Building and Civil Engineering Holidays Scheme Management Limited

Company number: 377361

Annual report and financial statements

for the year ended 31 March 2012

Contents

Notice of meeting

The directors of Building and Civil Engineering Holidays Scheme Management Limited hereby give notice that the annual general meeting of members of the company will be held at

B&CE Benefit Schemes, Manor Royal, Crawley, West Sussex, RH10 9QP
on Friday 9 November 2012 at 12 15 p m

for the purpose of receiving the directors' report and audited financial statements and transacting the ordinary business of the company

Dated 18 October 2012
By order of the board

C E Milton
Group Company Secretary

Agenda

1 Apologies for absence

2 Minutes of the sixty ninth annual general meeting held on 10 November 2011

3 Chairman's address

4 To receive and adopt the annual report and audited financial statements for the year ended 31 March 2012, together with the independent auditors' report

5 To reappoint PricewaterhouseCoopers LLP as auditors of the company in accordance with section 485 of the Companies Act 2006 and to authorise the board to fix their remuneration

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him A proxy must also be a member of the company

A Form of Proxy is available from the Group Company Secretary at Manor Royal, Crawley, West Sussex, RH10 9QP

Chairman's statement

Our roots are in the construction industry and we have been providing benefits for construction workers for 70 years We play an integral role in the industry and this will continue to be our main focus

However, following the launch of The People's Pension in November 2011, we will also provide a pension scheme for employers in any sector and of any size We envisage that the offering will be particularly appealing to those with similar characteristics to construction

At a time when the construction industry is still in a downturn, B&CE has the challenge of making The People's Pension a major UK pension offering and support both existing and new customers through the challenge of auto-enrolment During this period of expansion we will continue to provide simple low cost products supported by excellent personal customer service

I have every confidence that this challenge will be met by our management team supported by our loyal and dedicated staff who have helped gain B&CE a reputation of excellence in product design and service delivery

The Rt Hon Sir John Chilcot
Independent Chairman
26 July 2012

B&CE profile

B&CE is the UK's largest provider of financial benefits to the construction industry's employers and individuals Since its launch in 1942, all efforts have gone towards achieving one goal improving the personal and financial wellbeing of employees in the construction industry

The group has created a range of financial products that meet the needs of everyone working in construction, including a stakeholder pension scheme, annuities, accident cover, life cover, holiday pay, personal injury insurance and employee healthcare schemes

More recently it has launched a multi-employer, occupational pension scheme to enable employer customers to meet their auto-enrolment obligations The proposition will be made available to both the construction industry and also other sectors of a similar nature, for example those with a transient workforce of low-to-moderate earners B&CE has 30 years' experience in providing workplace pensions, including 10 years managing semi-automatic enrolment, and today manages the largest stakeholder pension scheme in the UK

B&CE is a not for profit organisation so its primary concern is to improve the financial wellbeing of our members rather than shareholders

Group structure

Building and Civil Engineering Holidays Scheme Management Limited ("the company") is a company limited by guarantee It administers the Building and Civil Engineering Holidays-with-Pay Scheme as well as the Building and Civil Engineering Benefits Scheme ("the Benefits Scheme") and the Building and Civil Engineering Accident Benefit Scheme ("the Accident Benefit Scheme") It is also the appointed administrator of the Building and Civil Engineering Charitable Trust

The company has two wholly owned subsidiaries, B & C E Insurance Limited and B & C E Financial Services Limited Collectively the company and its subsidiaries are known as the group or B&CE

B & C E Insurance Limited was established in 1995 with the objective being to offer appropriate insurance based products to all who work in the construction industry

B & C E Financial Services Limited administer a unit trust based personal pension scheme and employee life cover scheme, the Employee Life Cover from B&CE ("the ELC Scheme") It is also the promotional and marketing arm of the group, distributing any 're-badged' products that B&CE offers in partnership with other financial services providers

Product portfolio

Holidays-with-Pay Scheme

The Holiday Pay scheme is offered to employers as part of B&CE's Employee Benefits Plan, which also includes EasyBuild, Employee Accident Cover from B&CE and Employee Life Cover from B&CE

The scheme has been in operation since 1943 By depositing their employees' holiday pay with B&CE, employers gain exemption from paying National Insurance ("NI") contributions on this pay, with savings going towards the costs of the Benefits Package Employers set aside variable amounts to cover their liability for their employees' holiday pay under the industry wide Construction Industry Joint Council ("CIJC") working rule agreement

In October 2007, the Government announced the immediate withdrawal of the legislation permitting the operation of centralised holidays with pay schemes for all industries apart from construction A sunset period of five years was permitted for the construction industry before ultimate withdrawal in October 2012

EasyBuild

In April 2001, B & C E Insurance Limited launched EasyBuild, a stakeholder pension scheme for all those who work in the construction industry

Contributions to EasyBuild can be paid by both employers and employees and the scheme can be used to contract out of the State Second Pension ("S2P") Employers working within the CIJC working rule agreement are expected to contribute a minimum of £5 per week for employees (excluding new starters who do not make their own contributions) and match employee's contributions up to £10 per week Members of EasyBuild are charged a 0 6% annual management charge ("AMC") for policies with a fund value greater than £25,000, 0 8% with a fund value of between £5,000 and £25,000, and 0 95% otherwise

Death Benefit

Until September 2010, Death Benefit ("DB") was offered to employers as part of B&CE's Employee Benefits Plan Contributions are no longer received but claims will continue to be paid until October 2015 This cover has since been replaced from October 2010 by Employee Life Cover from B&CE

The cover provided a discretionary tax-free lump sum (up to £23,000) to an employee's financial dependents if they die whilst covered under the scheme The product includes cover whilst the employee is incapacitated or unemployed, and can be doubled if the death is the result of an accident at work

Accident Benefit

Accident Benefit ("AB") was also replaced in October 2010 when Employee Accident Cover from B&CE was launched Contributions are no longer received but claims will continue to be paid until October 2013

The cover provided a tax-free lump sum (up to £17,500) to an employee if they are injured as a result of a qualifying accident whilst at work or travelling to or from work Accidents which result in disablement from employment for one year or more are also covered

Lump Sum Retirement Benefit

Lump Sum Retirement Benefit ("LSRB") is an approved Occupational Pension Scheme, paying a one off tax free lump sum at the age of 65 The benefit is based on the member's weeks of service with employers operating our scheme, which is multiplied by the retirement benefit rate (currently £8 25 per week of service)

LSRB was introduced in 1982 As a result of the launch of EasyBuild, the existing scheme ceased to receive retirement benefit contributions, accrue further service, and was closed to new members Accrued entitlements to the benefit will continue to be paid when due

Additional Voluntary Contributions

Additional Voluntary Contributions ("AVC") was launched in 1986 as a top up arrangement for the LSRB scheme It was available to all workers who, through their employer's contributions, were members of the LSRB scheme It was designed to give members the opportunity to boost their retirement benefit by making their own regular contributions The AVC arrangement closed to new contributions when EasyBuild was introduced

Product portfolio (continued)

Employee Accident Cover from B&CE

In October 2010, B & C E Insurance Limited launched Employee Accident Cover from B&CE ("EAC") which replaced B&CE's existing AB Scheme The product is one element of B&CE's Employee Benefits Plan and employers pay weekly premiums to provide cover for their staff

Employees are covered for a range of injuries, providing up to £23,000 for accidents at work, or travelling to or from work The product includes a number of improvements to the existing AB offering including increased benefit amounts for the majority of injuries and the introduction of cover for permanent disablement and loss of hearing

Employee Life Cover from B&CE

In October 2010 B&CE launched Employee Life Cover from B&CE ("ELC") which replaced the DB Scheme The ELC Scheme is a death benefit only occupational pension scheme Building and Civil Engineering Benefit Scheme Trustee Limited acts as corporate trustee to the scheme and B & C E Financial Services Limited act as administrator and receives a fee for providing this service

The product is one element of B&CE's Employee Benefits Plan and employers pay weekly premiums to provide cover for their staff Like the DB scheme, the cover provides a discretionary tax-free lump sum (currently up to £23,000) if an employee dies whilst covered under the scheme The product still includes cover whilst the employee is incapacitated or unemployed, and continues to be doubled if the death is the result of an accident at work However unlike its predecessor, the new scheme has certainty of payment (rather than being subject to financial dependency), and multiple levels of cover are available

TUTMAN B&CE Contracted-out Pension Scheme

TUTMAN B&CE Contracted-out Pension Scheme ("BCECOPS") was launched in 1988 and offered to employed construction workers as an alternative to the S2P This is a unit-linked personal pension plan that helps construction workers build up their funds to provide an income on retirement by contracting out of the S2P Under the scheme a member elects to arrange for part of their and their employer's NI contributions to be paid into their own pension arrangement

The product was previously called Building and Civil Engineering Contracted-out Pension Scheme when B & C E Financial Services Limited acted as manager of the scheme

B & C E Financial Services Limited receives a registrar fee in respect of this business

B&CE Annuity

In April 1997, B & C E Insurance Limited launched B&CE Compulsory Purchase Annuity ("CPA") This enables B&CE to provide an annuity to those retiring from the construction industry The majority of CPA business comes from individuals retiring with EasyBuild policies A Protected Rights Annuity product ("PRA") was then launched in December 2008, which enables those retiring with BCECOPS funds to purchase an annuity with B&CE

The company refers annuity business to Partnership Life Assurance Company Limited ("Partnership") and it is therefore anticipated that the amount of new annuity business set up by B&CE will be minimal going forward

Partnership Annuities

In December 2010 B&CE started referring annuity business to Partnership, a specialist provider to those with health and medical conditions, in order for customers to benefit from improved annuity rates Customers have access to enhanced rates by completing a one page medical questionnaire

B & C E Financial Services Limited receives commission in respect of this business

Employee Healthcare from B&CE

B&CE launched Employee Healthcare from B&CE ("Employee Healthcare") in February 2009 The product is operated in partnership with Westfield Health Limited ("Westfield"), a respected market leader in this type of business for 90 years

The product provides cash benefits that enable employers to provide their employees protection against some everyday health costs such as dental treatment, eyecare, physiotherapy and osteopathy

Product portfolio (continued)

RapidCash

The product is sold to individuals with different levels of cover available It is a low cost injury insurance product designed specifically for the construction industry Should an employee suffer a qualifying injury resulting in them not being able to work, they can receive payouts of up to £300 per week

RapidCash was launched in 1997 RapidCash is not currently promoted but enquiries are still received from existing customers and employers

Employee Tax Refund from B&CE

RIFT are a company which have been providing a tax refund service to construction workers for over 10 years In June 2010, B&CE teamed up with RIFT which enables customers access to this service

RIFT charge employees a fee for the service which is taken from any successful claims, and B & C E Financial Services Limited receives a fee from RIFT in respect of any referrals

Term Assurance

Term Assurance is a term life policy where the period and sum assured is selected by the policyholder The policy will terminate on the termination date, when the policyholder dies or when contributions cease to be paid

