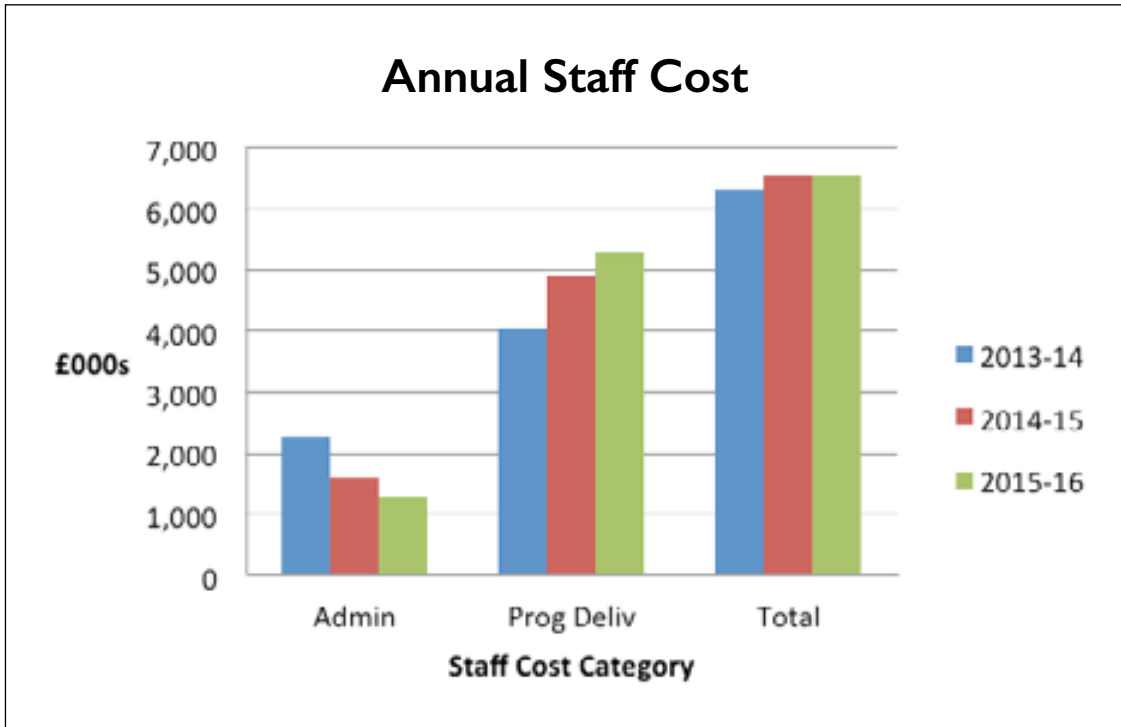
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## Income



If programme spend is to be maintained at or close to 2015-16 levels it will be important to identify new co-funding partners, as highlighted in the ESRC delivery plan. This activity will become increasingly challenging as budget pressures similar to those experienced by ESRC continue for the majority of potential and existing partners. It is unlikely that the rate of increase for income achieved in 2015-16 can be sustained and therefore the reduction in programme spend seen this year will continue, but not at the same rate as the reduction in Grant in Aid.

Staff and Administration Costs



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Staff and other costs have stabilised at 2014-15 levels. Non-Staff costs include charges from other Councils in respect of jointly funded facilities such as RCUK and the PSU. Other specific areas which are individually monitored include consultancy and marketing spend.

In anticipation of central government requirements, the Research Councils collectively set in process the RCUK Change Programme during 2015-16. Programme implementation, including the following initiatives, commenced on 1 April 2016.

- a move to a single operating model for professional functions
- policy and process improvements in the area of research grant delivery
- more effective use of Research Council office space
- collective management of the joint Research Council workforce, which will greatly reduce the need for external recruitment.

The RCUK programme is expected to take from two to three years to fully implement, but will deliver benefits to staff and administration costs from the start of 2016-17. A further reduction in staff costs can be expected as a result of the buyout of contracted pay progression that took place at the end of 2015-16.

During the course of the RCUK programme it is likely that some of the functions performed by UK SBS will be returned to the Research Councils resulting in a further reduction of the notional charge, but a potential for upward pressure on actual staff and administration costs.

Remuneration and Staff Report signed by



Professor Jane Elliott  
Accounting Officer  
30 June 2016

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

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I certify that I have audited the financial statements of the Economic and Social Research Council for the year ended 31 March 2016 under the Science and Technology Act 1965. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, 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 and Staff Reports and the Parliamentary Accountability disclosures that are described in that report as having been audited.

## **Respective responsibilities of the Council, Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Council and the Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Science and Technology Act 1965. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Economic and Social Research Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Economic and Social Research Council; and the overall presentation of the financial statements. In addition, I read all of the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Economic and Social Research Council's affairs as at 31 March 2016 and the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Science and Technology Act 1965 and Secretary of State directions issued thereunder.

