

# **Building and Civil Engineering Holidays Scheme Management Limited**

Annual report and financial statements  
for the year ended 31 March 2014

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## Highlights

The headline benefit level for the Employee Accident Cover and Employee Life Cover products was increased from £25,000 to £30,000. This increase was effective from 1 May 2014 and is to be provided at no additional cost to employers.

B&CE won DC Provider of the Year (Bundled / Full Service Providers) award at the Professional Pensions UK Pensions Awards 2014.

B&CE also won Mastertrust Provider of the Year award at the Pension and Investment Provider Awards 2014 and was also highly commended in the Auto-Enrolment Provider category.

In February 2014 B&CE retained the financial strength rating of B (Strong) from AKG.

A total of £94 million was paid out from B&CE's pension schemes during the year.

B&CE completed a Part VII transfer of its existing book of annuity business during the year as part of a risk reduction exercise.

B&CE continued to support the B&CE Charitable Trust, providing £250,000 of funding during the year.

The People's Pension continued to accept significant numbers of members into the Scheme during the year.

As at 31 March 2014, the Scheme had over 580,000 members from over 1,000 participating companies.



## Chairman's statement



I am delighted to have joined B&CE at such an important time in its development, and would like to introduce myself to you in this, my first, Chairman's statement.

First, on behalf of the Board, I would like to thank my predecessor, Sir John Chilcot, for his 14 years of service. Sir John steered the Board through a number of significant events over his time as Chairman and I am sure you will join me in wishing him all the best for the future.

B&CE is unique within the financial services industry. As a not-for-profit organisation, with its roots in the construction industry, we place the welfare of our members at the centre of everything we do.

Our company was formed through collaboration with the Employer Federations and Trade Unions, representing employees and employers within the construction industry. Together with the experience and skills gathered from those working in the financial services industry, as well as a constant drive to deliver value to members, our structure provides the foundation required to deliver exceptional benefits to our members.

Building on our core ethos to improve the financial wellbeing of our members, in 1991 B&CE set up a Charitable Trust for the benefit of workers in the construction industry, and their families, to help alleviate individual financial strain and hardship. Since then, over £2 million has been paid out through the Trust and £250,000 was donated in 2013/14 alone. The focus of the Trust during 2014/15 will be to continue to build links with construction industry-specific causes and also to identify other worthy areas for the Trust to consider and support.

Automatic enrolment is one of the biggest changes to affect pension provision in a generation. The success of The People's Pension, B&CE's rapidly growing automatic enrolment proposition, indicates our strength at providing a low cost, high quality and wholly transparent product that is focused on the needs of our members. This bodes very well for the future.

Our recent awards for DC Provider of the Year and Mastertrust Provider of the Year provide excellent recognition of what we have achieved and reflect the hard work, great customer service and innovation that B&CE has brought to the industry - it's been truly transformational.

Much has been achieved, but much more still remains to be done. There are a number of challenges which we must address; most notably, transitioning to more efficient ways of operating whilst maintaining our high standards of customer service. I am confident that by working together – Board, Executives, staff and members – B&CE is more than capable of meeting the many challenges and maximising the numerous opportunities that lie ahead.

A handwritten signature in black ink that reads "Babloo Ramamurthy". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Babloo Ramamurthy  
Chairman  
5 August 2014

# An introduction to B&CE

## Who are we?

B&CE is a not-for-profit organisation, which operates for the benefit of its members and their dependants. Established in 1942 and founded in construction, B&CE's current offerings include a workplace pension, employee accident cover, employee life cover and employee healthcare. B&CE manages assets of £2.2 billion, with 2.3 million members and provides financial benefits to over 800,000 contributing members and on behalf of over 9,000 corporate accounts (Information correct as of 31 May 2014).

For over 30 years, B&CE has been providing workplace pensions to employers both large and small with transient, low-to-moderate earning workforces. In 2011, B&CE launched The People's Pension, a product to assist employers in complying with their automatic enrolment duties. The People's Pension is a flexible and portable workplace pension scheme designed for people, not profit and is suitable for any organisation, large or small, in any sector.

B&CE has won a number of awards, as the provider of The People's Pension, including 'DC Provider of Year' at the UK Pensions Awards 2014, 'Best Mastertrust Provider' at the 2014 Pension and Investment Provider Awards (PIPs), 'Auto-Enrolment Provider of the Year' at the UK Pensions Awards 2013 and 'Best DC Mastertrust' at the 2013 PIPs.

## Our Purpose

At B&CE we are dedicated to improving the financial wellbeing of our members. As a not-for-profit organisation, any surpluses are used for the benefit of our members, whether it is through product improvements, lower charges or donations to our charitable organisation – the Building and Civil Engineering Charitable Trust ('the B&CE Charitable Trust') – **"we work for people not for profit"**.

One of the fundamental ways we do this is by producing and delivering exceptional cost-effective financial products and services. This is made possible because we:

- Maintain strong governance which puts members' interests at the heart of our decision making
- Invest in our people
- Build industry-leading administration systems
- Make it easy for employers and their advisers to do business with us

## Our Vision

Auto-enrolment presents us with an excellent opportunity to give our members a quality, low cost pension product which they can use to save for their retirement. For the foreseeable future, we will ensure that we are focused on both the opportunities that auto-enrolment brings and the challenges it creates. We will also ensure we remain efficient in our operations (so our costs and charges remain low) but focused on maintaining and developing our excellent service to our members.

Over time we will enhance the proposition to ensure we retain our existing customer base and attract new ones. Our focus for the next few years will be to deliver this plan and take advantage of the pension opportunity for the benefit of all our members. For this reason our vision remains to be:

*'A leading provider of workplace pensions in the UK'*

We are however, more than just a pension provider. The expansion into the wider whole of market also provides B&CE with a customer and financial base from which to deliver other products and services that can improve the welfare of all our members. Therefore, in addition to pensions, we will strive to develop new products and services that will leverage our reputation and capabilities and ultimately benefit our members.

## An introduction to B&CE (continued)

### Our Values

Our values support our purpose. They spell out our beliefs and how we behave in achieving our Vision to be *"a leading provider of workplace pensions in the UK"*.

- **Creating Simplicity:**

For far too long, financial services and pensions have been made too complicated, but we believe that the majority of people do not need such complexity which can cause unnecessary distrust and expense. We are prepared to challenge convention to make things simpler for our members. Therefore:

- We strip out complexities and remove obstacles, to enable people to make considered decisions in their best interests.
- We make things better and simpler by "doing the right thing", answering the real needs of our members by helping improve their financial wellbeing.