The product is no longer sold but there are a small number of policies remaining

Personal Accident

The product covers an applicant and family (if covered) for a range of qualifying injuries The maximum benefit payable for a qualifying injury is £50,000 for accidental death

The product is no longer sold but there are a small number of policies remaining

The People's Pension

B&CE launched The People's Pension in November 2011 which will be the Group's default auto-enrolment solution (see page 8 for further details) The new multi-employer 'Super Trust' pension scheme will be operational from October 2012 and made available to employers of all sizes and in any sector

The scheme will have a similar fund choice as EasyBuild, with the additional options of Sharia and Ethical funds The product will offer low and transparent charges – there will be a flat rate AMC of 0 5% with no other fees or charges being levied

The Building and Civil Engineering Charitable Trust

The Charitable Trust launched in 1991 offers financial assistance to construction workers and their families who are suffering hardship The trust's principal aim is to ease the financial distress that illness or changes in domestic circumstances can cause

The objectives of the trust are

1 Education, training and research into occupational health and safety in the building and civil engineering industries

2 Education, training and retraining for operatives, past operatives and young persons and

3 Relief to beneficiaries who are in need by virtue of their poverty, sickness or distress

Chief executive officer's review

There are two major events scheduled to occur during 2012, which have had a significant impact on the traditional role of B&CE and drive our strategy

Firstly the long standing national insurance ("NI") concession on holiday pay for the construction industry will be finally withdrawn increasing costs for employers

Secondly, the government's pension reform strategy will be introduced This will compel employers to automatically enrol all eligible employees into a qualifying pension scheme ("auto-enrolment") between 2012 and 2017, with the UK's largest employers being required to auto-enrol earliest

Introducing The People's Pension
Last year I said that the main objective was to ensure that EasyBuild becomes the pension choice for the construction industry and that we would also expand the group's product base to provide a more comprehensive offering to our customers During the year external events resulted in the board of directors reviewing and amending the future strategy

The first event was the continuing recession in the industry with no prospect of a major upturn for several years As there is no discretionary spending in the industry we adjusted our product strategy to concentrate on the pension scheme

The second external event in the summer of 2011 was the discovery that NEST and other pension providers were aggressively targeting our largest customers, where construction was often only a small part of their activities Many of these employers were looking for one pension provider to cover all their employees and considered EasyBuild was too narrowly focused on construction workers It was therefore agreed that we would continue to focus on construction but also consider employers from other sectors

In November we therefore launched The People's Pension, a multi-employer trust based pension scheme to operate alongside the existing contract based scheme The feedback has been extremely positive, some major employers have already committed to using the new scheme and many advisers are including our scheme on their recommended list of pension providers

In April B&CE was awarded 'Pension Scheme of the Year' at the Financial News Awards for Excellence in Institutional Pensions UK 2012 B&CE fought off some stiff competition to win the award which was nominated and voted upon by a panel of 50 anonymous industry professionals This really was an excellent achievement and capped a very successful launch of The People's Pension

The year ahead
Our key aims for the future are to

- Provide the benefits to support the CIJC
- Become a leading provider of workplace pensions
- Manage the group's financial resources to support the strategy including becoming more cost efficient seeking to drive down charges on products

Over the next year we will continue to build on this success to ensure that The People's Pension is a major player in the work place pension sector Given that B&CE is building on existing systems rather than creating new ones, it is felt that the journey is not such a big step for us as it will be for others

The People's Pension will have a single charge of 0 5% pa Transparency and simplicity is at the centre of the proposition and we feel that a single flat rate charge makes things crystal clear

One recent development which will be built on during 2012/13 is a link with Scottish Widows to offer a combined auto-enrolment proposition This framework is intended to allow employers with diverse workforces to put in place a pension scheme that is right for all of their employees but without the administrative burden of operating two schemes

Financial stability
The financial stability of the group has improved again during the year Profit for the year totalled £10 2m and I am pleased to report that we continue to hold strong reserves with considerable headroom above the regulator's solvency levels

Exceptional service
Of course, some things will not change and it is still our intention to deliver exceptional personal and caring customer service at all times whilst ensuring that we take the hassle away and allow employers to concentrate on building their businesses

This will be my last review as CEO Patrick Heath-Lay will take over in October and with Patrick's extensive knowledge and experience, our supportive board and our excellent staff, I have every confidence that B&CE will be a success going forward

Brian Griffiths
Chief Executive Officer
26 July 2012

Key performance indicators

The group's strategy is underpinned by focusing on a number of key performance indicators ("KPIs") The Senior Management Team and representatives of the board review KPIs on a regular basis These key measures are used to assess the performance at group level and are outlined below

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199,765

Active members using B&CE Benefits Plan

The number of individuals actively using the Employee Benefit Plan has decreased during the year to 199,765 (2011 – 205,849) as the industry continues to shed jobs

Going forward it is anticipated that active membership will increase given that it will include those using The People's Pension which is expected to add significant amounts of business

See page 10 for more details

24%

Percentage of active EasyBuild policies making their own contributions

The percentage of active policies where the individual makes their own contributions has continued to increase this year to 24% (2011 – 21%) Significant further increases are anticipated going forward following the introduction of auto-enrolment

See page 10 for more details

£17.9m

Net group operating expenses

Net operating expenses totalled £17 9m for the year (2011 – £14 3m) which is a 25% increase Costs have increased as a result of significant spends to prepare B&CE's auto-enrolment proposition

The additional expenditure is expected to generate significant benefits in the future given the size of the potential opportunity that auto-enrolment brings

See page 11 for more details

2011/12 Performance review

Markets

The impact of the global financial crisis since 2008 has presented a number of challenges for the B&CE group All of this comes at a time when we are already undertaking significant strategic change The removal of the NI concession for the construction industry and the introduction of auto-enrolment, both in 2012, provide challenges and opportunities and is the major strategic focus for the Group's activities going forward

The markets that B&CE operate in have continued to be rather volatile over the past 12 months Growth in the UK economy has remained sluggish and the financial year ended with the economy slipping back into recession The construction industry is one of the sectors that has been hardest hit and output in the sector is reported to have fallen by 3% in the final quarter of the year The poor state of the wider economy has had a knock on effect to new orders for homes and has halted the expansion of infrastructure projects The Chancellor's Autumn Statement did include some good news for the sector – there was a pledge of £5bn for infrastructure projects over the next 3 years (with a further £20bn to come from the private sector) It was also announced that Government backed 95% mortgages for new builds would be introduced in an attempt to kick start the housing market However the success of these schemes remains to be seen and the outlook continues to look challenging

The Bank of England kept interest rates at record lows throughout the year – it also undertook further rounds of quantitative easing during the year in an attempt to revive consumer spending and economic growth Quantitative easing and a general trend of flight to safe haven assets has led to a sharp fall in gilt yields Equity performance has also been extremely volatile throughout the year, albeit with modest growth over the period The markets have reacted to a number of events throughout the year with the most prominent being the eurozone debt crisis which is still yet to be fully resolved Over the 12 months, UK equities returned 1 4% as measured by the FTSE All-Share index

Products

Employee Benefits Plan

The core product offering continues to be the Employee Benefits Plan comprising holiday pay, workplace pension, accident and life cover

In total there are 5,827 employer accounts operating B&CE schemes to provide benefits for their employees (2011 – 5,184) The number of individuals covered by the Employee Benefits Plan decreased by 3% during the year to a total of 199,765 (2011 – 205,849) This reflects the downturn in the construction industry and the wider economy in general

EasyBuild

The product has become a key part of the group's activities and is the largest group stakeholder pension scheme in the UK The total number of EasyBuild policies has remained largely flat during the year with the number of new policies being set up remaining relatively low There are now a total 502,048 EasyBuild policies (2011 – 503,282), of which 100,352 are currently receiving contributions (2011 – 112,562) The low levels of new policies, and the fall in active policies, is largely due to the CIJC rule change in 2008 Employers are no longer expected to make contributions for their new starters (unless they contribute themselves) so, as expected, far fewer policies have been set up This has been the key factor in the 11% reduction in active policies

The number of individuals making their own contributions to EasyBuild has decreased during the year Currently 23,748 are now making contributions themselves (2011 – 24,000) which is a 1% decrease over the year The fall is partly a consequence of the overall fall in individuals in B&CE's schemes It is also likely that the continued subdued performance of the economy has meant that saving for pensions is not generally a priority for individuals

As a result of the fall in active policies, total contributions into EasyBuild have fallen to £56 8m in 2011/12 (2011 – £59 2m) Increasing the number of individuals making their own contributions will be a major focus in the Group's future strategy in order to reverse this trend The auto-enrolment arrangements post 2012 will be key to improving contribution levels

2011/12 Performance review (continued)

Annuities

There were just 53 new B&CE Annuities set up during the year (2011 – 3,065) This heavy reduction was no surprise given the launch of a new referral process between B&CE and Partnership late in the prior financial year and there is not expected to be any further new premium receipts going forward

A total of £18 4m was transferred to Partnership during the year to set up annuities for 2,994 individuals Approximately 62% of the annuities were set up with enhanced rates of premiums, which are offered to customers who have certain lifestyle factors to take into account such as smokers or those with health problems

Product developments

The other key product developments during the year were

- Launched The People's Pension as discussed earlier in the report and will come into operation during 2012/13

- Started promoting an employee tax refund scheme operated by RIFT, a company that has been specialising in tax refunds for over 10 years The product is offered directly to individuals as well as employer customers who can in turn offer the service to their employees

- Improvements were made to EasyBuild during the year Valuations are now processed on a daily basis rather than weekly to bring B&CE in line with other major insurance companies

Financial review

A number of steps have been taken during the year to build upon the changes made in recent years and to ensure that the Group is in a sound position financially to move forward These include the following

- The Group's equity exposure has been further reduced during the year in order to protect its surplus assets B & C E Financial Services Limited removed equity exposure entirely and B & C E Insurance Limited reduced its exposure by over 15% on the general business fund

- A new bank deposit account has been set up in order to reduce counterparty risk and to improve interest earned on the Holiday Pay funds

- Various efficiency projects were continued including getting both employer and individual customers online and software enhancements to speed up the delivery of products and services Over 2,500 employers have now activated online accounts and they can use this facility to administer their accounts for their B&CE Benefits Plan

- B&CE commissioned a financial strength report by the actuarial consultancy firm AKG Their report was published in November 2011 and rated the B&CE group as B (strong)

- A new income stream was introduced through the referral process put in place with RIFT

These changes have ensured the Group is in a sound position to move forward The priorities for the coming year are to support the development and promotion of The People's Pension with the aim of becoming a leading provider of workplace pensions

Consolidated profit

The consolidated profit for the year was £10 2m (2011 – £15 5m) Some of the key drivers in this result are as follows

- Net operating expenses (excluding movements in long-term Insurance provisions) have increased to £17 9m (2011 – £14 3m) The increase is mainly as a result of costs incurred in order to prepare B&CE's pension proposition for auto-enrolment