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## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions made under the Science and Technology Act 1965; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**  
**6 July 2016**

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

# Financial Statements

# Accounts

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Note	2015-16 £000	Restated 2014-15 £000
<b>Administration</b>			
Staff Costs	4	1,277	1,620
Other Expenditure	6	1,837	2,064
Notional Service Charges	6	1,316	1,477
Operating Income	7	(151)	(325)
		<b>4,279</b>	<b>4,836</b>
<b>Programme</b>			
Staff Costs	4	5,272	4,923
Research	5a	155,448	167,073
Postgraduate Awards	5b	44,701	47,039
Research Fellowships	5c	3,392	4,931
International Subscriptions	-	177	164
Other Expenditure	5d	2,540	2,391
Operating Income	7	(25,182)	(18,978)
		<b>186,348</b>	<b>207,543</b>
<b>Net Expenditure</b>		<b>190,627</b>	<b>212,379</b>
<b>Total Comprehensive Net Expenditure</b>			
Net Gain on Revaluation of Non-Current Assets	8	(1,233)	-
<b>Total Comprehensive Net Expenditure</b>		<b>189,394</b>	<b>212,379</b>

The notes on pages 58 to 74 form part of these accounts



## Statement of Financial Position as at 31 March 2016

	Note	As at March 2016 £000	Restated As at March 2015 £000
<b>Non-Current Assets</b>			
Property, Plant and Equipment	8	3,188	1,993
Intangible Assets	-	-	39
<b>Total Non-Current Assets</b>		<b>3,188</b>	<b>2,032</b>
<b>Current Assets</b>			
Trade and Other Receivables	9	6,757	7,893
Cash and Cash Equivalents	10	8,243	1,813
<b>Total Current Assets</b>		<b>15,000</b>	<b>9,706</b>
<b>Total Assets</b>		<b>18,188</b>	<b>11,738</b>
<b>Current Liabilities</b>			
Trade and Other Payables	11	(23,527)	(24,228)
<b>Total Current Liabilities</b>		<b>(23,527)</b>	<b>(24,228)</b>
<b>Total Assets less Current Liabilities</b>		<b>(5,339)</b>	<b>(12,490)</b>
<b>Assets less Total Liabilities</b>		<b>(5,339)</b>	<b>(12,490)</b>
<b>Taxpayers' Equity</b>			
Revaluation Reserve	-	2,673	1,462
General Reserve	-	(8,012)	(13,952)
<b>Total Taxpayers' Equity</b>		<b>(5,339)</b>	<b>(12,490)</b>



Professor Jane Elliott  
Accounting Officer  
30 June 2016

# Accounts

## Statement of Cash Flows for the year ended 31 March 2016

	Note	2015-16 £000	Restated 2014-15 £000
<b>Cash Flows from Operating Activities</b>			
Net Expenditure	-	(190,627)	(212,379)
<b>Adjustments for Non-Cash Transactions:</b>			
Depreciation	8	38	67
Amortisation	-	39	74
Decrease/(Increase) in Trade and other Receivables	9	1,136	3,878
Decrease in Trade and other Payables	11	(701)	(3,273)
<b>Net Cash Outflow from Operating Activities</b>		<b>(190,115)</b>	<b>(211,633)</b>
<b>Cash Flows from Financing Activities</b>			
Grant-in-Aid received from BIS – Revenue	-	156,229	159,078
Grant-in-Aid received from BIS – Capital	-	37,000	44,700
Grant-in-Aid received from BIS Non-DEL	-	2,000	3,000
Notional Service Charges	6	1,316	1,477
<b>Net Cash Flows from Financing Activities</b>		<b>196,545</b>	<b>208,255</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents in the period</b>	10	<b>6,430</b>	<b>(3,378)</b>
Cash and Cash Equivalents at the beginning of the period	10	1,813	5,191
Cash and Cash Equivalents at the end of the period	10	8,243	1,813

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Revaluation Reserve £000	General Reserve £000	Total Reserves £000
<b>Balance at 1 April 2014</b>	<b>2,330</b>	<b>(9,828)</b>	<b>(7,498)</b>
<b>Restated Changes in Taxpayers' Equity 2014-15</b>			
Grant-in-Aid received from BIS – Revenue	-	159,078	159,078
Grant-in-Aid received from BIS – Capital	-	44,700	44,700
Grant-in-Aid received from BIS Non-DEL	-	3,000	3,000
Notional Service Charges	-	1,477	1,477
Revaluation of PPE and Intangibles	(868)	-	(868)
Net Expenditure	-	(212,379)	(212,379)
<b>Balance at 31 March 2015</b>	<b>1,462</b>	<b>(13,952)</b>	<b>(12,490)</b>
<b>Balance at 1 April 2015</b>	<b>1,462</b>	<b>(13,952)</b>	<b>(12,490)</b>
<b>Changes in Taxpayers' Equity 2015-16</b>			
Grant-in-Aid received from BIS – Revenue	-	156,229	156,229
Grant-in-Aid received from BIS – Capital	-	37,000	37,000
Grant-in-Aid received from BIS Non-DEL	-	2,000	2,000
Notional Service Charges	-	1,316	1,316
Revaluation of PPE and Intangibles	1,233	-	1,233
Release of Revaluation Reserve	(22)	22	-
Net Expenditure	-	(190,627)	(190,627)
<b>Balance at 31 March 2016</b>	<b>2,673</b>	<b>(8,012)</b>	<b>(5,339)</b>