- **Showing Compassion:**

We have strong beliefs and values and care about what we do. We want to make a difference. Therefore, we look for reasons to pay claims, not reject them. We will also invest time dealing with our customers and being sympathetic to, and understanding of, their own personal situation and specific needs.

- We put ourselves in 'other people's shoes'.
- We give people time, listen to what they have to say and care about how they feel.
- We do things the way that works best for our members, not just the way everyone else does them.

- **Keeping Promises:**

Great administration and service is what makes us different. This means ensuring we manage, meet and where possible, exceed the expectations of our members, their employers and other parties with whom we do business.

- We always do what we say we'll do, and we don't stop until it's as good as we can make it.
- We build our business by providing good quality products, and by meeting the needs of our members, their employers and their advisers.

### 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 Benefits Scheme ('the Benefits Scheme') and is also the appointed administrator of the B&CE Charitable Trust.

The Company has two wholly owned subsidiaries; B&CE Insurance Limited and B&CE Financial Services Limited. Collectively the Company and its subsidiaries are referred to as the 'Group' or 'B&CE' throughout the annual report and financial statements.

B&CE Insurance Limited was established with an objective to offer appropriate insurance based products to all who work in the construction industry.

B&CE Financial Services Limited is the administrator for a number of the pension schemes operated by B&CE. 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.

## **An introduction to B&CE (continued)**

### **The B&CE Charitable Trust**

The B&CE Charitable Trust was launched in 1991. It offers financial assistance to construction workers and their families who are suffering hardship. The principal aim of the Trust is to ease the financial distress that illness or changes in domestic circumstances can cause.

Its objectives 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.

### **B&CE's active products**

#### **EasyBuild**

In April 2001, B&CE launched EasyBuild, a stakeholder pension scheme for those who work in the construction industry. Contributions to EasyBuild can be paid by both employers and employees. Members of EasyBuild are charged an Annual Management Charge ('AMC') which is tiered depending on the member's fund size and ranges between 0.60% and 0.95% p.a.

EasyBuild is insured and administered by B&CE Insurance Limited.

#### **The People's Pension**

Workplace pension law changed in October 2012 and from that date, employers began to be required to automatically enrol certain workers into a qualifying workplace pension scheme ('auto-enrolment'). The requirements under the legislation are being phased in between 2012 and 2018. By 2018, the legislation requires those enrolled to pay 5% of their qualifying earnings into a qualifying scheme (unless they choose to opt out) with a further 3% coming from their employer.

B&CE launched The People's Pension (the "Scheme") in November 2011 as an auto-enrolment solution. The Scheme is a multi-employer occupational pension scheme and became operational from October 2012. The Scheme has a concise range of investment options, a flat-rate AMC of 0.5% p.a. and it is available to employers from any sector, regardless of size.

The People's Pension Trustee Limited acts as corporate trustee for the Scheme and B&CE Financial Services Limited is the appointed administrator of the Scheme.

#### **Employee Accident Cover**

In October 2010, B&CE launched Employee Accident Cover ('EAC'). Employers pay weekly premiums to provide cover for their staff. Employees are covered for a range of injuries for accidents at work, or travelling to or from work. Payments depend on the injury and are subject to a maximum limit. From 1 May 2014, the maximum qualifying injury cover increased from £25,000 to £30,000.

EAC is insured and administered by B&CE Insurance Limited.

#### **Employee Life Cover**

In October 2010, B&CE launched Employee Life Cover ('ELC'). ELC is a death benefit only occupational pension scheme. Employers pay weekly premiums to provide cover for their staff. The cover provides a tax-free lump sum, with the beneficiaries chosen at the discretion of a corporate trustee. From 1 May 2014, the standard lump sum payable increased from £25,000 to £30,000 and the benefit doubles if the death is the result of an accident at work. Double and triple levels of cover are also available. The product also includes death cover for employees incapacitated or unemployed prior to their State Retirement Age.

Building and Civil Engineering Benefit Scheme Trustee Limited acts as corporate trustee to the scheme and B&CE Financial Services Limited is the appointed administrator.

## **An introduction to B&CE (continued)**

### **TUTMAN B&CE Contracted-out Pension Scheme**

The TUTMAN B&CE Contracted-out Pension Scheme ('BCECOPS') was launched in 1988. It is a unit-linked personal pension plan that helped employed construction workers build up their savings to provide an income in retirement by contracting-out of the State Second Pension. Under the scheme, a member elected for part of their own and their employer's National Insurance contributions to be paid into their own pension arrangement. The Government stopped contracting out for defined contribution schemes from 6 April 2012. We will continue to look after the scheme on behalf of our deferred membership.

Thesis Unit Trust Management Limited ('TUTMAN') is the scheme manager and B&CE Financial Services Limited is the scheme administrator and scheme registrar.



## An introduction to B&CE (continued)

### 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, unless otherwise stated.



**Babloo Ramamurthy**

Independent Chairman  
Appointed 8 November 2013  
Attendance 4/4



**The Rt. Hon. Sir John Chilcot GCB**

Independent Chairman  
Retired 8 November 2013  
Attendance 3/3



**John Allott**

Industrial Employee Representative  
National Officer for Construction: Unite the Union  
Attendance 6/6



**Bob Blackman MBE**

Industrial Employee Representative:  
Representing Unite the Union  
Attendance 6/6



**James O'Callaghan**

Employer Representative  
Nominated by: Civil Engineering Contractors Association (CECA)  
Attendance 5/6



**Phil Davies**

Industrial Employee Representative  
National Secretary: GMB  
Attendance 2/6



**Harry Frew**

Industrial Employee Representative  
Scotland Regional Secretary: UCATT  
Attendance 6/6



**Geoff Lister CBE**

Employer Representative  
Nominated by: Federation of Master Builders (FMB)  
Attendance 5/6



**Stephen Murphy**

Industrial Employee Representative  
General Secretary: UCATT  
Attendance 3/6



**Peter Rogerson OBE**

Employer Representative  
Nominated by: National Specialist Contractors Council (NSCC)  
Attendance 4/6



**Brian Rye**

Industrial Employee Representative  
Regional Secretary for the Eastern Region: UCATT  
Attendance 6/6



**David Smith**

Employer Representative  
Nominated by: Scottish Building Federation (SB)  
Attendance 6/6



**John Spanswick CBE**

Employer Representative  
Nominated by: UK Contractors Group (UKCG)  
Attendance 2/6



**Stephen Terrell**

Employer Representative  
Nominated by: National Federation of Builders (NFB)  
Attendance 6/6

John Spanswick and Stephen Murphy are due to retire at the annual general meeting and are also due for reappointment by UKCG and UCATT respectively.