2011/12 Performance review (continued)

Staff numbers have been increased to bring in sufficient expertise in a number of areas and this has resulted in salary costs increasing by £2 1m There have also been significant spends on marketing and promotion in order to ensure that the new product is seen as a viable alternative to its competitors in the auto-enrolment arena Costs in this area have increased by £1 2m compared to the prior year as a result

The additional cost incurred for during the year, which is anticipated to remain going forward, is considered by management to be an investment in the group's future The income that the group is expected to receive from the operation of the People's Pension is expected to be sufficient to repay this additional expenditure

- EasyBuild fees received have increased, totalling £5 8m for the year (2011 - £5 5m) This increase is as a result of the size of the fund increasing due to ongoing premiums from active members of the scheme

- Annuity premium receipts were minimal during the year, totalling just £0 2m for the year (2011 - £13 4m) as discussed on page 11 However, despite the lack of new business, the annuity reserve increased by £2 9m (2011 – £8 2m) The increase in reserving is as a result of the sharp fall in gilt yields witnessed over the year – this has reduced the valuation rate of interest used to calculate the reserve which has resulted in a significant increase

- The increase in the annuity reserve was offset by significant unrealised gains which totalled £6 7m for the year (2011 - £2 2m) There were also realised gains of £2 0m (2011 - £3 0m) A significant amount of the group's assets are held in gilts and corporate bonds - the majority of which are held to back the book of annuity business These assets increased in value significantly over the year

- The EasyBuild reserve decreased by £0 7m (2011 - £0 8m decrease) The main reason for the decrease is due to the removal of an additional reserve of £0 9m which was introduced at the last valuation date The reserve was introduced to take account of a planned reduction in the EasyBuild AMC at the previous year end when EasyBuild was expected to be B&CE's auto-enrolment vehicle These plans changed with the introduction of The People's Pension and the EasyBuild AMC is now expected to remain at the current levels

- Management fees totalled £6 6m for the year (2011 – £6 4m) This total is made up of the following elements

Management Fee	Income	Reason for variance
BCECOPS registrar fee	£1 7m (2011 – £1 8m)	Movements in investment values
RB administration fee	£3 6m (2011 – £3 5m)	Movements in investment values
DB administration fee	£0 0m (2011 – £0 5m)	Closure of DB scheme to new contributions half way through prior year
ELC administration fee	£1 2m (2011 – £0 5m)	Product launched half way through prior year
Employer administration charge	£0 1m (2011 – £0 1m)	No significant variance

- Turnover from general insurance business increased this year to £1 9m (2011 – £1 5m) as a result of the EAC product only being introduced half way through the previous year

- Miscellaneous net income totalled £0 7m (2011 - £0 3m) which includes income from Partnership received from the annuity referral process Income from Partnership increased significantly to £0 4m (2011 - £0 1m) given that the referral process was introduced late in the previous year

- Investment Income totalled £7 7m (2011 – £8 7m) The reduction in income is due to the company disposing of corporate bonds before the start of the year Investment income has declined as a result

- Income from short term deposits totalled £0 5m (2011 - £0 3m) Interest rates remained at a record low throughout the year but interest levels increased as a result of holding larger cash balances and making use of higher interest banking facilities

2011/12 Performance review (continued)

- The taxation charge for the year totals £2 3m (2011 – £4 4m)

The total recognised gain for the year is £3 7m (2011 - £18 9m) This differs from the reported profit figure as a result of an actuarial loss on the B&CE Staff Pension Scheme of £5 2m 92011 - £3 9m gain) The main reason for this loss is a significant fall in the discount rate used in the actuarial valuation of the scheme

Principal risks and uncertainties

The group's success is dependent on the proper identification, assessment and ongoing management of the risks it accepts The group has established a framework of policies, procedures and internal controls over the process of risk acceptance and risk management All policies are subject to the board of directors' approval and ongoing review by management, the internal audit and risk management function, and regulators In addition, certain key procedures receive peer review and oversight from the regulatory and compliance function

A corporate governance framework, including control environment and risk policies has been established by the group, responsibility for the effective management of risk and oversight of risk philosophy, risk selection and risk management rests with each company's board of directors (see directors' report for further details) Senior members of management and the Internal Audit and Risk Management function are required to report key risks and the effectiveness of risk management to the Group Audit and Risk Committee and the full board on a regular basis The Group Audit and Risk Committee is responsible for satisfying itself that a proper internal control framework to manage financial risks is in place and that controls operate effectively

Please note that KPI's and principle risks and uncertainties are disclosed earlier in the report

The group's operations expose it to a variety of financial risks that include the effect of

Credit risk

B & C E Insurance Limited has two reinsurance arrangements in place These arrangements expose B & C E Insurance Limited to the risk that the reinsurers will be unable to pay amounts in full when due The company actively monitors this risk on behalf of the group by reviewing their credit rating against other reinsurers in the market

The group's transactions in sterling cash deposits expose it to the risk that the counterpart will not repay the deposit, to minimise this, the group only deals with a list of highly rated United Kingdom counterparties There is also a risk that a counterparty will be unable to pay amounts in full when due The company manages this risk on behalf of the group by active credit control

Liquidity risk

Financial instruments held by the Group include short term sterling cash deposits designed to ensure the group has sufficient available funds for operations

The announcement of the withdrawal of the national insurance concession has increased the risk that potentially all customer holiday pay funds will need to be liquidated in 2012 The group recognises this as a key risk to liquidity, given the current financial climate, and has revised its investment strategy As a result investments have been sold during the past 12 months and the holiday pay liability is now backed entirely by cash

The terms of the policies written ensure B & C E Insurance Limited is not committed to making payments to unit policy holders before the corresponding money can be released from the reinsurers

Interest rate risk

The group invests its surplus funds in fixed and floating rate deposits Changes in the interest rates will result in income increasing or decreasing, however, the group is not reliant on receivable interest for its income

Debtors and creditors do not earn or pay interest and have been excluded from disclosure of financial instruments

Directors

The following served as directors of Building and Civil Engineering Holidays Scheme Management Limited during the year, and up to the date of signing,

The Rt. Hon Sir John Chilcot GCB, MA

Independent Chairman

John Allott

Industrial Employee Representative

National Officer for Construction Unite the Union

Bob Blackman MBE, MIOSH

Industrial Employee Representative

Representing Unite the Union

James O'Callaghan BE, MSc, C Eng, FICE, FCIWEM, FIHT

Employer Representative

Nominated by Civil Engineering Contractors Association (CECA)

Phil Davies

Industrial Employee Representative

National Secretary GMB

Harry Frew

Industrial Employee Representative

Scotland Regional Secretary UCATT

Geoff Lister FCIOB

Employer Representative

Nominated by Federation of Master Builders (FMB)

Stephen Murphy

Industrial Employee Representative

General Secretary UCATT

Alan Ritchie

Industrial Employee Representative

Representing UCATT

(Resigned 9 February 2012)

Peter Rogerson OBE

Employer Representative

Nominated by National Specialist Contractors Council (NSCC)

Brian Rye

Industrial Employee Representative

Regional Secretary for the Eastern Region UCATT)

(Appointed 10 February 2012)

David Smith MCIPD

Employer Representative

Nominated by Scottish Building Federation (SB)

John Spanswick CBE, FCIOB

Employer Representative

Nominated by UK Contractors Group (UKCG)

Stephen Terrell MCIOB

Employer Representative

Nominated by National Federation of Builders (NFB)

Senior Management Team and advisers

Senior Management Team

Brian Griffiths FCA

Chief Executive Officer

Patrick Heath-Lay FCCA

Director of Finance and Strategic Delivery

Jamie Fiveash FCCA

Director of Customer Solutions

Christine Webb

Director of Human Resources and Business Services

Paul Murphy

Director of Customer Development

Company secretary and registered office

C E Milton
B&CE Benefit Schemes,
Manor Royal,
Crawley,
West Sussex,
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Independent auditors

PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors,
First Point,
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HSBC Bank plc,
9 The Boulevard,
Crawley,
West Sussex,
RH10 1UT

Solicitors

Field Fisher Waterhouse LLP,
35 Vine Street,
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EC3N 2AA

Directors' report

The directors present their 70th annual report and the audited consolidated financial statements of the group for the year ended 31 March 2012 The activities of the two subsidiaries are material to the group and therefore group financial statements have been prepared A separate set of financial statements has been prepared for Building and Civil Engineering Benefits Scheme, Building and Civil Engineering Accident Benefit Scheme and Employee Life Cover Plan from B&CE

Results

The consolidated profit and loss account for the year is set out on page 23

Directors

The directors during the year and up to the 26 July 2012 are listed on page 14 There were five board meetings during the year and the average attendance by non-executive directors was 80%

Name	Main board
The Rt Hon Sir John Chilcot GCB	4/5
John Allott	5/5
Bob Blackman MBE	5/5
James O'Callaghan	4/5
Phil Davies	2/5
Harry Frew	4/5
Geoff Lister	5/5
Stephen Murphy	4/5
Alan Ritchie	1/3
Peter Rogerson OBE	3/5
Brian Rye	2/2
David Smith	4/5
John Spanswick CBE	4/5
Stephen Terrell	5/5

Alan Ritchie retired from his role as director on 9 February 2012 and was replaced by Brian Rye on 10 February 2012

Harry Frew and Phil Davies are due to retire at the annual general meeting and are due for reappointment by UCATT and the GMB respectively

Directors' and officers' liability insurance

Qualifying third party indemnity provisions (as defined in section 234 (2) of the Companies Act 2006) are in force for the benefit of the directors

Corporate governance

Corporate governance is of great importance to B&CE which aims to satisfy the principles of 'good governance' Where practical, B&CE aims to comply with the requirements of the Companies Act and the UK Corporate Governance Code, by ensuring that it has a transparent and effective decision making process in place Last year a review of the effectiveness of the board as a whole and the directors was conducted, based on detailed questionnaires and individual interviews, with the results being considered by the group company secretary who then presented the results to the board An agreed set of actions have been implemented throughout the past year It was also agreed that this process would continue on a bi-annual basis with the review being carried out by external consultants every fourth year and later this year an external consultant will be sourced to carry out an independent review of the board and its effectiveness

The company board met on five occasions during the year and board members were given appropriate documentation in advance of each meeting, which included minutes of sub-committees and reports on current business and industry issues The chairman and the chief executive officer also held informal meetings with directors to discuss issues affecting the board

All directors have access to the services of the group company secretary who ensures that corporate governance processes and best practice are followed, that there are good flows of information within and to the board and its sub-committees and assists with induction and development of the board as required

Directors' report (continued)

Health and safety policy

The group recognises its responsibility to its staff, visitors and contractors to provide and maintain safe and healthy working conditions, equipment and systems of work and to provide such information, instruction, training and supervision as is needed The group has policies and procedures in place to ensure that it complies, so far as is reasonably practicable, with the requirements set out in the Health and Safety at Work Act 1974 and all other associated legislation, and has appointed internal and external competent persons to act on its' behalf in this respect