# Notes to the Accounts

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## I Statement of Accounting Policies

### a. Basis of Accounting and Accounting Convention

The Accounts have been prepared in accordance with a direction given by the Secretary of State with the approval of HM Treasury in pursuance of Section 2 (2) of the Science and Technology Act 1965.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and meet the accounting and disclosure requirements of the Companies Act 2006 and the accounting and financial reporting standards issued or adopted by the International Accounting Standards Board as interpreted for Government use by the Financial Reporting Manual (FReM) and in so far as these requirements are appropriate. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the ESRC for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Council are described below. They have been applied consistently in dealing with items that are considered material to the accounts. There was no material departure from IFRS or FReM in preparation of these statements.

As required by Section 393 (1) of the Companies Act 2006 the Accounting Officer has provided assurance that these statements give a true and fair view of the assets, liabilities, financial position and the comprehensive net expenditure of ESRC.

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets, where material.

The financial statements are presented in £ sterling and all values are rounded to the nearest thousand, except where indicated otherwise.

### Going Concern

These Financial Statements have been prepared on the basis of a Going Concern. Any deficit shown on the General Reserve will be extinguished over time, having regard to the resource and capital budgets to which ESRC can be expected to have access.

Budget allocations were formally announced in March 2016 following the Comprehensive Spending Review. Confirmation of the 2016-17 allocation was received from BIS in April 2016 detailing ESRC's ring-fenced budgets. The Research Councils have published their spending plan and priorities for 2016-20 in line with the spending review period.

The Higher Education & Research Bill received its first reading in May 2016 setting out the government's intention regarding the research councils future, with the creation of a single executive non-department public body operating at arm's length from Government – UK Research and Innovation (UKRI). The Bill states the Government will ensure the seven research discipline areas continue to have strong and autonomous leadership, and that UKRI will incorporate the functions of the seven Research Councils, Innovate UK, and HEFCE's research funding functions. The names and brands of the Research Councils and Innovate UK will be retained amongst a number of other protections.

On the strength of this information, the accounts have been prepared on a going concern basis.

### Adoption of Standards and Changes in Policy

All International Financial Reporting Standards, Interpretations and Amendments to published standards, effective at 31 March 2015, have been adopted in these financial statements, taking into account the specific interpretations and adaptations included in the FReM.

**IFRS 9** Financial Instruments (effective for periods beginning on or after 1 January 2015) – IFRS 9 is a replacement for IAS 39 and introduced new requirements for the classification and measurement of financial assets.

**IFRS 13** Fair value measurement (adopted by the FReM for 2015-16) – IFRS 13 provides a single source of guidance for fair value measurement.

Simplifying and Streamlining Accounts Agenda (implemented by the FReM for 2015-16) – Staff-related disclosures have relocated to the Remuneration and Staff Report (page 43) in line with the guidance issued by HM Treasury. Accounting policies or disclosure notes are only required in relation to material items.

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## Effective for Future Financial Years

The IASB and IFRIC issued certain standards and interpretations with an effective date after the date of these financial statements. Where these changes are relevant to ESRC's circumstances they are listed below and will be adopted at the effective date. They have not been adopted early and their adoption is not expected to have a material impact on ESRC's reported income or net assets in the period of adoption.

IAS 1 Presentation of Financial Statements (effective for periods beginning on or after 1 January 2016) – The amendment clarifies that information should not be obscured by aggregating or providing immaterial information. Materiality consideration applies to all parts of the financial statements and even when a standard requires a specific disclosure.

IAS 7 Cashflow (effective for periods beginning on or after 1 January 2016) – Requires that the following changes in liabilities should be disclosed within financing activities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

IAS 16 Property, Plant and Equipment (effective for periods on or after 1 January 2016) – The amendment to IAS 16 provides additional guidance on how the depreciation of property, plant and equipment should be calculated.

IAS 38 Intangible Assets (effective for periods on or after 1 January 2016) – the amendment to IAS 38 provides additional guidance on how the amortisation of intangible assets should be calculated.

ESRC is not expecting any significant impact to future financial statements from the accounting standards that are newly issued and are not yet effective.

### b. Financing and Income

The FReM requires Non-Departmental Public Bodies to account for Grant-in-Aid as financing. In the ESRC's case this includes Grant-in-Aid from the Department for Business, Innovation and Skills.

Monies from other Research Councils for co-financing of various Grant programmes are recognised as income when goods or services are delivered and title has passed, and charged to the Statement of Comprehensive Net Expenditure in the accounting period in which the goods or services are rendered.

The Council receives funding for collaborative projects to support ESRC's research. The majority of this funding is received from the UK Public Sector. Some of the funding may involve payment for the collaboration a number of years in advance of the accounting period to which it relates. Where there is a variance between work done in the accounting period and received funding, income will be deferred where the contract or agreement allows.