## An introduction to B&CE (continued)

### Senior Management Team

The day to day operation of B&CE is the responsibility of the Senior Management Team. The following are the current members of that team:



**Patrick Heath-Lay**

Chief Executive Officer



**Jamie Fiveash**

Chief Operating Officer



**Zoe Wright**

Head of People and Organisational Development



**Richard Cole**

Director of IT and Group Services



**Sam Stedman**

Director of Finance



**Matthew Phillips**

Director of Risk and Regulatory Compliance



**Mark Plant**

Director of Strategic Delivery



**Darren Philp**

Director of Policy and Market Engagement

Joined 1 October 2013



**Roy Porter**

Director of Business Development

Joined 1 August 2014

### Group Company Secretary and Registered Office

Clair Milton  
B&CE Benefit Schemes  
Manor Royal  
Crawley  
West Sussex  
RH10 9QP

### Bankers

HSBC Bank plc  
9 The Boulevard  
Crawley  
West Sussex  
RH10 1UT

### Independent auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
The Portland Building  
25 High Street  
Crawley  
West Sussex  
RH10 1BG

### Solicitors

Field Fisher Waterhouse LLP  
Riverbank House  
2 Swan Lane  
London  
EC4R 3TT

## Strategic report

The Directors present the strategic report of Building and Civil Engineering Holiday Scheme Management Limited for the year ended 31 March 2014.

### The business model

The Group's activities are focussed on delivering positive outcomes for construction industry employees and employers. We seek to design quality financial products which meet the needs of our members. Some of our products are specifically designed for the construction industry while others are made available to the whole of market.

### Principal activities

The Group provides the financial benefits listed on pages 5 and 6. The benefits are largely focused on the construction industry, although more recently we have created a whole of market offering through The People's Pension.

The People's Pension is currently the primary focus in terms of the Group's resource. Through The People's Pension, we believe that we have secured the construction industry's pension scheme of choice and can use automatic enrolment as a platform to help build a better future for all of our members.

### KPIs

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.

The main focus for the Group in recent years has been to build scale within B&CE's pension schemes through enrolment of active employees into The People's Pension. There were 1,078,160 members in EasyBuild and The People's Pension (combined) as at 31 March 2014 (2013: 509,635), of which 560,484 were actively making contributions (2013: 99,881). This figure had been in decline for a number of years, but has increased sharply in the past 12 months following the introduction of the new auto-enrolment legislation.

Another priority has been to retain membership within the Group's accident and life products. The loss of the National Insurance (NI) concession in 2012 effectively increased the cost of offering accident and life cover for employers – as the NI concession was used to subsidise other employee benefits provided by B&CE. The number of employers choosing to provide accident and life cover for their staff has subsequently fallen, which was expected. The number of individuals covered by ELC and EAC has reduced to 145,158 (2013: 166,587).

As well as building scale, we are also committed to continue to deliver the highest level of service despite the increase in customer numbers. All of our staff work to rigorous Service Level Agreements (SLAs) to ensure we maintain our high levels of service. We are proud of our service record, with less than 0.0001% of complaints (out of total membership). Although 187 complaints were received during the year (2013: 65), this was anticipated given the increased number of customers in the year.

### Business review and future developments

#### Chief Executive Officer's overview

The past 12 months have proved to be a watershed year for B&CE. Auto-enrolment has now been implemented by the UK's largest employers. This Government initiative has largely proved to be a success with over three million people having been enrolled into schemes and opt-out rates remaining extremely low. These pension reforms are much needed and it is a big step on the road to encouraging a culture of saving to ensure that people have sufficient income in their old age – a culture that B&CE has been promoting for many years.

## Strategic report (continued)

### *The People's Pension*

We feel that we have certainly played our part in the success of auto-enrolment and this has very much been our focus over the past year. By the end of the year, membership of The People's Pension had increased to 581,345 (2013: 10,750) which was beyond our expectations at the start of the year. Since the end of the year membership has continued to grow and had reached 850,000 by the end of June 2014.

We have also evolved to become an award-winning pension provider, with our peers in the pension industry recognising the quality and strength of our proposition. The recent successes at the 2014 UK Pensions Awards (Winner of DC Provider of the Year) and at the 2014 Pension and Investment Provider Awards (Winner of Mastertrust Provider of the Year, as well as highly commended in the Auto-Enrolment Provider category) were fantastic achievements.

Membership is expected to continue to increase significantly in the coming years as employers reach their auto-enrolment staging date and enrol their employees into The People's Pension. The number of participating employers in particular will increase sharply given the vast number of smaller employers who are still required to enrol employees compared to the relatively small number of large companies that have staged already.

### *Construction*

As well as the new employers that we are working with on their auto-enrolment needs, we are of course continuing to work with over 4,000 existing construction employers who we are already providing pension arrangements through EasyBuild. Construction remains our core purpose and we will be working with these employers closely to assist them through auto-enrolment in the coming years.

We also continue to provide construction employers with group accident and life arrangements for their workforces – and I am pleased that we were recently able to increase the headline benefit rates for both arrangements from £25,000 to £30,000 at no additional cost to the industry. As mentioned earlier, the membership within these schemes has fallen in recent years. It is hoped that the improvements that we have made to the products will reverse this decline to ensure that as many employees as possible have access to these valuable benefits.

There are signs that the construction industry, and the UK economy as a whole, are recovering and this should help to boost membership in our schemes going forward. Construction was of course hit hard by the global financial crisis in 2008 and employment in the industry has fallen significantly as a result. However, there does appear to be some cause for optimism with activity now reaching pre-crisis levels driven by a surge in housebuilding.

### *Other schemes*

EasyBuild membership fell very slightly during the year to 496,815 (2013: 498,885), but active membership fell more significantly to 60,894 (2013: 89,261). The trend of falling active membership is one that is set to continue through the phased introduction of auto-enrolment, as employers switch their pension arrangements to schemes geared up for auto-enrolment, such as The People's Pension. Despite the reduction in membership, EasyBuild's assets under management grew significantly during the period, boosted by strong investment growth. The overall assets were valued at £873m at the end of the period (2013: £827m).