Taxation status

The company's tax status has been reviewed during the year and an element of its activities is now considered to be trading in nature

The company is liable to corporation tax on its trading income, gross revenue excluding franked investment income, and on its chargeable capital gains with no deduction for administration costs in respect of non trading activities The subsidiary companies are taxed under the normal corporation tax rules for trading companies in respect of B & C E Financial Services Limited, and for insurance companies, for B & C E Insurance Limited

Future developments

The immediate focus of the group's activities will be on The People's Pension in the lead up to the introduction of auto-enrolment

Another key focus for the company is to continue the work that has already commenced to ensure that it can meet the requirements set under the new Solvency II regime, due to commence in January 2014 This work will include reviews and projections focussing on the group's likely capital position going forward In particular, consideration is being given to whether the existing annuity product should continue to be operated in its current form The group intends to reinsure the existing annuity business with Partnership Life Assurance Company Limited during 2012 The aim is to proceed towards a Part VII transfer in 2013 in order to reduce the capital burden on the group

Another key development in the market place is the Financial Services Authority ("FSA") retail distribution review which aims to improve clarity for people who are looking to invest their money, raise their professional standards of advisers and reduce the conflict of interests which is found in remuneration for adviser's services

The main proposals do not directly affect B&CE since it operates on a non advisory basis However, B&CE recognise that it is important to remain aware of what is happening in the market place to ensure that the organisation remains competitive and able to look for opportunities to provide added benefit services to customers and to those firms that are providing advice and information to the market place

The volume of change within the business is likely to remain very high for the foreseeable future In particular, making the necessary changes to prepare for auto-enrolment and the new Solvency II regime provide real challenges It will be key to ensure B&CE has adequate resources to fulfil its plans and as such costs are anticipated to increase as a result

Creditor payment terms

All creditors continue to be paid at the latest at the end of the month following receipt of the invoice Some creditors are paid under special mutually agreed terms

Charitable donations

During the financial year the company contributed £200,000 (2011 – £200,000) to the Building and Civil Engineering Charitable Trust Donations for other charitable purposes totalled £1,205 (2011 – £1,127)

Political donations

There were no donations to political parties during the year (2011 – Nil)

Directors' report (continued)

Employees

At the year end the company had 143 employees (2011 – 126) B&CE recognises that it is the organisation's people who make the difference between good service and great service B&CE as a company have a reputation for exceptional service

Organisation development
This year the organisation has been preparing for the exciting challenges and major changes that surrounds the new pension reform legislation The focus has been to increase knowledge, skills and capabilities of staff and to expand the employee base which has been essential for business growth Engagement with management teams and employees has continued to remain high on the people agenda as B&CE enters what will be an unprecedented year for the group Under its corporate social responsibility activities, B&CE's Green Business Agenda has been further developed to ensure business activities do not adversely impact on the external environment

Communication
B&CE continues to monitor employees views and opinions to help understand what the organisation means to them as an employer, through surveys, team briefs, staff presentation, intranet and a dedicated 'ask the CEO' mailbox These activities provide a two-way communication tool which provides the opportunity for the management team to give prompt feedback and initiate any actions required

Learning and development
B&CE's commitment to the learning and development of all of its employees continues to be high on its people agenda Management development, increasing employee engagement activities and maintaining our professional and regulatory standards have remained a key focus as the organisation prepares for the future This work will continue to build on the key skills required to ensure that B&CE's managers and employees remain aligned to business objectives and motivated to achieve their delivery

Business ethics and values
The company keeps standards of business conduct at the front of its mind in its day-to-day work in part by encouraging employees to live the B&CE brand values

Diversity and equality
B&CE is an equal opportunities employer and, as such, opposes all forms of unlawful and unfair discrimination The company believes that everybody has the right to be treated fairly with dignity and respect and is fully committed to a policy of treating all its employees and job applicants equally

Customers

The group has supported and embedded the FSA's Treating Customers Fairly ("TCF") initiative that a firm must pay due regard to the interests of its customers and treat them fairly Specifically TCF within B&CE will

- Help our customers fully understand the features, benefits, risks and costs of products they buy
- Minimise the sale of unsuitable products by encouraging best practice before, during and after sales

There are six outcomes that the FSA wishes to see as a result of the TCF initiative These are

- Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture
- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly
- Consumers are provided with clear information and kept appropriately informed before, during and after the point of sale
- Where consumers receive advice, the advice is suitable and takes account of their circumstances
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect
- Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint

Directors' report (continued)

Over the past twelve months the organisation has continued to develop procedures to improve areas including staff training, sales and marketing material, management information, sales processes and product understanding

B&CE's core values help the organisation to achieve its vision in an ethical and consistent way and demonstrate that B&CE can be confident that it is treating customers fairly

Statement of internal control

The parent company board has overall responsibility for B&CE's systems of internal control and for reviewing their effectiveness The board has delegated to management, responsibility for establishing systems of internal controls appropriate to the business environment in which the group operates

The systems of internal controls are designed to manage and minimise the risk of failure to achieve business objectives In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss The controls include financial, operational and compliance controls and risk management

The Group Audit and Risk Committee has reviewed the company's systems of internal controls on behalf of the board The committee's work has included

- reviewing the internal audit work plans,
- meeting with the Chief Executive Officer and the internal and external auditors to discuss the systems of internal controls and any material weaknesses reported,
- discussing with management the actions to be taken on any problem areas identified by board members or in the audit reports

The Group Audit and Risk Committee have also reviewed the effectiveness of the risk management process and any significant risk issues have been referred to the board for consideration

The Group Audit and Risk Committee currently consists of three non-executive directors and two independent non-executive directors The minutes of the Group Audit and Risk Committee meetings are circulated to all directors and risk management is included as an agenda item at board meetings Committee meetings were held on 11 May, 10 August, and 9 November 2011 and 9 February 2012

The board, through the Group Audit and Risk Committee, has reviewed the Internal Audit Section's reports on the group's systems of internal controls for the year ending 31 March 2012, and no significant weaknesses have been reported

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditors are aware of that information

Independent auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting

Auditor objectivity

The group has a policy that if PricewaterhouseCoopers LLP ("PwC") are required to provide any non-audit services to the group, PwC will give a written assurance that such work is treated as totally independent from that associated with the normal audit work in order to ensure objectivity

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the board,

C E Milton
Group Company Secretary
26 July 2012
Company registration number 00377361

Independent auditors' report to the members of Building and Civil Engineering Holidays Scheme Management Limited

We have audited the group and parent company financial statements (the "financial statements") of Building and Civil Engineering Holidays Scheme Management Limited for the year ended 31 March 2012 which comprise the group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 20 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of Building and Civil Engineering Holidays Scheme Management Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or

- the parent company financial statements are not in agreement with the accounting records and returns, or

- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

Christopher Maidment (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

26 July 2012

Consolidated profit and loss account for the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Turnover	3	**22,899**	36,216
Net movement in investment activities	3	**8,663**	5,183
Net operating expenses	4	**(19,563)**	(21,667)
Profit before interest and taxation	5	**11,999**	19,732
Other finance income	19	**511**	160
Profit before taxation		**12,510**	19,892
Tax charge	8	**(2,342)**	(4,424)
Profit for the financial year	17	**10,168**	15,468

Notes

All of the group's financial activities are continuing

The parent company takes the section 408 exemption in the Companies Act 2006 and does not present the parent company profit and loss account

Statement of consolidated total recognised gains and losses for the financial year ended 31 March 2012

	Notes	2012 £000	2011 £000
Profit for the year		**10,168**	15,468
Unrealised loss on fixed asset investments		**(1,376)**	(133)
Actuarial (loss)/gain on pension scheme	19	**(5,205)**	3,909
Movement in deferred tax relating to pension deficit	15	**116**	(391)
Total gain recognised since last annual report		**3,703**	18,853

Note of consolidated historical cost profits and losses for the year ended 31 March 2012

	Note	2012 £000	2011 £000
Reported profit before taxation		**12,510**	19,892
Unrealised gain on current asset investments	3	**(6,673)**	(2,194)
Historical cost profit before taxation		**5,837**	17,698
Historical cost profit for the year after taxation		**3,495**	13,274

Balance sheets at 31 March 2012

	Notes	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
Benefit Schemes administration					
Fixed assets					
Tangible assets	10	**3,231**	3,263	**3,231**	3,263
Investments	11	**5,644**	5,955	**-**	-
Investment in subsidiary undertakings	12	**-**	-	**60,050**	60,050
		8,875	9,218	**63,281**	63,313
Current assets					
Debtors	13	**1,800**	3,651	**3,019**	3,997
Investments	11	**86,713**	90,106	**84,843**	89,705
Cash at bank and in hand		**421**	585	**395**	535
		88,934	94,342	**88,257**	94,237
General and long-term insurance					
Tangible assets	10	**7**	11		
Investments	11	**148,276**	142,934		
Assets held to cover linked liabilities	11	**495**	1,049		
Reinsurers share of technical provisions		**715,380**	693,217		
Debtors and prepayments	13	**4,501**	4,382		
Cash at bank and in hand		**-**	83		
		868,659	841,676		
Total assets		**966,468**	945,236	**151,538**	157,550
Benefit Schemes administration					
Creditors: amounts falling due within one year	14	**63,676**	72,050	**63,599**	71,937
General and long-term insurance					
Long-term business provision	16	**92,659**	90,438		
Technical provision for linked liabilities		**715,860**	694,250		
Provision for other risks	15	**288**	234		
Creditors: amounts falling due within one year	14	**1,705**	2,839		
Total liabilities		**874,188**	859,811	**63,599**	71,937
Net assets excluding pension (deficit)/surplus		**92,280**	85,425	**87,939**	85,613
Pension (deficit)/surplus	19	**(1,034)**	2,118	**(1,034)**	2,118
Net assets including pension (deficit)/surplus		**91,246**	87,543	**86,905**	87,731

Balance sheets at 31 March 2012

		GROUP		COMPANY	
	Notes	**2012**	2011	**2012**	2011
		£000	£000	**£000**	£000
Reserves					
Revenue reserves	17	**91,163**	86,084	**86,905**	87,731
Investment revaluation reserve	17	**83**	1,459	**-**	-
Total funds		**91,246**	87,543	**86,905**	87,731

The financial statements on pages 23 to 49 were approved by the board of directors on 26 July 2012 and were signed on its behalf by

Director
STEPHEN MURPHY

Director
JOHN SPANSWICK

Consolidated cash flow statement for the year ended 31 March 2012

	2012		2011	
	£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities		**(2,884)**		2,034
Taxation		**(875)**		(4,753)
Capital expenditure and financial investment (Note A)		**(795)**		4,750
		(4,555)		2,031
Management of liquid resources (Note A)		**84**		32,841
(Decrease)/increase in cash		**(4,546)**		34,872