### c. Administration and Programme Expenditure

The Statement of Comprehensive Net Expenditure is analysed between Administration and Programme income and expenditure. The classification of expenditure and income as Administration or Programme follows the definition set by the Consolidated Budgetary Guidance. Administration budgets cover the costs of all central government administration other than the costs of direct frontline service provision. Activities that are directly associated with frontline service delivery are considered to be Programme. In practice, Administration budgets include activities such as provision of policy advice, business support services, back-office administration, advice on and administration of grant programmes, technical or scientific support, and the work of the Government's Regional Offices.

### d. Property, Plant and Equipment (PPE)

Capital expenditure in PPE includes the purchase of IT equipment, office equipment, fixtures and fittings, equipment and land and buildings valued at £10,000 or more.

PPE are included at cost or valuation. The basis of valuation is Open Market Value for existing use where this can be established, otherwise Current Depreciated Replacement Cost. A full month's depreciation is charged in the month of acquisition and none in the month of disposal.

# Notes to the Accounts

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Depreciation is not charged on assets under construction until the asset is brought fully into use and transferred to the appropriate asset category. They are then depreciated at the same rate as the other assets in that category.

Property, plant and equipment are depreciated at rates calculated to write off the costs or the valuation of each asset evenly over its expected useful life, as follows:

Freehold Land	Not depreciated
Freehold Buildings	60 years
IT Equipment	3 years
Fixtures and Fittings	5 years

Land and buildings, and major items of equipment are professionally revalued every five years at which time the remaining useful life of each revalued asset is also reassessed. The last valuation was conducted in December 2015 conducted by GVA Grimley Ltd, using a Fair Value Basis for the valuation. Appropriate indices are used between formal valuations.

## e. Intangible Assets

Capital expenditure on intangible assets includes the purchase of software, software licences, data sets and website development valued at £10,000 or more.

Amortisation of intangible assets is provided at rates calculated to write off the cost of each asset in equal instalments over its expected useful life as follows:

Software	5 years
Websites	5 years
Data Sets	5–10 years

A full month's amortisation is charged in the month of acquisition and none in the month of disposal. Amortisation is not charged on assets under construction until the asset is brought fully into use and transferred to the appropriate asset category. They are then amortised at the same rate as the other assets in that category.

## f. Impairment of Non-Current Assets

The ESRC has a relatively small asset base and at any point in time, during the course of normal business, there is unlikely to be a material difference between the historic and current cost values of the Council's non-current assets. This position is however kept under review. The carrying amounts of the ESRC's assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment; an asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised in the Statement of Comprehensive Net Expenditure when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

## g. Operating Segments

The primary format used for segmental reporting is by programme expenditure as this reflects ESRC's internal management structure and reporting to senior management. ESRC's assets and liabilities are shared across the operating segments, and as segmental information on assets and liabilities is not used internally, disclosure is not needed.

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## **h. Ownership of Equipment or Facilities Purchased with Council Grants**

Equipment purchased by an organisation with research grant funds supplied by the ESRC belongs to the organisation and is not included in the ESRC's property, plant and equipment. Through the Conditions of Grant applied to funded organisations, the ESRC must be informed if, during the life of the research grant, the need for the equipment diminishes substantially or it is not used for the purpose for which it was funded. The ESRC reserves the right to determine the disposal of such equipment and to claim the proceeds of any sale.

## **i. Grants**

Subject to the terms and conditions under which research grants are awarded, the ESRC makes payments for grants on the basis of pre-determined quarterly profiles. Profiles are arranged, in overall terms, to reflect the rate and incidence of expenditure at the grant-holding organisation. Payments are normally made in the period to which they relate, although ESRC retains some latitude in timing. Grant expenditure is accounted for on an accruals basis to reflect the usage of grant funds on work carried out. Future commitments at the Statement of Financial Position date are disclosed in Note 13 page 72.

The ESRC's policy is to accrue for the costs of work undertaken at Higher Education Institutions which remain unpaid by ESRC at the end of the reporting period. Prepayments are also recognised when they occur.

For 2015-16 ESRC changed its approach to making accruals and prepayments that relate exclusively to grant underspend. The new approach is in line with that of the other PSU councils and ensures a higher level of harmonisation. Due to the materiality of this adjustment the 2014-15 figures have been restated in line with the requirements of IAS 8 (see Note 2).

## **j. Financial Instruments**

Due to the non-trading nature of its activities and the way in which the ESRC is financed, the ESRC is not exposed to the degree of financial risk faced by non-public sector entities. Moreover, financial instruments play a much more limited role in creating or changing risk that would be typical of listed companies. The ESRC has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the ESRC in undertaking its activities.

Trade receivables are not interest bearing and are carried at original invoice amount. Provision for impairment is established when there is objective evidence that the ESRC will not be able to collect all amounts due according to the original terms of the receivable. The amount of provision is the difference between the carrying amount and recoverable amount and is recognised in the Statement of Comprehensive Net Expenditure.