We also continue to provide administration services for the Building and Civil Engineering Benefits Scheme and the TUTMAN B&CE Contracted-Out Pension Scheme – both of which are in run off. The sizes of these schemes at the end of the period were £713m (2013: £740m) and £240m (2013: £249m) respectively.

### *Financial stability*

The financial stability of the Group has improved again during the year as explained in more detail in the 'financial review' section of this report. Profit for the year totalled £10.4m (2013: £5.5m). We are pleased to report that our solvency position has continued to improve during the year and that we also retained our rating of B (strong) from the actuarial consultancy firm AKG in February 2014.

An important step that we have taken during the year is to complete a Part VII transfer of our existing annuity policies to Partnership Life Assurance Company Limited ('Partnership'). These policies were previously insured by B&CE Insurance Limited and reinsured with Partnership until 31 October 2013, when the transfer was completed. This step was taken in order to transfer the business to a specialist annuity provider and to reduce B&CE's risk exposure.

## Strategic report (continued)

### *Future developments*

The immediate focus of the Group's activities will be to continue to support employers through their auto-enrolment duties. Membership of The People's Pension is expected to continue to escalate rapidly over the coming months. The number of employers that will need to enrol their workforce into qualifying pension schemes will be much higher in 2014 than it was in 2013, which creates a challenge for us – as well as a significant opportunity – as it does for the rest of the pensions industry.

Dealing with the changes announced in the Budget 2014 allowing people greater freedom as to how they access their pension is also a priority in the short term. We will be working on our systems to ensure that customers and members are able to access their pensions in a more flexible way from April 2015. We are also in the process of reviewing the default investment strategies for the schemes affected by the new legislation and will be engaging with stakeholders about this over the coming months.

The volume of change within the business is likely to remain very high for the foreseeable future. The number of staff employed by the Group has increased in the past 12 months and will increase further in the year ahead. This will be essential to ensure B&CE has adequate resources to fulfil its plans and as such, costs are anticipated to increase further as a result.

Looking forward, we also need to consider the work we will be undertaking outside of The People's Pension. One area of particular focus for the year ahead will be the resources and welfare activities of the B&CE Charitable Trust, which we will look to develop through a clearly defined and funded strategy.

### *Exceptional service*

As always, it remains 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.

In order to maintain and improve our high service levels, we record the dealings/correspondence with every employer and adviser, allowing us to look at feedback from them regarding the service they have received. With this level of detail, we are able to analyse individual levels of satisfaction. It also allows us to identify trends in feedback that we may wish to investigate more fully and provide a solution for.

***"I was absolutely delighted on your swift and efficient service, which is exceptional and a credit to your staff"***

***"I was unaware that I had money owing to me, and to be notified after all this time was a wonderful surprise. Myself and my wife are both receiving small pensions so this amount of money is a real windfall for us both"***

***"Would you please pass on my thanks to the trustees [of the B&CE Charitable Trust] as without the help of the grant you generously awarded, it would not have been possible to achieve this outcome."***

***"I would like to thank you all for your help, first class and excellent service. If all companies were like this, life would be so much easier"***



Patrick Heath-Lay  
Chief Executive Officer  
5 August 2014

## Strategic report (continued)

### Financial review

The consolidated Group financial statements are shown on pages 23 to 26. The consolidated profit for the year was £10.4m (2013: £5.5m). The main variances compared to last year are as follows:

- Turnover for the year totalled £15.4m (2013: £14.9m).
  - Turnover from insurance business increased to £8.8m (2013: £8.1m). The increase has been driven by a rise in the value of EasyBuild's assets under management which have therefore generated larger fees. The assets under management have continued to increase during the year through a combination of new premium receipts and investment growth.
  - Management fees totalled £6.3m for the year (2013: £6.4m) which was much in line with the previous year.
- Net operating expenses decreased to £12.7m (2013: £24.3m).
  - Net operating expenses (excluding movements in long-term insurance provisions) have decreased to £15.5m (2013: £16.3m). Operating costs have increased significantly, driven by the need for additional staff to service the greatly increased customer base. Other costs have also increased as a result of this growth, such as communication costs and regulatory levies. However, these increases have been offset by decreases elsewhere, most notably a £1.7m decrease in annuity payments (net of reinsurance) following the transfer of B&CE's annuity policies to Partnership.
  - Insurance business provisions decreased by £2.8m (2013: £8.0m increase). This decrease was largely due to the release of reserves, which had been held for the risk of Partnership's default prior to the completion of the Part VII annuity transfer.
- Other operating income was £4.0m for the year (2013: Nil). This represents assets returned to the Company on closure of the Building and Civil Engineering Accident Benefit Scheme. The scheme closed in November 2013 and had been supported by the company through capital transfers and subsidies.
- Income from other fixed asset investments totalled £4.3m (2013: £16.2m).
  - There were realised losses on investments of £0.2m (2013: £14.9m realised profit). The large gains in the prior year were a one off when assets were transferred to Partnership in consideration for the annuity reinsurance transaction carried out in 2012.
  - Unrealised investment gains totalled £1.0m for the year (2013: £3.8m loss) with the Group benefiting from having exposure to equity assets in its investment portfolio.

Over the 12 months to 31 March 2014, there was strong performance in the UK equity market with the FTSE All-Share Index returning 8.8% (on a total returns basis). Indeed, 2013 was seen by many as a turning point for the global economy as the macroeconomic environment improved in developed economies, albeit with some periods of volatility and uncertainty.

The majority of the Group's investments are invested in fixed interest securities which fell in value and somewhat offset the gains on equity-based instruments. UK Government bond yields have bounced back as the economic recovery has gained momentum and the prospect of a rise in interest rates no longer appears quite so distant.

  - Income from listed investments also fell to £3.5m (2013: £5.1m). The Group now holds fewer corporate bonds following the transfer of the annuity business to Partnership.
- The tax charge for the year was £1.2m (2013: £1.9m).

The profits made during the year have helped to improve the Group's capital position with total available capital resources increasing to £105.4m (2013: £97.8m) as shown on page 46.

## Strategic report (continued)

As discussed above, the Group's operating expenses (excluding movements in long-term insurance provisions and annuity payments) have increased during the year and are expected to increase further going forward. The additional cost incurred 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 in the long term.