Reconciliation of net cash flow to movement in net funds (Note B)

	2012 £000	2012 £000	2011 £000	2011 £000
(Decrease)/increase in cash in the period		**(4,546)**		34,872
Net decrease in liquid resources		**(24)**		(32,841)
Realised profit on sale of current asset investments	**491**		1,843	
Decrease/(increase) in unrealised loss on current asset investments	**354**		(933)	
		845		910
Change in net funds		**(3,709)**		2,941
Net funds at the start of the year		**91,687**		88,746
Net funds at the end of the year		**87,978**		91,687

Reconciliation of gain before interest and taxation to net cash flow from operating activities

	2012 £000	2011 £000
Profit before interest and taxation (see note below)	**6,296**	10,859
Depreciation charges	**307**	290
Gain on sale of fixed asset investments	**(1,301)**	(1,116)
Realised and unrealised decrease/(increase) in unrealised gain on insurance business investment assets	**798**	(1,942)
Gain on sale of tangible assets	**(1)**	(2)
Profit on sale of current asset investments	**(491)**	(1,843)
(Decrease)/increase in unrealised loss on current asset investments	**(354)**	933
Difference between pension charge and cash contributions	**(1,426)**	(3,084)
Decrease/(increase) in debtors	**1,839**	(2,043)
Decrease in creditors	**(8,551)**	(18)
Net cash (outflow)/inflow from operating activities	**(2,884)**	2,034

Note

In accordance with FRS1 (revised) the gain before taxation above excludes the long-term insurance profit before taxation of £5 732m (2011 – £8 872m)

Notes to the consolidated cash flow statement

Note A - Gross cash flows

	2012 £000	2011 £000
Capital expenditure and financial investment		
Payments to acquire fixed asset investments	**(4,385)**	(1,285)
Payments to acquire insurance business investment assets	**(3,737)**	(2,465)
Payments to acquire tangible fixed assets	**(276)**	(216)
Receipts from sales of fixed asset investments	**4,621**	7,027
Receipts from sales of insurance business investment assets	**2,979**	1,687
Receipts from tangible fixed assets	**3**	2
	(795)	4,750
Management of liquid resources		
Purchase of gilts and euro bonds	**(3,355)**	(877)
Sale of gilts and euro bonds	**3,371**	33,718
	8	32,841

Note B - Analysis of changes in net cash

	1 April 2011 £000	Cash flows £000	Other £000	31 March 2012 £000
Cash in hand and at bank				
- Benefits Scheme Administration	585	**(164)**	**-**	**421**
Insurance Business	83	**(83)**	**-**	**-**
Bank deposits repayable on demand				
- Benefits Scheme Administration	69,771	**(4,239)**	**-**	**65,532**
Insurance Business	913	**(60)**	**-**	**853**
	71,352	**(4,546)**	**-**	**66,806**
Liquid resources				
Current asset investments	20,335	**(8)**	**845**	**21,172**
Total	91,687	**(4,554)**	**845**	**87,978**

Other changes of £0 846m comprises the realised gain and the unrealised movement in market values between the year end dates on current asset investments

Liquid reserves comprise index linked gilts and bonds, fixed interest gilts and bonds and fixed interest preference shares

Analysed in balance sheet

	1 April 2011 £000	31 March 2012 £000
Insurance business – bank deposits	5,824	**4,143**
Less long-term insurance business – bank deposit	(4,911)	**(3,290)**
	913	**853**

Notes to the financial statements

1 Principal accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of fixed asset investments at their bid market values, and in accordance with the Companies Act 2006 and applicable accounting standards in the UK The principal accounting policies, which have been applied consistently throughout the year, are set out below

The group prepares its accounts in accordance with schedule 4 of the Companies Act 2006 However, as permitted by the Act the accounts formats have been adapted, as necessary, to give a true and fair view of the state of affairs and the loss of the group In particular, financial information on the group's insurance business activities is presented in a manner having regard to the provisions of that Act applicable to insurance companies and with the Statement of Recommended Practice on Accounting for Insurance Business published by the Association of British Insurers in December 2005 (as amended in December 2006) ("the ABI SORP")

Basis of consolidation
The group financial statements consolidate the results on the adopted acquisition accounting basis of the company and the two trading subsidiaries, B & C E Insurance Limited and B & C E Financial Services Limited Uniform accounting policies have been applied across the group Inter company transactions are eliminated on consolidation

Investments
Investment assets, quoted shares and other securities are recorded at market value which is bid price or where investments are dealt at a single price this value is used

The realised profit or loss on investment disposals is recognised in the consolidated profit and loss account under net movement in investment activities The unrealised profit or loss on current asset investments and B & C E Insurance Limited investment assets are recognised in the consolidated profit and loss account under net movement in investment activities Unrealised profits on fixed asset investments are recognised in the statement of consolidated total recognised gains and losses, and create an investment revaluation reserve on the balance sheet Unrealised losses on fixed asset investments are recognised in the consolidated profit and loss account under net movement in investment activities unless previously recognised unrealised gains are held in the investment revaluation reserve in which case the unrealised loss reduces or eliminates the unrealised gains and is recognised in the statement of consolidated total recognised gains and losses

Investments held as current assets are stated at market value

In the company's accounts, investments in subsidiaries are valued at cost or, where there has been an impairment in value, at their recoverable amount

Accrued income
Accrued income comprises interest due from the last interest payment date to the year end date in respect of fixed interest investment gilts and bonds and bank deposits, and dividends due on equity holdings where the ex date is prior to year end

Acquisition costs
All acquisition costs are charged to the profit and loss accounts when incurred

In respect of general insurance, in the opinion of the directors, the application of the treatment recommended by the ABI SORP to defer acquisition costs would not have a material impact on the result of the year or the financial position of the company

In respect of long-term insurance, linked business acquisition costs have not been deferred due to the uncertainties over the achievement of future margins arising from future potential discontinuances of the stakeholder policies

In respect of the annuity policies, the costs in question have already been recovered from the initial premiums and therefore have not been deferred

In respect of Term Assurance policies, these policies are no longer being sold and there are no acquisition costs incurred or deferred

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

Long-term business provision
The long-term business provision is computed by a Fellow of the Institute of Actuaries, on the basis of recognised actuarial methods with due regard to the actuarial principles set out in council directive 2002/83/EC The valuation basis adopted reflects the value of related assets and the yield derived therefrom, together with a prudent assessment of future rates of return on new monies receivable as income from existing business (premiums and investment income) The principal assumptions underlying the calculation of the long-term business provision are set out in note 16

Long-term business reassurance contracts
Long-term business is ceded to reassurers under contracts to transfer part or all of one or more of the following risks mortality, investment, persistency and expenses Such contracts are accounted for as insurance contracts (Note 21)

Operating leases
Operating lease rentals are charged on a straight line basis to the profit and loss account, over the lease term

Tangible fixed assets and depreciation
Tangible fixed assets are held at their historical cost less accumulated depreciation where applicable

Provision is made for depreciation of fixed assets on a straight line basis at the following rates per annum

	%		%
Land	-	Premises - Building	3
Office furniture	10	Premises plant and machinery	10
Motor vehicles	20	Office machinery - Computer equipment	33 3
		Office machinery - Office equipment	20

Additions to fixed assets are capitalised at cost including any direct installation costs

Turnover
Turnover represents fees (excluding value added tax), dividends, interest, and premium income (excluding insurance premium tax) receivable Dividend income is recognised on a net basis Sales between group companies are excluded

Net movement on investment activities
Net movement on Investment activities represents realised and unrealised gains/losses on investments

Defined benefit scheme
The group operates a defined benefit pension scheme for the benefit of the majority of its employees, the assets of which are held separately from those of the group in independently administered funds

Pension scheme assets are measured using market value Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax

Value added tax
Most of the group's activities are exempt from value added tax and only a small proportion of the input tax suffered is recoverable Where appropriate the costs include irrecoverable value added tax

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Holiday with pay scheme
The receipt and reimbursement of holiday pay has not been included in the consolidated profit and loss account as these movements do not affect the financial results for the year However the unredeemed balances of holiday pay are contained in creditors see note 14

Financial instruments
Financial instruments are held at cost, subject to impairment in value if it is considered permanent, include cash, debtors and creditors

Operating expenses
The majority of the overhead costs in relation to the group including the long-term business provisions are reported under operating expenses, as this is considered to be the most appropriate allocation for disclosure purposes and understanding of the financial results

2. Status of company

The company is limited by guarantee, not having a share capital The liability of the members is limited to £1 each

Notes to the financial statements (continued)

3 Segmental information – all business is conducted within the UK

	Turnover		Profit before tax		Net assets	
	2012	2011	**2012**	2011	**2012**	2011
Type of business	**£000**	£000	**£000**	£000	**£000**	£000
Benefit Schemes Administration	**9,049**	9,441	**6,350**	8,351	**33,099**	34,080
Insurance Business	**13,850**	26,775	**6,160**	11,541	**58,147**	53,463
	22,899	36,216	**12,510**	19,892	**91,246**	87,543

	2012			2011		
	Benefit Schemes administration	**Insurance business**	**Group total**	Benefit Schemes administration	Insurance business	Group total
	£000	**£000**	**£000**	£000	£000	£000
Turnover						
Investment income -						
Income from listed investments	**1,354**	**6,346**	**7,700**	2,647	6,101	8,748
Interest on short-term deposits	**509**	**(8)**	**501**	245	17	262
Miscellaneous net income	**540**	**168**	**708**	181	168	349
Management fees	**6,646**	**-**	**6,646**	6,368	-	6,368
Insurance business – general	**-**	**1,900**	**1,900**	-	1,534	1,534
Insurance business – long-term	**-**	**5,444**	**5,444**	-	18,955	18,955
	9,049	**13,850**	**22,899**	9,441	26,775	36,216
Net movement in investment activities						
Profit/(loss) on investments -						
Realised profit/(loss)	**1,792**	**198**	**1,990**	2,642	347	2,989
(Decrease)/increase in unrealised gain on current asset and insurance business investments	**354**	**6,319**	**6,673**	(615)	2,809	2,194
	2,146	**6,517**	**8,663**	2,027	3,156	5,183
Operating expenses:-						
Acquisition costs - long-term		**(2,752)**			(1,664)	
- general		**(320)**			(422)	
Administration - long-term		**(2,703)**			(2,183)	
- general		**(141)**			(91)	
Claims - long-term		**(5,941)**			(5,943)	
- general		**(565)**			(565)	
Provision - long-term		**(1,668)**			(7,392)	
General expenses		**(117)**			(130)	
		(14,207)			(18,390)	
Profit		**6,160**			11,541	

Notes to the financial statements (continued)

4. Net operating expenses

	GROUP	
	2012	2011
	£000	£000
Benefits schemes administration – other	**5,357**	3,277
Insurance business – other	**12,538**	10,998
	17,870	14,275
Insurance business – provision	**1,668**	7,392
	19,563	21,667