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

## **k. Key Accounting Judgements**

The preparation of financial statements requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates and judgements. These estimates and judgements are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events.

# Notes to the Accounts

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## **l. Contingent Liabilities**

Where the time value of money is material, contingent liabilities are stated at discounted amounts and the amount separately noted. Where a potential liability does not meet the criteria outlined in the relevant standards, separate amounts are not disclosed.

## **m. Foreign Currencies**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transactions. Any exchange differences arising in the ordinary course of business are taken to the Statement of Comprehensive Net Expenditure. Assets and liabilities in foreign currencies in existence at the Statement of Financial Position date are translated at the rates ruling at that date.

## **n. Value Added Tax (VAT)**

The ESRC is a member of a VAT Group along with the other Research Councils. By registering as a group there is a single VAT registration covering all of the members. All supplies made by or to group members are deemed to be made by or to the representative member. Supplies made between group members are disregarded for VAT. There is, therefore, no VAT payable on supplies made between group members, representing a saving in administration costs.

Members of this group comprise the seven Research Councils, BIS, Higher Education Funding Council for England, Innovate UK and UK SBS Ltd.

## **o. Pension Costs**

Retirement benefits to employees of the Council are provided by the Research Councils' Pension Scheme (RCPS). The expected costs of providing pensions are charged to the Statement of Comprehensive Net Expenditure so as to spread the cost over the service lives of employees in the schemes operated, in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll. More details on pensions can be found in the Remuneration and Staff Report.

## **p. Employee Benefits**

Employees are entitled to 30 days' annual leave per year. The annual leave year for the ESRC runs from 1 January to 31 December. The cost of untaken employee leave at 31 March 2016 has been accrued for:

## **q. Early Departure Costs**

The costs of early retirement or severance are charged to the Statement of Comprehensive Net Expenditure when the early departures are agreed. These costs are net of the lump sums recoverable from the pension schemes when the individual reaches normal retirement age.

## **r. Notional SBS Charge**

Ownership of SBS transferred from the Research Councils to BIS on 6 March 2013. The SBS monthly service charge to ESRC is now deducted from ESRC's funding from BIS. In order to accurately reflect the cost of using SBS's services in the annual accounts the charge has been shown as a notional cost on the Statement of Comprehensive Expenditure and it has then been written back to the General Reserve.

## **s. Insurance**

In line with Government policy, ESRC carries its own risks in respect of employment of staff, buildings, equipment etc, except where there exists a statutory requirement to insure or where commercial insurance represents better value for money. Insurance premiums are charged to the Statement of Comprehensive Net Expenditure.



## 2. IAS 8 Restatement of 2014-15 Financial Statements

ESRC has changed its approach in making accruals and prepayments that relate to grant expenditure. This brings ESRC in line with the other two PSU Councils, AHRC and EPSRC, and therefore all three now operate in a more harmonised manner. Grant underspends will only be accounted for on a grant specific level going forwards and where the terms and conditions specifically allow for the reclamation of funds. ESRC does and will continue to use the accruals method of accounting in the preparation of its financial statements.

Due to the materiality of this adjustment the 2014-15 figures have been restated. The net adjustment figure is £7.034m. Please see below for a summary of the change in the prior year amounts:

Reconciliation of Statement of Comprehensive Net Expenditure as at 31 March 2015	Original £000	Ammendment IAS 8 £000	Restated £000
<b>Administration</b>			
Staff Costs	1,620	-	1,620
Other Expenditure	2,064	-	2,064
Notional Service Charges	1,477	-	1,477
Operating Income	(325)	-	(325)
	<b>4,836</b>		<b>4,836</b>
<b>Programme</b>			
Staff Costs	4,923	-	4,923
Research	160,212	6,861	167,073
Postgraduate Awards	47,039	-	47,039
Research Fellowships	4,758	173	4,931
International Subscriptions	164	-	164
Other Expenditure	2,391	-	2,391
Operating Income	(18,978)	-	(18,978)
	<b>200,509</b>	<b>7,034</b>	<b>207,543</b>
<b>Net Expenditure</b>	<b>205,345</b>	<b>7,034</b>	<b>212,379</b>
<b>Other Comprehensive Net Expenditure</b>			
Net (Gain) Loss on Revaluation of Non-Current Assets	-	-	-
<b>Total Comprehensive Net Expenditure</b>	<b>205,345</b>	<b>7,034</b>	<b>212,379</b>