The costs of operating The People's Pension are borne by B&CE Financial Services Limited, which is the appointed administrator of the scheme. An administration fee is paid in respect of this service – although the fee will be significantly lower than the costs incurred for a number of years, until the fund is sufficiently large enough for the fees to cover the expenses.

In order to support the growth of The People's Pension, the Company has injected additional share capital into B&CE Financial Services Limited. In total, £7m was injected during 2013/14 and the Company has approved a further £3.5m to be transferred before 30 September 2014. This funding has been partially supported by B&CE Insurance Limited which paid a £3.5m dividend to the Company in 2013.

### Risk management

#### Risk management framework

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 the Company's Senior Management Team, 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 of the Company's Board of Directors. The Senior Management Team and the Internal Audit and Risk Management functions 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.

#### Principal risks and uncertainties

As part of the process of identifying, assessing and managing the Company's ongoing risks, the Senior Management Team has identified the current principal risks and uncertainties for the Group:

| <i>Risk Description</i>   | <i>Management</i>   |
|---|---|
| <p><b><i>Market conditions and investment</i></b></p> <p>A market downturn would have a detrimental impact in a number of ways. Most notably it will influence our ability to maximise investment returns for members of our pension schemes, which in turn will have a detrimental impact on the Group's income.</p> | <p>a. We have documented investment strategies in place which we believe have an appropriate balance between risk and reward and these are overseen by B&amp;CE's Investment Committee.</p> <p>b. Fund manager performance is monitored closely by B&amp;CE's Investment Committee and professional advisers are used where additional investment expertise is felt to be required.</p> |

## Strategic report (continued)

| <i>Risk Description</i>  | <i>Management</i>  |
|--|--|
| <p><b>Capacity</b></p> <p>Business volumes have increased significantly over the past 12 months, and are anticipated to grow further in the coming years. In particular, the number of employer customers using The People's Pension is anticipated to escalate rapidly in the coming years given the growing number of employers that will be required to automatically enrol their staff into a qualifying pension scheme.</p> <p>Failure to achieve the desired evolution in our operations could impact on our ability to provide excellence at all stages of our interactions with employer customers, third parties and members.</p> | <ol style="list-style-type: none"> <li>We have documented capacity risk action plans in place which we believe will evolve and enhance our operations and enable us to continue to deliver our award-winning service.</li> <li>We have developed and launched an online facility for employers and their advisers to sign up to The People's Pension. As a result, the process is now far more efficient and allows us to deal with a far greater number of new employer customers and advisers.</li> <li>We have plans to continue to develop our processes, investing in technology and innovation so that employers and members will have ease and flexibility to self-service, while still receiving our valued support.</li> <li>We have a strong focus on recruiting and retaining the most talented people. We have aligned our recruitment strategy to deliver our future operational vision.</li> </ol> |
| <p><b>Government policy and regulation</b></p> <p>Good governance practices are essential for the operation of B&amp;CE. In addition to ensuring compliance with existing requirements, we are active in monitoring potential future developments.</p> <p>Changes in law and regulation can have a significant impact on our operating model – both positive and negative. We currently in a period of significant regulatory change, particularly in the pensions industry.</p>   | <ol style="list-style-type: none"> <li>We actively engage with regulators and Government bodies, often with our stakeholders, to support and develop the industry and the interests of our members.</li> <li>We have proactive engagement with the Government and with regulators such as the Financial Conduct Authority and The Pensions Regulator.</li> </ol>   |
| <p><b>Business interruption</b></p> <p>Like many other organisations, we have a high reliance on IT for our business activity. As such, a failure in our IT systems could potentially expose us to significant business disruption which would have an impact on our reputation.</p>   | <ol style="list-style-type: none"> <li>We have standards and methodologies for developing, testing and operating our IT systems.</li> <li>We have a dedicated programme delivery team who assist in the delivery of all projects.</li> <li>Our IT systems are regularly maintained and tested to ensure security and reliability.</li> <li>Disaster recovery plans and facilities enable our IT operations to be conducted at a remote location, in the event of the loss of our computer facilities, alongside remotely backed up data.</li> </ol>  |

### Statement of internal control

Over the past 12 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 also demonstrate that B&CE can be confident that it is treating customers fairly.



## Strategic report (continued)

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

The Company's Board has overall responsibility for B&CE's system of internal control and for reviewing their effectiveness. In order to gain greater oversight, the Group has set up B&CE's Group Audit and Risk Committee.

The Group Audit and Risk Committee currently consist 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 16 May, 1 August and 7 November 2013 and 30 January 2014.

The Group Audit and Risk Committee has reviewed the Company's system of internal controls on behalf of the Board. The committee's work has included:

- reviewing reports from the Company's risk management function on the risks facing the business, along with any related, agreed actions;
- the internal audit work plans;
- meeting with the Chief Executive Officer and the internal and external auditors to discuss the system of internal controls and any material weaknesses reported; and
- discussing with the Company's Senior Management Team the actions to be taken to address any potential problem areas identified by Board members or in the audit reports.

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

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 ended 31 March 2014, and no significant weaknesses have been reported.

### Corporate and social responsibility

We are committed through our Corporate Social Responsibility (CSR) strategy to having a positive impact on our industry, local community and the wider society in which we live and work. As a not-for-profit organisation, we are 'for people, not profit'. By engaging with our employees, our customers, our members and all of our stakeholders, we believe we can work together to find innovative solutions to ensure that we create a long-term value and sustainable business.

The focus of the strategy can be divided into the following elements:

- **Protecting the Environment** – managing the impact on our environment and creating relationships with suppliers that are similarly aligned with our CSR principles.
- **The Workplace** – enabling and engaging with our employees to make this a good and safe place to work.
- **The Market Place** – putting our customers at the heart of the business and creating relationships with business partners that are similarly aligned with our CSR principles.
- **Working with the Community** – investing in the local community in which we operate to support initiatives on a business and social level.

We aim to bring this strategy alive through an engaged process of continuous improvement and implementation of best practice into all our business activities. All B&CE employees have a role to play in ensuring our CSR objectives are progressed and collectively achieved.

## Strategic report (continued)

### The B&CE Charitable Trust

The Group has continued to support the B&CE Charitable Trust and donated a further £250,000 during the year (2013: £475,000).