5 Profit before interest and taxation

	GROUP		COMPANY	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Profit before interest and taxation is stated after charging				
Employee costs (Note 6)	**6,819**	4,401	**6,158**	4,060
Directors' remuneration (Note 7)	**304**	184	**104**	65
Operating lease charges (Note 23)				
- motor vehicles	**119**	99	**119**	99
- office machinery	**73**	44	**73**	44
Depreciation (Note 10)	**311**	278	**307**	277
Auditors services				
Fees payable to the group's auditors for the audit of the group	**76**	87	**38**	44
Non-audit services				
Fees payable to the group's auditors and its associates for other services				
Other services pursuant to legislation, Including the audit of the regulatory return (see note (a) below)	**40**	52	**-**	-
Tax services	**12**	16	**-**	-
Advisory services	**12**	7	**-**	7

Notes

(a) Regulatory reporting included the FSA returns, Stakeholder Declaration and APSS 106 return
(b) All audit fees are exclusive of value added tax

Notes to the financial statements (continued)

6 Employee information

	GROUP		COMPANY	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Staff costs during the year amounted to				
Salaries and wages	**4,318**	3,888	**4,116**	3,667
Social security	**458**	433	**437**	410
Staff Pension Scheme costs (Note 19)	**375**	(1,244)	**334**	(1,309)
Payments on leaving employment	**52**	74	**52**	74
Staff Pension Scheme deficit repair contribution	**1,250**	1,250	**1,219**	1,219
	6,453	4,401	**6,158**	4,061

Staff Pension Scheme costs above are the actuarial FRS17 'Retirement benefits' cost, the actual contributions amounted to £0 573m (2011 – £0 590m)

	Number	Number	**Number**	Number
The average monthly number of staff employed by the group during the year was	**142**	135	**133**	121
Management	**5**	4	**5**	4
Clerical	**133**	128	**124**	114
Manual/Services	**4**	3	**4**	3
	142	135	**133**	121

The figures disclosed in this note include executive directors but exclude non-executive directors

7 Directors' remuneration

	GROUP		COMPANY	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Aggregate emoluments	**304**	184	**104**	65

The group figures above comprise non-executive directors' emoluments and an apportionment of executive directors' emoluments in respect of their services to the subsidiary companies

There were no pension contributions paid in respect of non-executive directors who received emoluments above However there were effectively pension contributions in respect of three executive directors' apportioned emoluments for their services to the subsidiary companies

The aggregate remuneration for the highest paid director was

	GROUP		COMPANY	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Aggregate emoluments	**63**	-	-	-
Accrued pension at year end	**15**	-	-	-

Notes to the financial statements (continued)

8. Taxation

	GROUP	
	2012	2011
	£000	£000
UK corporation tax on gains for the year	**1,092**	1,987
UK corporation tax on long-term insurance business	**1,407**	2,871
Adjustment in respect of previous periods	**(211)**	(24)
Total current tax charge	**2,288**	4,834
Deferred tax (including credit attributable to long-term insurance business)	**54**	(410)
Total tax charge	**2,342**	4,424

The tax assessed for the year is lower (2011 – lower) than the standard rate of corporation tax in the UK of 26% The differences are explained below

Profit on ordinary activities before tax	**12,510**	19,892
Profit on ordinary activities multiplied by standard rate in the UK 26% (2011 – 28%)	**3,253**	5,570
Effect of		
Non allowable expenses	**176**	(213)
Net franked investment income	**(227)**	(269)
Net difference between taxable capital gains and book gains on equity investments	**(331)**	13
Adjustment in respect of previous periods	**(211)**	(24)
FRS17 other finance income	**(185)**	(45)
Differences in respect of long-term business taxation	**(54)**	410
Other differences	**(133)**	(608)
Current tax charge for the period	**2,288**	4,834

In accordance with the ABI SORP, the above reconciliation excludes the tax attributable to the policy holders of the long-term insurance business

Deferred taxation

A deferred tax liability of £288,000 (2011 - £234,000) has been recognised in respect of differences between the tax base and the accounting base of reserves in the long-term fund

There are no recognised deferred tax assets or liabilities in respect of the B & C E Insurance Limited long-term fund Deferred tax assets in respect of long-term insurance business management expenses of £158,000 (2011 – £161,000) have not been recognised as it is uncertain whether these losses can be utilised in the future There are no deferred tax assets or liabilities in relation to the insurance business shareholder's fund (non-technical account) There are no potential or actual deferred tax assets or liabilities in respect of B & C E Financial Services Limited at the year end (2011 – potential liability £322,000)

Factors affecting future tax changes

The main rate of UK corporation tax is 26% in 2012 (2011 – 28%) The March 2012 budget announced a reduction in the main corporation tax rate to 24% from 1 April 2012 and a further 1% for each subsequent year for the next two years to 22% by April 2014 Deferred tax has been provided at 24%

9 Profit for the financial year

As prescribed by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements The parent company's profit for the financial year was £4,263,403 (2011 – £6,800,423)

Notes to the financial statements (continued)

10 Tangible fixed assets

	Freehold land and premises	Office furniture	Office machinery	Motor vehicles	Total
	£000	£000	£000	£000	**£000**
Group and company cost					
At 1 April 2011	5,986	528	1,732	61	**8,307**
Additions	-	82	169	25	276
Disposals	-	-	(218)	(24)	(242)
At 31 March 2012	**5,986**	**610**	**1,683**	**62**	**8,341**
Accumulated depreciation					
At 1 April 2011	3,044	498	1,449	53	5,044
Charge for the year	128	12	163	4	307
Disposals	-	-	(217)	(24)	(241)
At 31 March 2012	**3,172**	**510**	**1,395**	**33**	**5,110**
Net Book Value					
At 31 March 2012	**2,814**	**100**	**288**	**29**	**3,231**
At 31 March 2011	2,942	30	283	8	3,263
General and long-term insurance business					
Cost					
At 1 April 2011			285		**285**
Additions			-		-
At 31 March 2012			**285**		**285**
Accumulated depreciation					
At 1 April 2011			274		**274**
Charge for the year			4		**4**
At 31 March 2012			**278**		**278**
Net Book Value					
At 31 March 2012			**7**		**7**
At 31 March 2011			11		11

Notes to the financial statements (continued)

11 Investments

Fixed assets

	GROUP		COMPANY	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Listed investments				
At 1 April	**5,955**	10,713	-	6,002
Additions	**4,385**	1,285	-	-
Disposals	**(4,606)**	(7,027)	-	(6,541)
Realised profit on disposals	**1,259**	1,126	-	1,162
Realised movement in revaluation reserve	**(1,376)**	(363)	-	(363)
Revaluation loss transfer to revaluation reserve (Note 17)	-	(133)	-	(623)
Impairment of investments to profit and loss account	**27**	354	-	363
Market value at 31 March	**5,644**	5,955	-	-

Listed investments include the following:

	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
Eurobonds	**5,644**	1,258	-	-
Listed equity open ended investment companies – UK	-	4,697	-	-
Market value at 31 March	**5,644**	5,955	-	-

If the revalued assets were stated on the historical cost basis, the amounts would be

Listed investments

	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
Eurobonds	**5,561**	1,285	-	-
Listed equities – UK	**150**	150	**150**	150
Listed equity open ended investment companies – UK	-	3,238	-	-
Cost at 31 March	**5,711**	4,673	**150**	150

Current assets

	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
Listed investments	**21,181**	20,335	**21,181**	20,335
Bank deposits	**65,532**	69,771	**63,662**	69,370
Market value at 31 March	**86,713**	90,106	**84,843**	89,705
Listed investments	**22,628**	22,136	**22,628**	22,136
Bank deposits	**65,532**	69,771	**63,662**	69,370
Cost at 31 March	**88,160**	91,907	**86,290**	91,506

Notes to the financial statements (continued)

11 Investments (continued)

General and long-term insurance business

	2012 £000	2011 £000
Open Ended Investment Companies	**25,603**	30,232
UK Government Gilts and Eurobonds	**118,530**	106,878
Bank deposits	**4,143**	5,824
Market value at 31 March	**148,276**	142,934
Open Ended Investment Companies	**22,767**	25,375
UK Government Gilts and Eurobonds	**110,376**	107,064
Bank deposits	**4,143**	5,824
Cost at 31 March	**137,286**	138,263

There is no difference between the cost and carrying value of assets held to cover linked liabilities which are entirely cash or cash equivalent balances

12. Investment in subsidiary undertakings

	GROUP		COMPANY	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Shares in group undertakings at cost	-	-	**60,050**	60,050

The company owns 100% of the issued ordinary share capital of B & C E Financial Services Limited, which is incorporated and registered in England, whose principal activity is to manage the Building and Civil Engineering Contracted-out Pension Scheme

The company also owns 100% of the issued ordinary share capital of B & C E Insurance Limited The company, which is incorporated and registered in England, is a health composite insurance company The directors believe the carrying value of the investments is supported by the underlying assets

13 Debtors

	GROUP		COMPANY	
	2012 £000	2011 £000	**2012 £000**	2011 £000
Debtor for investment sales	**222**	2,360	**222**	2,360
Amounts owed by group undertakings	-	-	**1,697**	717
Other debtors	**801**	649	**448**	300
Accrued income	**380**	175	**255**	153
Prepayments	**397**	354	**397**	354
Corporation Tax	-	113	-	113
	1,800	3,651	**3,019**	3,997

Amounts owed by group undertakings represents recharged administration costs for the final quarter of the year which are normally settled in the following quarter

Notes to the financial statements (continued)

13. Debtors (continued)

Debtors – General and long-term insurance business

	2012 £000	2011 £000
Other debtors	**2,150**	2,142
Accrued income	**2,320**	2,219
Prepayments	**31**	21
	4,501	4,382

14. Creditors – amounts falling due within one year

	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
Unredeemed balances of holiday pay	**60,753**	69,636	**60,753**	69,636
Corporation tax	**432**	87	**430**	-
Other taxation and social security contributions	**317**	277	**304**	270
Other creditors	**1,826**	1,783	**1,824**	1,783
Accruals	**348**	267	**288**	248
	63,676	72,050	**63,599**	71,937

There were no amounts owing by the company to B & C E Insurance Limited at the year end (2011 – £Nil in respect of prepaid overhead recharges)

Creditors - general and long-term insurance business

	2012 £000	2011 £000
Corporation tax	**884**	2,049
Other taxation and social security contributions	**145**	129
Other creditors	**575**	471
Accruals	**101**	190
	1,705	2,839

15 Provision for liabilities

Deferred tax asset/(liability) relating to pension deficit

	GROUP 2012 £000	GROUP 2011 £000	COMPANY 2012 £000	COMPANY 2011 £000
1 April	**(97)**	294	**(97)**	294
Deferred tax charged to the statement of total recognised gains and losses on actuarial loss/(gain)	**116**	(391)	**116**	(391)
31 March	**19**	(97)	**19**	(97)