# Notes to the Accounts

Reconciliation of Statement of Financial Position as at 31 March 2015	Original £000	Ammendment IAS 8 £000	Restated £000
<b>Non-Current Assets</b>			
Property, plant and equipment	1,993	-	1,993
Intangible assets	39	-	39
<b>Total Non-Current Assets</b>	<b>2,032</b>	<b>-</b>	<b>2,032</b>
<b>Current Assets</b>			
Trade and Other Receivables	14,920	(7,027)	7,893
Cash and Cash Equivalents	1,813	-	1,813
<b>Total Current Assets</b>	<b>16,733</b>	<b>(7,027)</b>	<b>9,706</b>
<b>Total Assets</b>	<b>18,765</b>	<b>(7,027)</b>	<b>11,738</b>
<b>Current Liabilities</b>			
Trade and Other Payables	(24,221)	(7)	(24,228)
<b>Total Current Liabilities</b>	<b>(24,221)</b>	<b>(7)</b>	<b>(24,228)</b>
<b>Total Assets less Current Liabilities</b>	<b>(5,456)</b>	<b>(7,034)</b>	<b>(12,490)</b>
<b>Taxpayers' Equity</b>			
Revaluation Reserve	1,462	-	1,462
General Reserve	(6,918)	(7,034)	(13,952)
<b>Total Taxpayers' Equity</b>	<b>(5,456)</b>	<b>(7,034)</b>	<b>(12,490)</b>

Reconciliation of Statement of Cash Flows as at 31 March 2015	Original £000	Ammendment IAS 8 £000	Restated £000
<b>Cash Flows from Operating Activities</b>			
Net Expenditure	(205,345)	(7,034)	(212,379)
<b>Adjustments for Non-Cash Transactions:</b>		-	
Depreciation	67	-	67
Amortisation	74	-	74
(Increase)/Decrease in Trade and other Receivables	(3,149)	7,027	3,878
Increase/(Decrease) in Trade and other Payables	(3,280)	7	(3,273)
<b>Net Cash Outflow from Operating Activities</b>	<b>(211,633)</b>	-	<b>(211,633)</b>
<b>Cash Flows from Financing Activities</b>			
Grant-in-Aid received from BIS - Revenue	159,078	-	159,078
Grant-in-Aid received from BIS - Capital	44,700	-	44,700
Grant-in-Aid received from BIS - Non DEL	3,000	-	3,000
Notional Service Charges	1,477	-	1,477
<b>Net Cash Flows from Financing Activities</b>	<b>208,255</b>	-	<b>208,255</b>
<b>Net Increase/(Decrease) in cash and Cash Equivalents in the period</b>	<b>(3,378)</b>	-	<b>(3,378)</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>5,191</b>	-	<b>5,191</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>1,813</b>	-	<b>1,813</b>
<b>Reconciliation of Statement of Changes in Taxpayers' Equity as at 31 March</b>			
<b>Balance at 1 April 2014</b>	<b>(7,498)</b>	-	<b>(7,498)</b>
<b>Changes in Taxpayers' Equity 2014-15</b>			
Grant-in-Aid received from BIS	159,078	-	159,078
Grant-in-Aid received from BIS - Capital	44,700	-	44,700
Grant-in-Aid received from BIS - Non DEL	3,000	-	3,000
Notional Service Charges	1,477	-	1,477
Revaluation of PPE and Intangibles	(868)	-	(868)
Net Expenditure	(205,345)	(7,034)	(212,379)
<b>Balance at 31 March 2015</b>	<b>(5,456)</b>	<b>(7,034)</b>	<b>(12,490)</b>

# Notes to the Accounts

## 3 Statement of Operating Costs by Operating Segment

	Research £000	Postgraduate £000	Other Programme £000	Other Administration £000	Total 2015-16 £000
Staff Costs	-	-	5,272	1,277	6,549
Programme	158,840	44,701	177	-	203,718
Depreciation, Amortisation and Impairment	-	-	39	38	77
Other Costs	-	-	2,501	1,799	4,300
Notional Service Charges	-	-	-	1,316	1,316
Income	-	-	(25,182)	(151)	(25,333)
<b>Net Expenditure</b>	<b>158,840</b>	<b>44,701</b>	<b>(17,193)</b>	<b>4,279</b>	<b>190,627</b>

	Research £000	Postgraduate £000	Other Programme £000	Other Administration £000	Restated Total 2014-15 £000
Staff Costs	-	-	4,923	1,620	6,543
Programme	172,004	47,039	164	-	219,207
Depreciation, Amortisation and Impairment	-	-	74	67	141
Other Costs	-	-	2,317	1,997	4,314
Notional Service Charges	-	-	-	1,477	1,477
Income	-	-	(18,978)	(325)	(19,303)
<b>Net Expenditure</b>	<b>172,004</b>	<b>47,039</b>	<b>(11,500)</b>	<b>4,836</b>	<b>212,379</b>

The ESRC's primary operating segments are Research Awards and Postgraduate Awards. Information concerning these segments is disclosed in Note 1 and expenditure is detailed in the Statement of Comprehensive Net Expenditure and broken down further in Note 5.

## 4 Staff Costs

	2015-16 £000	2014-15 £000
Wages and Salaries	5,062	5,114
Social Security Costs	359	320
Other Pension Costs	1,128	1,109
<b>Sub Total</b>	<b>6,549</b>	<b>6,543</b>

further information on staff costs can be found on page 43 of the Remuneration and Staff Report.