The funding from B&CE has enabled the Charitable Trust to pay numerous grants to individuals in poverty, and also support various construction industry initiatives around training, retraining and research into health and safety issues. Activities undertaken during the past 12 months include a donation of £10,000 to the Mesothelioma UK Trust, which provides support for care and research into asbestos-related diseases and £6,000 to the INTBAU British Apprenticeship Scheme.

### Other charitable activities

We actively encourage our staff to undertake charitable activities via our staff nominated 'Charity of the Year' as well as by supporting individual employees who undertake charitable activities, and promote B&CE, by providing £50 of individual sponsorship support.

In 2013/14 we supported St Catherine's Hospice and raised a total of over £3,000. Our employees have chosen The Chestnut Tree House to be our 'Charity of the Year' for 2014/15. This is the only children's hospice in East and West Sussex, caring for over 280 children and young adults up to 25 years of age with progressive life-limiting conditions. Chestnut Tree House offers support for the whole family including psychological and bereavement support, end of life and short break care and sibling support. Their goal is to provide the best quality of life for children, young people and their families, and to offer a total package of practical, social and spiritual support throughout each child's life, however short it may be. We will support the charity during the year by running a number of fundraising events.

We also plan to help the local community and Sussex Wildlife Trust in a 5 year development plan to regenerate a local wildlife area in Cawter's Brook, Crawley, West Sussex. We will support the development plans by allowing staff to volunteer their services during work time.

### Employees

At the year end, the Company had 206 employees (2013: 164), an increase of 26% since last year. Of our employees, 50% are female and 50% are male. 84% of our workforce is full-time and 16% is part-time.

We recognise that attracting and retaining good people is key to delivering superior performance and customer service. B&CE currently holds an 'Investors in People Bronze Award' following the last assessment in 2013, where we achieved a better overall score than in the previous 2010 assessment.

### Organisation development

The organisation has a core set of organisational values, which are kept at the centre of everything we do. The focus has been to embed these values as well as to increase the knowledge, skills and capabilities of our 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 our people agenda, with the introduction of an improved performance management and development processes in early 2014. It was also pleasing to see that 94% of employees responded to the 2013 staff survey would recommend working for B&CE to a friend.

### Communication

B&CE continues to request employees views and opinions to help understand how people feel within the organisation; through staff surveys, an annual staff conference, 'In-Touch' quarterly newsletters and 'In-Touch' lunches, team briefs, staff presentations, the intranet and a dedicated 'ask the CEO' mailbox. These activities allow for a two-way dialogue with staff, providing the opportunity for the management team to give prompt feedback and initiate any actions required.

## Strategic report (continued)

### *Learning and development*

Our commitment to the learning and development of all of our 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. During 2013 we launched a new Management Development Programme, in order to ensure our managers continue to build on their key management skills in alignment with our overall business objectives.

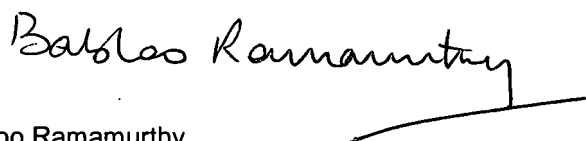
### *Business ethics and values*

We aim to keep standards of business conduct at the forefront of our employee's day-to-day work. For example, our core values are built into, and form an integral part of, our appraisal process for all staff.

### *Equality of opportunity*

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. We are fully committed to a policy of treating all its employees and job applicants equally.

By order of the Board,



Babloo Ramamurthy  
**Chairman**  
5 August 2014

## **Directors' report**

The Directors present their 72<sup>nd</sup> annual report and the audited consolidated financial statements of the Group for the year ended 31 March 2014. The activities of the two subsidiaries are material to the Group and therefore Group financial statements have been prepared.

### **Directors**

The Directors who held office during the year and up to the date of signing this report are shown on page 7.

There were six Board meetings during the year and the average attendance by Directors was 76%.

### **Directors' and officers' liability insurance**

The Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force during the year and also at the date of approval of the financial statements.

### **Corporate governance**

The Company's Board is made up entirely of non-executive Directors with half representing construction employer federations and half representing trade unions, together with an independent chairman. This unique governance structure is designed to ensure that decisions taken are in the best interests of B&CE's members. The subsidiary company boards are made up of Directors from the main Board, executive Directors and independent non-executive Directors with financial services expertise.

There are also three sub-committees which report into the main Board. The Group Audit and Risk Committee, the Investment Committee and the Remuneration and Nominations Committee all meet on a quarterly basis.

Corporate governance is of great importance to B&CE which aims to satisfy the principles of 'good governance' and, where practical, 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. Regular reviews of the effectiveness of the Board as a whole and the Directors are conducted, based on detailed questionnaires and individual interviews, with agreed actions for best practice being implemented.

All Directors have access to the services of the Group Company Secretary who aims to ensure 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.

### **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 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 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&CE Financial Services Limited, and for insurance companies, for B&CE Insurance Limited.

### **Political donations**

There were no donations to political parties during the year (2013: Nil).

## Directors' report (continued)

### Financial risk management

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

#### Credit risk

B&CE Insurance Limited has two reinsurance arrangements in place. These arrangements expose B&CE Insurance Limited to the risk that the reinsurers will be unable to pay amounts in full when due. The Group actively monitors this risk by reviewing their credit rating against other reinsurers in the market.

The Group's transactions in sterling cash deposits and trading with customers expose it to the risk that the counterpart may not repay the amounts owed. In relation to sterling cash deposits, the Group only deals with a list of highly-rated United Kingdom counterparties to reduce the risk that the counterparty will not repay the deposit.

#### Liquidity risk

Financial instruments held by the Group include on demand sterling cash deposits designed to ensure the Group has sufficient available funds for operations.

The terms of the policies written ensure B&CE Insurance Limited is not committed to making payments to unit policyholders 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.

#### Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit and loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

#### Foreign exchange risk

Given the nature of the Group's operations, no significant exposure to foreign exchange risk exists.

### 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) is 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 prepared the Group and the 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; and
- 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,



Babloo Ramamurthy  
**Chairman**

5 August 2014

Company registration number: 00377361

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

## **Report on the financial statements**

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### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

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### **What we have audited**

The group financial statements and company financial statements (the "financial statements"), which are prepared by Building and Civil Engineering Holidays Scheme Management Limited, comprise:

- the group and company balance sheets as at 31 March 2014;
- the consolidated profit and loss account and the statement of group total recognised gains and losses for the year then ended;
- the note of group historical cost profits and losses;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 the 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 and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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## **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion the information given in the Strategic report and 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)**

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### **Other matters on which we are required to report by exception**

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#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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### **Responsibilities for the financial statements and the audit**

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#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' responsibilities 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 ISAs (UK & 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.