Notes to the financial statements (continued)

15. Provision for liabilities (continued)

General and long-term insurance business

	2012 £000	2011 £000
Deferred tax provision		
1 April	**234**	644
Debited/(credited) to consolidated profit and loss account	**54**	(410)
31 March	**288**	234

16 Long-term business provision

The long-term business provision is computed by a Fellow of the Institute of Actuaries, on the basis of recognised actuarial methods with due regard to the actuarial principles set out in council directive 2002/83/EC

	2012 £000	2011 £000
Linked business sterling reserve	**8,316**	9,000
Annuities	**84,151**	81,221
Term Assurance gross provisions	**192**	217
	92,659	90,438
Term Assurance reinsurer's share	**(15)**	(15)
	92,644	90,423

The principal assumptions underlying the calculation of the long-term business provision in respect of non-profit business are as follows

Class of business	2012	2011
	Mortality	
Immediate pensions annuities	122 5% PNMA00U=2012 (2) for males, 122 5% PNFA00U=2012(-) for females	120% PNMA00U=2011 (2) for males, 120% PNFA00U=2011 (2) for females
Unit linked Stakeholder pensions	80% AM/F92(2) ult	80% AM/F92(2) ult
	Interest rate (% pa)	
Immediate pensions annuities	3 00 (1)	3 90 (1)
Unit linked Stakeholder pensions	2 70 (1)	3 20 (1)
	Unit growth rate (% pa)	
Immediate pensions annuities	n/a	n/a
Unit linked Stakeholder pensions	2 80	4 20

1 In both the 2012 & 2011 valuations, a deduction of 0 40% pa is made from the valuation interest rates to allow for investment related expenses The rates shown above are net of this deduction

2 Allowance is made for future mortality improvements in accordance with the long cohort improvement factors from the Continuous Mortality Investigation Bureau In both the 2012 & 2011 valuations, future male and female improvement factors are subject to a minimum of 1 5% pa

Notes to the financial statements (continued)

16 Long-term business provision (continued)

All significant classes of business have been valued using a gross premium methodology No policy has an overall negative provision or a provision less than its current surrender value

Stakeholder pension policies are valued as regular premium where future premiums are reasonably predictable A prudent assumption has been made that all regular premiums for policies will cease given the introduction of The People's Pension It is likely that the majority of active policyholders will become members of The People's Pension and it is therefore likely that EasyBuild contributions will cease In 2011 the rate was 35% for policies without an employee contribution and 15% for policies with an employee contribution

Assumptions are set by reference to current experience, where appropriate, together with reference to publicly available market data where available A prudent margin is then included for the purposes of calculating regulatory capital requirements

A reduction in interest rates would reduce the impact of discounting future payments in the calculation of the long-term business provision, resulting in an increased provision Similarly, if a lower mortality rate were assumed to apply in the future, the long-term business provision would increase

INSPRU1 2 54A allows firms to separate expenses into attributable and non-attributable expenses The attributable expenses are used to derive the per policy expense For the 2012 valuation, the per policy expense for Stakeholder pensions policies is £2 70 pa, (unchanged from 2011), 25% lower for current dormant policies (unchanged from 2011) For the 2012 valuation, the per policy expense for immediate pension annuities is £19 00 pa (£22 00 pa in 2011) Non-unit fund related investment expenses are allowed for through a reduction in the valuation interest rates For 2012 and 2011, the reduction is 0 40% pa Expenses are assumed to inflate at 3 70% pa (4 50% in 2011) If expenses were assumed to be higher, the long-term business provision would increase

17 Reserves

	GROUP £000	COMPANY £000
Revenue reserves		
At 1 April 2011	86,084	87,731
Profit for the financial year	10,168	4,263
Actuarial loss on pension scheme	(5,205)	(5,205)
Movement on deferred tax relating to pension scheme	116	116
At 31 March 2012	91,163	86,905
Revenue reserve excluding pension deficit	92,197	87,939
Investment revaluation reserve		
At 1 April 2011	1,459	-
Movement for the year	(1,376)	-
At 31 March 2012	83	-

Notes to the financial statements (continued)

18 Related party transactions

During the year the company made payments to industrial organisations in respect of promotional fees and for the provision of directors' services as follows

Industrial organisation	Charge for Year		Balance outstanding	
	2012	2011	**2012**	2011
	£	£	**£**	£
UCATT	**132,000**	125,477	**33,000**	33,000
Unite the Union T & G Section	**108,000**	103,864	**27,000**	27,000
GMB	**30,000**	28,697	**7,500**	7,500
UK Contractors Group	**18,000**	17,719	**-**	-
Civil Engineering Contractors Association	**18,000**	17,719	**6,628**	4,500
Scottish Building Federation	**18,000**	17,719	**-**	-
National Federation of Builders	**18,000**	17,719	**4,500**	4,500
National Specialist Contractors Council	**18,000**	17,719	**-**	4,500
Federation of Master Builders	**18,000**	17,719	**4,500**	4,500

On 7 December 2009, at the board meeting it was announced that on 8 December 2009 the Construction Confederation would cease to participate in the Schemes due to their impending dissolution The board agreed that the following employer federations would replace the Construction Confederation and each of them will be responsible for nominating an employer Director representative, the UK Contractors Group, the Civil Engineering Contractors Association, the Scottish Building Federation, the National Federation of Builders, the National Specialist Contractors Council and the Federation of Master Builders UCATT appointed two directors Unite the Union T & G Section two and GMB one Fees of £8,000 per annum plus value added tax were payable for each Director provided up to 31 December 2009

At their board meeting on 27 May 2010 the directors agreed service level agreements effective from 1 January 2010 for each of the employer federations responsible for appointing a director which included a fee of £15,000 per annum plus value added tax On 23 February 2011 the union representatives signed service level agreements which included, UCATT appointing three directors and receiving a fee of £110,000 per annum plus value added tax, Unite the Union appointing two directors and receiving a fee of £90,000 per annum plus value added tax, and the GMB appointing one director and receiving a fee of £25,000 per annum plus value added tax effective from 1 January 2010

The balance outstanding at the year ends are included in creditors due within one year in other creditors (see note 14)

There are no other related party transactions requiring disclosure in this year's financial statements in accordance with FRS 8 (related party disclosures)

Notes to the financial statements (continued)

19 Pension commitments

The company operates an occupational defined benefit pension scheme known as the B&CE Staff Pension Scheme ("the pension scheme"), which provides benefits based on final pensionable salary The assets of the pension scheme are held separately from those of the company, in an independently administered trust fund

The trustees of the pension scheme seek contributions from the participating employers at such rates as the trustees determine, on the advice of the pension scheme actuary, to be sufficient to meet the expected cost of the benefits payable from the pension scheme To assess the expected cost of the benefits payable from the pension scheme, the trustees obtain regular actuarial valuations of the pension scheme from the pension scheme actuary The trustees choose an appropriate funding method for the actuarial valuation, together with a prudent set of actuarial assumptions The trustees seek the advice of the pension scheme actuary before determining the methods and assumptions

If the actuarial valuation shows that the pension scheme's assets are insufficient to meet the expected cost of members' past service benefits, the trustees will put in place a recovery plan which will require additional contributions from the participating employers

The trustees seek the agreement of the company when deciding on the method and assumptions to be used in the actuarial valuation and before determining the level of participating employer contributions payable to the pension scheme

With effect from 1 January 2012, the participating employer contribution rate reduced from 19 6% to 14 05% of pensionable salary for all members plus top-up contributions of 12 3% increased from 11 96% of eligible senior executive members' pensionable salary

After taking actuarial advice and subsequent to a period of consultation with the members, the company and the pension scheme trustees agreed to change the future benefit provisions of the pension scheme from 1 April 2010 The main changes are, to the annual accrual rate of pension from 60ths to 80ths of pensionable salary, members' contribution rates from 7 5% or 5% to a single rate of 6 3% of pensionable salary, contracting back into the State Second Pension, and the introduction of an element of salary being classed as non pensionable

The latest triennial actuarial valuation of the pension scheme, using the projected unit method, performed by the professionally qualified appointed pension scheme actuary took place on 31 December 2010 The preliminary results show a reduction in the deficit position from £4 4m at 31 December 2007 to £2 5m a funding level of 94% of liabilities (2007 – 89%)

The participating employers will continue to pay additional contributions into the Pension Scheme at a rate of £1 25m per annum paid monthly until 31 January 2013 when it is expected to eliminate the Pension Scheme funding shortfall, provided the actuarial assumptions are borne out

The estimated solvency level or cost of securing members' benefits should the Pension Scheme be wound up on the valuation date calculated by the Pension Scheme actuary was 79% or a shortfall of £11 1m (2007 – 84%, shortfall £6 9m)

The company estimates the employer contributions into the Pension Scheme for the year ended 31 March 2013 to be £1 590m

Notes to the financial statements (continued)

19 Pension commitments (continued)

The principal assumptions used by the professionally qualified pension scheme actuary in agreement with the company for updating the latest valuation of the pension scheme for FRS17 purpose were

	31 March 2012 % p.a	31 March 2011 % p a	31 March 2010 % p a
Discount rate	**4.6**	5 5	5 5
Rate of increase in salaries	**3.3**	3 6	5 05
Price inflation	**3.3**	3 6	3 8
Pension increases			
on pension accrued before 1 January 1995	**3.0**	3 0	3 0
on pension accrued between 1 January 1995 and 31 March 2006	**3.3**	3 6	3 8
on pension accrued since 1 April 2006	**2.5**	2 5	2 5

A reduction in the net discount rate (i e the difference between the discount rate and the assumed rate of inflation) will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future A rise in the net discount rate will have an opposite effect of similar magnitude The overall effect of a change in the net discount rate for the pension scheme of 0 1% would be an increase/decrease to the liabilities of around 2 0% or £0 9m

There is also uncertainty around life expectancy of the UK population The value of current and future pension benefits will depend on how long they are assumed to be in payment

The effect of changing the assumption regarding life expectancy by one year longer than the disclosed table, would be to increase the assessed value of liabilities by around 2 2% or £1 0m

	Male	Female
Average future life expectancy in years at age 68 of a pensioner currently aged 68	20 09	22 07
Average future life expectancy in years at age 60 for a non-pensioner currently aged 45	29 46	31 39
Average future life expectancy in years at age 45 for a non-pensioner currently aged 45	43 59	45 73

Notes to the financial statements (continued)

19. Pension commitments (continued)

On the FRS17 basis, the assets valued at bid price where appropriate and liabilities of the pension scheme and the expected rates of return were