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**5a Research**

	2015-16 £000	Restated 2014-15 £000
Responsive	40,266	42,639
Strategic & Collaborative	54,475	48,635
Methods & Infrastructure	37,263	51,440
International & Others	2,055	1,908
Training & Skills	10,698	11,369
Knowledge Exchange	9,448	8,626
Newton & Other	1,243	2,456
<b>Total Expenditure on Research</b>	<b>155,448</b>	<b>167,073</b>

**5b Postgraduate Awards**

	2015-16 £000	2014-15 £000
Training & Skills	44,701	47,039
<b>Total Expenditure on Postgraduate Awards</b>	<b>44,701</b>	<b>47,039</b>

**5c Research Fellowships**

	2015-16 £000	Restated 2014-15 £000
Responsive	1,704	2,438
Strategic & Collaborative	1,560	1,772
Training & Skills	52	651
Knowledge & Exchange	76	70
<b>Total Expenditure on Research Fellowships</b>	<b>3,392</b>	<b>4,931</b>

The Research note now contains a separate table showing the distribution of Research Fellowship spend. The prior period published figure has been adjusted to reflect this.

# Notes to the Accounts

## 5d Other Programme Expenditure

	2015-16	2014-15
	£000	£000
Operating Expenses	726	625
Accommodation Costs	7	10
IT Costs	71	13
Professional Fees	307	250
Consultancy	20	35
Marketing and Advertising	1,051	1,075
Travel and Subsistence	319	309
Amortisation	39	74
<b>Total Expenditure on Other Programme Costs</b>	<b>2,540</b>	<b>2,391</b>

## 6 Other Administration Expenditure and Notional Costs

	2015-16	2014-15
	£000	£000
Operating Expenses	983	1,144
Accommodation Costs	352	300
IT Costs	236	255
Professional Fees	77	115
Consultancy	9	-
Marketing and Advertising	50	85
External Auditors' Fees	47	47
Travel and Subsistence	45	51
Depreciation	38	67
<b>Sub-Total</b>	<b>1,837</b>	<b>2,064</b>
SBS Notional Service Charge	1,316	1,477
<b>Total Other Administrative Costs</b>	<b>3,153</b>	<b>3,541</b>

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## 7 Income

	2015-16	2014-15
	£000	£000
Income From Other Research Councils	(4,129)	(3,792)
Income From Central Government	(20,407)	(14,816)
Income From Other Bodies	(796)	(695)
Non-Operating Income	(1)	-
<b>Total Income</b>	<b>(25,333)</b>	<b>(19,303)</b>
Co-funding Grant Income	(25,033)	(18,927)
Income for Services Provided	(150)	(355)
EU Income	(150)	(21)
<b>Total Income</b>	<b>(25,333)</b>	<b>(19,303)</b>

# Notes to the Accounts

## 8 Property, Plant and Equipment

	Land £000	Buildings £000	Furniture & Fittings £000	Total £000
<b>Cost or Valuation at 1 April 2015</b>	<b>1,140</b>	<b>2,098</b>	<b>3</b>	<b>3,241</b>
Additions	-	-	-	-
Disposals	-	-	-	-
Impairments	-	-	-	-
Revaluations	(182)	682	-	500
Transfers	-	-	-	-
<b>At 31 March 2016</b>	<b>958</b>	<b>2,780</b>	<b>3</b>	<b>3,741</b>
<b>Depreciation at 1 April 2015</b>	<b>-</b>	<b>1,245</b>	<b>3</b>	<b>1,248</b>
Charge in the year	-	38	-	38
Revaluations	-	(733)	-	(733)
<b>At 31 March 2016</b>	<b>-</b>	<b>550</b>	<b>3</b>	<b>553</b>
<b>Net book value at 31 March 2016</b>	<b>958</b>	<b>2,230</b>	<b>-</b>	<b>3,188</b>

	Land £000	Buildings £000	Furniture & Fittings £000	Total £000
<b>Cost or Valuation at 1 April 2014</b>	<b>1,103</b>	<b>2,030</b>	<b>22</b>	<b>3,155</b>
Additions	-	-	-	-
Disposals	-	-	(6)	(6)
Impairments	-	-	-	-
Revaluations	37	68	-	105
Transfers	-	-	(13)	(13)
<b>At 31 March 2015</b>	<b>1,140</b>	<b>2,098</b>	<b>3</b>	<b>3,241</b>
<b>Depreciation at 1 April 2014</b>	<b>-</b>	<b>206</b>	<b>22</b>	<b>228</b>
Charge in the year	-	67	-	67
Disposals	-	972	(13)	959
Adjustments	-	-	(6)	(6)
<b>As 31 March 2015</b>	<b>-</b>	<b>1,245</b>	<b>3</b>	<b>1,248</b>
<b>Net book value at 31 March 2015</b>	<b>1,140</b>	<b>853</b>	<b>-</b>	<b>1,993</b>

During the year an exercise was undertaken to correct the accumulated depreciation for previous years on the ESRC share of Polaris House. After consultation with our auditors an adjustment was made from the revaluation reserve to the reclassification account of £972k as shown above. The total movement in reserves is shown in the Statement of Changes in Taxpayers Equity Statement (page 57).