Michael Jones (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick  
August 2014



## Consolidated profit and loss account for the year ended 31 March 2014

|   | Notes | 2014<br>£000 | 2013<br>£000 |
|---|-------|--------------|--------------|
| Turnover                                      | 3     | 15,374       | 14,923       |
| Net operating expenses                        | 4     | (12,696)     | (24,291)     |
| Other operating income                        | 3     | 4,037        | -            |
| Operating profit/(loss)                       |       | 6,715        | (9,368)      |
| Income from other fixed asset investments     | 3     | 4,287        | 16,211       |
| Profit before interest and taxation           | 5     | 11,002       | 6,843        |
| Other interest receivable and similar income  | 3     | 555          | 612          |
| Profit on ordinary activities before taxation |       | 11,557       | 7,455        |
| Tax on profit on ordinary activities          | 8     | (1,197)      | (1,922)      |
| Profit for the financial year                 | 17    | 10,360       | 5,533        |

All of the Group's financial activities are continuing.

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

## Statement of Group total recognised gains and losses for the year ended 31 March 2014

|  | Notes | 2014<br>£000 | 2013<br>£000 |
|--|-------|--------------|--------------|
| Profit for the year                                    | 17    | 10,360       | 5,533        |
| Revaluation of fixed asset investments                 | 11    | (523)        | 1,842        |
| Actuarial (loss)/gain on pension scheme                | 20    | (1,002)      | 2,474        |
| Movement on deferred tax relating to pension asset     | 15    | 33           | (110)        |
| Total recognised gains and losses relating to the year |       | 8,868        | 9,739        |

## Note of Group historical cost profits and losses for the year ended 31 March 2014

|   | Notes | 2014<br>£000 | 2013<br>£000 |
|---|-------|--------------|--------------|
| Reported profit on ordinary activities before taxation        | 3     | 11,557       | 7,455        |
| Unrealised (gain)/loss on current asset investments           | 3     | (977)        | 3,792        |
| Historical cost profit on ordinary activities before taxation |       | 10,580       | 11,247       |
| Historical cost profit for the year retained after taxation   |       | 9,383        | 9,325        |

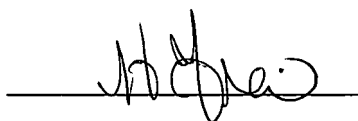
## Balance sheets as at 31 March 2014

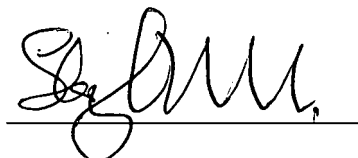
|  |       | Group          |                  | Company        |                |
|--|-------|----------------|------------------|----------------|----------------|
|  | Notes | 2014<br>£000   | 2013<br>£000     | 2014<br>£000   | 2013<br>£000   |
| <b>Benefit Schemes administration</b>          |       |                |                  |                |                |
| <b>Fixed assets</b>                            |       |                |                  |                |                |
| Tangible assets                                | 10    | 3,585          | 3,218            | 3,585          | 3,218          |
| Investments                                    | 11    | 27,741         | 24,334           | 23,346         | 19,660         |
| Investments in subsidiary undertakings         | 12    | -              | -                | 70,550         | 63,550         |
|  |       | <u>31,326</u>  | <u>27,552</u>    | <u>97,481</u>  | <u>86,428</u>  |
| <b>Current assets</b>                          |       |                |                  |                |                |
| Debtors  | 13    | 2,986          | 1,396            | 3,039          | 1,535          |
| Cash at bank and in hand                       |       | 13,506         | 22,227           | 8,828          | 18,685         |
|  |       | <u>16,492</u>  | <u>23,623</u>    | <u>11,867</u>  | <u>20,220</u>  |
| <b>General and long-term insurance</b>         |       |                |                  |                |                |
| Tangible assets                                | 10    | 14             | 24               |                |                |
| Investments                                    | 11    | 72,678         | 72,066           |                |                |
| Assets held to cover linked liabilities        |       | 574            | 397              |                |                |
| Reinsurers share of technical provisions       |       | 871,763        | 912,061          |                |                |
| Debtors and prepayments                        | 13    | 3,541          | 3,350            |                |                |
|  |       | <u>948,570</u> | <u>987,898</u>   |                |                |
| <b>Total assets</b>                            |       | <u>996,388</u> | <u>1,039,073</u> | <u>109,348</u> | <u>106,648</u> |
| <b>Benefit Schemes administration</b>          |       |                |                  |                |                |
| Creditors: amounts falling due within one year | 14    | 10,138         | 16,415           | 10,072         | 16,386         |
| <b>General and long-term insurance</b>         |       |                |                  |                |                |
| Long-term business provision                   | 16    | 6,507          | 94,915           |                |                |
| Technical provision for linked liabilities     |       | 872,322        | 827,077          |                |                |
| Provision for other risks                      | 15    | 210            | 269              |                |                |
| Creditors: amounts falling due within one year | 14    | 1,501          | 2,226            |                |                |
| <b>Total liabilities</b>                       |       | <u>890,678</u> | <u>940,902</u>   | <u>10,072</u>  | <u>16,386</u>  |
| <b>Net assets excluding pension asset</b>      |       | <u>105,710</u> | <u>98,171</u>    | <u>99,276</u>  | <u>90,262</u>  |
| <b>Pension asset</b>                           | 20    | <u>4,143</u>   | <u>2,814</u>     | <u>4,143</u>   | <u>2,814</u>   |
| <b>Net assets including pension asset</b>      |       | <u>109,853</u> | <u>100,985</u>   | <u>103,419</u> | <u>93,076</u>  |

**Balance sheets as at 31 March 2014 (continued)**

|                         |       | Group          |              | Company        |              |
|-------------------------|-------|----------------|--------------|----------------|--------------|
|                         | Notes | 2014<br>£000   | 2013<br>£000 | 2014<br>£000   | 2013<br>£000 |
| <b>Reserves</b>         |       |                |              |                |              |
| Profit and loss reserve | 17    | <b>108,451</b> | 99,060       | <b>102,067</b> | 91,481       |
| Revaluation reserve     | 17    | <b>1,402</b>   | 1,925        | <b>1,352</b>   | 1,595        |
| <b>Total funds</b>      | 18    | <b>109,853</b> | 100,985      | <b>103,419</b> | 93,076       |