	Long term rate of return expected at 31/03/12	**Value at 31/03/12**	Long term rate of return expected at 31/03/11	Value at 31/03/11	Long term rate of return expected at 31/03/10	Value at 31/03/10
	% p.a	**£000**	% p a	£000	% p a	£000
Equities	**6.3**	**24,805**	7 3	23,657	7 5	22,534
Corporate bonds	**4 6**	**13,641**	5 5	11,004	5 5	9,189
Property	**5.3**	**932**	6 3	913	6 5	864
Government bonds	**3.3**	**6,728**	4 3	6,922	4 5	6,477
Other	**3.3**	**-**	4 3	-	4 5	60
Cash	**3.3**	**107**	4 3	56	4 5	26
Total assets		**46,213**		42,552		39,150
Present value of Pension Scheme liabilities		**(47,266)**		(40,337)		(44,088)
(Deficit)/surplus in Pension Scheme		**(1,053)**		2,215		(4,938)
Related deferred tax asset/(liability)		**19**		(97)		294
Net Pension Scheme (Liability)/asset		**(1,034)**		2,118		(4,644)

Basis of expected return on equities and other asset classes
In previous years the company has set the expected return on equities with regard to prevailing gilt yields As at 31 March 2011 the assumed return of 7 3% p a was 3 0% p a above the 15 year index gilt yield of 4 3% p a Long dated gilt yields have since decreased by 100 basis points to 3 3% looking at the over 15 year duration The company has therefore set an expected return on equity assumption of 6 3% p a and set the expected return on assets assumptions for other asset classes at 31 March 2012 using the same market indicators as before Therefore the expected return on assets assumptions as at March 2012 are as follows

Equities fixed interest gilts (over 15 year index yield) +3 0% p a
= 6 3% p a (7 3% p a at 31 March 2011)

Property fixed interest gilts (over 15 year index yield) +2 0% p a
= 5 3% p a (6 3% p a at 31 March 2011)

Corporate bonds The FRS17 discount rate derived as above
= 4 6% p a (5 5% p a at 31 March 2011)

Gilts fixed interest gilts (over 15 year index yield)
= 3 3% p a (4 3% p a at 31 March 2011)

Cash Over the long term, assumed to be in line with fixed interest gilts
= 3 3% p a (4 3% p a at 31 March 2011)

Notes to the financial statements (continued)

19 Pension commitments (continued)

	2012 £000	2011 £000
Analysis of profit and loss charge		
Analysis of the amount charged to operating profit		
Current service cost	(397)	(557)
Past service cost	-	1,801
Total operating charge	(397)	1,244
Analysis of the amounts credited to other finance income		
Expected return on pension scheme assets	2,697	2,565
Interest on pension scheme liabilities	(2,186)	(2,405)
Net return	511	160
Net profit and loss charge	114	1,404
Analysis of amounts recognised in STRGL.		
Actual return less expected return on pension scheme assets	732	268
Actuarial gain/(loss) on pension scheme liabilities	(5,937)	3,641
Actuarial (loss)/gain recognised in STRGL	(5,205)	3,909
Cumulative actuarial loss recognised in STRGL	(7,134)	(1,929)
Reconciliation of present value of pension scheme liabilities:		
1 April	40,337	44,088
Current service cost	397	557
Interest cost	2,186	2,405
Contributions paid by members	195	188
Actuarial loss/(gain)	5,937	(3,641)
Past service costs	-	(1,801)
Benefits paid	(1,786)	(1,459)
31 March	47,266	40,337
Reconciliation of fair value of pension scheme assets		
1 April	42,552	39,150
Expected return on pension scheme assets	2,697	2,565
Contributions paid by members	195	188
Contributions paid by the employer	1,823	1,840
Actuarial loss	732	268
Benefits paid	(1,786)	(1,459)
31 March	46,213	42,552

Notes to the financial statements (continued)

19. Pension commitments (continued)

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
History of experience gains and losses:					
Fair value of pension scheme assets	**46,213**	42,552	39,150	29,701	34,034
Present value of pension scheme liabilities	**(47,266)**	(40,337)	(44,088)	(30,103)	(29,436)
(Deficit)/surplus	**(1,053)**	2,215	(4,938)	(402)	4,598
Actuarial return less expected return on pension scheme assets					
Amount	**732**	268	6,968	(7,646)	(3,336)
Percentage of pension scheme assets	**1 6%**	0 6%	17 8%	(25 7)%	(9 8)%
Experience gain on pension scheme liabilities					
Amount	**-**	2,391	-	-	1,593
Percentage of pension scheme liabilities	**0 0%**	5 9%	0 0%	0 0%	5 4%
Actuarial gain/(loss) on pension scheme Liabilities					
Amount	**(5,937)**	3,641	(12,843)	748	8,365
Percentage of pension scheme liabilities	**(12 6)%**	9 0%	(29 1)%	2 5%	28 4%

The pension scheme asset and liability values on the FRS17 basis reflect market conditions at the company's year-end date and can be expected to vary greatly from year to year, without necessarily affecting the pension scheme's long term ability to provide the required benefits

20 Contingent liabilities

Building and Civil Engineering Accident Benefit Scheme
The company has undertaken to provide financial support, as and when required, to the Building and Civil Engineering Accident Benefit Scheme There was no liability as at 31 March 2012 (2011 – £Nil)

Building and Civil Engineering Benefits Scheme
The board of directors periodically review the financing of the death benefits paid under the Building and Civil Engineering Benefits Scheme and determine the level of financial support based on the company's resources There was no liability as at 31 March 2012 (2011 – £Nil)

The Building and Civil Engineering Charitable Trust
The board of directors agreed to donate up to £1 5m to The Building and Civil Engineering Charitable Trust to fund the charity's activities At the year end £1,639,102 in total had been transferred to the trust On 5 November 2010 the board of directors gave an undertaking to the trust that financial support will be provided to meet future grants On 29 March 2012, the company's board agreed to fund a further £200,000 per annum until 31 March 2014

21 Reinsurance arrangements

Reinsurance arrangements are in force as follows

Term Assurance	– 90% quota share with a 11 4% overriding commission receivable
Linked business	– 100% reinsurance of unit liabilities

Notes to the financial statements (continued)

22 FRS27 'Life Assurance'

The Group maintains an efficient capital structure of reserves consistent with the Group's risk profile and the regulatory and market requirements of its business

The Group is subject to a number of regulatory capital tests and employs a number of tests to allocate capital and manage risk Overall, the Group meets all of these requirements and has significant resources and financial strength

Restrictions on available capital resources

The available capital of B & C E Insurance Limited and B & C E Financial Services Limited is subject to certain restrictions as to its availability to meet capital requirements In particular for B & C E Insurance Limited, no transfers from the long-term fund can take place without an up to date actuarial valuation

The unrestricted group capital held within reserves is generally available to meet any other requirements including meeting the requirements of the life business However apart from the unrestricted capital of £23 385m (2011 – £22 955m) of B & C E Insurance Limited any transfers of unrestricted capital from other Group companies would be subject to a tax charge The directors of each company therefore do not consider the unrestricted capital to be available to meet requirements of other parts of the group It remains the intention of management to ensure that there is adequate capital to exceed the group's regulatory requirements The Group also takes account of the individual capital assessment which considers certain business risks not reflected in the statutory bases

The group's total available capital resources are £88 311m (2011 – £85 127m) of which £57 192m (2011 – £52 767m) is held by B & C E Insurance Limited and £6 399m (2011 – £5 642m) is held by B & C E Financial Services Limited The capital held by the insurance and financial services businesses is constrained by regulatory requirements This means it may not be possible for the capital to be used to provide funding for other group businesses

	Total Life business reserves 2012 £000	**Other activities 2012 £000**	**Group total 2012 £000**	Total Life business reserves 2011 £000	Restated other activities 2011 £000	Restated group total 2011 £000
Total Reserves	**34,749**	**56,497**	**91,246**	30,508	57,035	87,543
Adjustments onto regulatory basis						
Adjustment to assets	**-**	**-**	**-**	-	-	-
Other adjustments	**(912)**	**(2,023)**	**(2,935)**	(666)	(1,750)	(2,416)
Total available Capital resources	**33,837**	**54,474**	**88,311**	29,842	55,285	85,127

Liability analysis	**Total Life business 2012 £000**	2011 £000
Unit-linked	**8,316**	9,000
Annuities	**84,151**	81,221
Term Assurance gross provision	**192**	217
	92,659	90,438
Term Assurance reinsurer's share	**(15)**	(15)
Technical provisions in balance sheet	**92,644**	90,423

Notes to the financial statements (continued)

22 FRS27 'Life Assurance' (continued)

Capital management

In reporting financial strength, capital and solvency are measured using the regulations prescribed by the Financial Services Authority "FSA" These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company

The company's objectives in managing its capital are

- To match the profile of its assets and its liabilities, taking account the risks inherent in the business,
- To maintain financial strength to support existing business,
- To satisfy the requirements of its policyholders and the FSA

B & C E Insurance Limited is required to hold sufficient capital to meet the FSA's capital requirements Management intends to maintain surplus capital in excess of the minimum solvency requirement, determined in accordance with FSA regulations, to absorb changes in both capital and capital requirements At 31 March 2012, the available capital within the long-term fund was 297% (2011 - 276%) of the capital requirement of £11 4m (2011 - £10 8m)

Movement in capital resources

	2012 £m	2011 £m
Balance as at 1 April	**29 8**	22 4
Impact of data changes	**(0 1)**	(0 6)
Effect of investment variations	**9 8**	3 4
Effect of annuity assumption changes	**(5 4)**	3 7
New business for annuities	**-**	(0 9)
EasyBuild charges received	**5 8**	5 5
Effect of expenses (administration, claims, acquisition and investments)	**(5 0)**	(2 3)
Change in EasyBuild non-unit reserve [1]	**0 7**	0 8
Change in Uninvested unit-linked funds	**(0 6)**	-
Movement in 'other insurance and non-insurance liabilities'	**1.0**	-
Corporation tax	**(1 5)**	(1 6)
Other	**(0 7)**	(0 6)
Balance at 31 March	**33.8**	29 8

Notes

1 *Includes allowance for EasyBuild assumption changes and reserves established for new business*

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities It is also sensitive to assumptions and experience relating to persistency, expenses and mortality

The most significant sensitivities arise from the following risks

- Expense risk in relation to the costs of acquiring and administering the business within the long-term fund
- Market risk in relation to unit-linked pensions business which would arise if the rate of return on unit funds was less than expected leading to a reduction in anticipated annual management charges
- Market risk in relation to fixed interest securities backing liabilities, which would arise if the return was lower than assumed in the calculation of the liabilities
- Mortality risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used in the calculation of the liabilities

The timing of any impact on capital would depend on the interaction of past experience and assumptions about the future In general, if experience deteriorates then assumptions relating to future experience would be changed to reflect this In this way, liabilities would increase in anticipation of future events with an immediate impact on the capital position

Notes to the financial statements (continued)

23. Financial commitments

At 31 March 2012 the group had annual commitments under non-cancellable operating leases for motor vehicle and office machinery assets expiring as follows:

	GROUP		COMPANY	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Within one year	**257**	131	**257**	131
Within two to five years	**231**	124	**231**	124
After five years	**-**	16	**-**	16
	488	271	**488**	271