## 9 Trade Receivables and Other Current Assets

	31 March 2016 £000	Restated 31 March 2015 £000
<b>Amounts falling due within 1 year:</b>		
Trade Receivables	3,356	7,322
Other Receivables	208	6
Prepayments	2,563	132
Accrued Income	630	433
<b>Total</b>	<b>6,757</b>	<b>7,893</b>

## 10 Cash and Cash Equivalents

	31 March 2016 £000	31 March 2015 £000
Balance at 1 April	1,813	5,191
Net change in Cash and Cash Equivalents	6,430	(3,378)
<b>Balance at 31 March held in Government Banking Service (GBS)</b>	<b>8,243</b>	<b>1,813</b>

## 11 Trade Payables and Other Current Liabilities

	31 March 2016 £000	Restated 31 March 2015 £000
<b>Amounts falling due within 1 year:</b>		
Creditors VAT	(84)	(52)
Trade Payables	(3,538)	(2,367)
Other Payables	(202)	(132)
Accruals	(18,703)	(20,356)
Deferred Income	(1,000)	(1,321)
<b>Total</b>	<b>(23,527)</b>	<b>(24,228)</b>

## 12 Third Party Asset

	31 March 2016 £000	31 March 2015 £000
Balance at 1 April	674	
Gross Inflow	-	674
Gross Outflow	(156)	
<b>Balance at 31 March</b>	<b>518</b>	<b>674</b>

In 2014-15, €824,117 was transferred to ESRC who has been appointed coordinator of the EU-India Platform for the Social Sciences and Humanities (EqUIP), European Union Grant Agreement Number 613236. The funds held on behalf of the third party are recognised and recorded in GBP, ESRC's functional currency. These are not ESRC assets and are not included in the Financial Statements.

# Notes to the Accounts

## 13 Other Financial Commitments

The payments to which the ESRC is committed during 2015-16, analysed by the fiscal period during which the commitment expires are as follows:

Research Awards	2015-16 £000	2014-15 £000
2015-16		132,287
2016-17	131,757	91,809
2017-18	93,277	56,782
Later Years	76,598	31,829
<b>Postgraduate Training</b>		
2015-16		39,220
2016-17	40,694	28,092
2017-18	28,218	15,501
Later Years	13,879	1,026
<b>Knowledge Exchange</b>		
2015-16		7,374
2016-17	9,150	8,340
2017-18	8,534	7,765
Later Years	319	25
<b>Other</b>		
2015-16		12,688
2016-17	12,120	9,712
2017-18	8,862	5,471
Later Years	4,306	3,557

## 14 Financial Instruments

The majority of ESRC's funding requirements are met through the Grant in Aid mechanism provided by BIS. As a consequence there are very few circumstances that would necessitate the purchase or trade of financial instruments.

No financial instruments were held or traded for the period ending 31 March 2016.

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## 15 Related Party Transactions

ESRC is a Non Departmental Public Body sponsored by BIS. It complied with the International Accounting Standard on Related Party Transactions (IAS 24) as amended for Central Government use by HM Treasury.

For the purpose of IAS 24, BIS and its partner organisations are regarded as related parties. During the year, ESRC has had various material transactions with BIS and with other entities for which BIS is regarded as their parent department, as follows: Arts and Humanities Research Council; Biotechnology and Biological Sciences Research Council; Engineering and Physical Science Research Council; Higher Education Funding Council for England; Medical Research Council; Natural Environment Research Council; Science and Technology Facilities Council; Innovate UK; UK Space Agency; UK AEA. In addition, ESRC has had various material transactions with the UK Shared Business Services Limited (formerly Research Councils' Shared Services Centre).

These Accounts provide disclosure of all material financial transactions in relation to the following individuals/groups:

- senior executive staff
- Council members
- Audit Committee members
- Chair Advisory Boards.

Material transactions where the individual/group had a direct interest in the award concerned have been disclosed in Table A with Table B outlining financial transactions with a related party of the individual/group.

Table C outlines transactions with Institutions where Council and Audit Committee members are also members of staff or members of governing bodies. Members are considered if they are recognised as key management personnel within their employed Institution.

A full register of interest for the ESRC Council, Committee members and Audit Committee can be found at <http://www.esrc.ac.uk/files/about-us/governance-and-structure/register-of-interests-2014-15/> on the ESRC website.

### Awards and Fellowships

#### Table A

There were no material transactions where the individual/group had a direct interest in an ESRC award.

#### Table B

There were no material financial transactions with any related party of the individuals/groups.

#### Table C

Council Member	Institution	Aggregate Amount £000
Mr Allan Spencer	University of Sussex	3,147
Professor Dame Glynis Breakwell	University of Bath	406
Mr John Headly	University of East London	187
Professor Judith Squires	University of Bristol	6,144
Ms Meryl Hayward	Historic England	(20)
Professor Simon Collinson	University of Birmingham	3,053

# Notes to the Accounts

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## **16 Events After the Reporting Period**

In accordance with the requirements of IAS10 'Events after the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue, this is interpreted as the same date as the date of the Certificate of the Comptroller and Auditor General.

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

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