The financial statements on pages 23 to 49 were approved by the Board of Directors on 5 August 2014 and were signed on its behalf by:

 Director  
H. FREW

 Director  
S. TERRELL

Registered number.: 00377361

## Consolidated cash flow statement for the year ended 31 March 2014

|   | 2014            | 2013            |
|---|-----------------|-----------------|
|   | £000            | £000            |
| <b>Net cash outflow from operating activities</b>                                       | <b>(13,669)</b> | <b>(47,955)</b> |
| <b>Return on investments and servicing of finance</b>                                   |                 |                 |
| Interest received   | 1,862           | 2,272           |
| <b>Net cash inflows from returns on investments and servicing of finance</b>            | <b>1,862</b>    | <b>2,272</b>    |
| <b>Taxation</b>   | <b>673</b>      | <b>(1,756)</b>  |
| <b>Capital expenditure and financial investment (Note 25 A)</b>                         | <b>(731)</b>    | <b>(12,657)</b> |
|   | <b>(11,865)</b> | <b>(60,096)</b> |
| <b>Management of liquid resources (Note 25 A)</b>                                       | <b>-</b>        | <b>21,172</b>   |
| <b>Decrease in net cash</b>   | <b>(11,865)</b> | <b>(38,924)</b> |
| <b>Reconciliation to net cash</b>   |                 |                 |
| <b>Net cash at 1 April (Note 25 B)</b>  | <b>27,882</b>   | <b>87,978</b>   |
| <b>Decrease in net cash</b>   | <b>(11,865)</b> | <b>(38,924)</b> |
| <b>Movement in liquid resources</b>   | <b>-</b>        | <b>(21,172)</b> |
| <b>Net cash at 31 March</b>   | <b>16,017</b>   | <b>27,882</b>   |
| <b>Reconciliation of operating profit to net cash outflow from operating activities</b> |                 |                 |
| Operating profit/(loss) (see note below)  | 1,695           | (1,265)         |
| Depreciation charges  | 413             | 342             |
| Loss on sale of tangible assets   | -               | 4               |
| Difference between pension charge and cash contributions                                | (1,916)         | (1,168)         |
| (Increase)/decrease in debtors  | (1,931)         | 597             |
| Decrease in creditors   | (8,001)         | (46,465)        |
| Other non cash changes  | (3,929)         | -               |
| <b>Net cash outflow from operating activities</b>                                       | <b>(13,669)</b> | <b>(47,955)</b> |

### Note:

In accordance with FRS1 (revised) the operating profit above excludes the long-term insurance operating profit of £5.020m (2013: operating loss of £8.103m).

## 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 financial statements in accordance with Schedule 6 to SI 2008/410. However, as permitted by the Act the financial statements formats have been adapted, as necessary, to give a true and fair view of the state of affairs and the profit 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&CE Insurance Limited and B&CE Financial Services Limited. Uniform accounting policies have been applied across the Group. Intercompany 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 all investment disposals is recognised in the consolidated profit and loss account under income from other fixed asset investments. The unrealised profit or loss on current asset investments and B&CE Insurance Limited investment assets are recognised in the consolidated profit and loss account under income from other fixed asset investments.

Unrealised profits on fixed asset investments are recognised in the statement of Group 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 income from other fixed asset investments 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 Group total recognised gains and losses.

Investments held as current assets are stated at market value.

In the Company's financial statements, 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 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 reinsurance contracts

Long-term business is ceded to reinsurers 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 22).

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

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   |

#### Turnover

Turnover represents fees (excluding value added tax) and premium income (excluding insurance premium tax) receivable, measured at fair value of the services provided, net of VAT (if applicable), and recognised when the right to consideration has been earned. Sales between Group companies are excluded. Details of the Group's products and services are included in the strategic report.

#### Defined benefit scheme

The Group operates a defined benefit pension scheme for the benefit of a group of its employees, the assets of which are held separately from those of the Group in independently administered funds. The scheme closed to new members from 4 January 2014.

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.

#### Defined contribution scheme

Since the defined benefit pension scheme closed to new entrants on 4 January 2014, the Group provides a defined contribution arrangement for employees in B&CE's trust based The People's Pension Scheme, whose assets are independent of the Group. Employer contributions into The People's Pension Scheme are accounted for on an accruals basis at the end of the month in which the liability arises.

## Notes to the financial statements (continued)

### 1. Principal accounting policies (continued)

#### 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.

#### 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.

#### Current taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations on which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### Debtors and creditors

Debtors and creditors are held at cost, subject to impairment in value if it is considered permanent.

#### Net 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.

#### Other operating income

Other operating income relates to income arising from the Group's operations other than those related to the principal activities of the Group.

### 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                |                    |
|--|---------------------------------------|---------------------------|--------------------|---------------------------------------|---------------------------|--------------------|
|  | 2014<br>£000                          | 2013<br>£000              | 2014<br>£000       | 2013<br>£000                          | 2014<br>£000              | 2013<br>£000       |
| <b>Business Analysis</b>                                     |                                       |                           |                    |                                       |                           |                    |
| Benefit Schemes administration                               | 6,567                                 | 6,841                     | 3,160              | 378                                   | 43,210                    | 37,574             |
| Insurance business   | 8,807                                 | 8,082                     | 8,397              | 7,077                                 | 66,643                    | 63,411             |
|  | <u>15,374</u>                         | <u>14,923</u>             | <u>11,557</u>      | <u>7,455</u>                          | <u>109,853</u>            | <u>100,985</u>     |
|  |                                       |                           |                    |                                       |                           |                    |
|  |                                       | <b>2014</b>               |                    |                                       | <b>2013</b>               |                    |
|  | <b>Benefit Schemes administration</b> | <b>Insurance business</b> | <b>Group total</b> | <b>Benefit Schemes administration</b> | <b>Insurance business</b> | <b>Group total</b> |
|  | £000                                  | £000                      | £000               | £000                                  | £000                      | £000               |
| <b>Turnover</b>  |                                       |                           |                    |                                       |                           |                    |
| Miscellaneous net income                                     | 247                                   | 87                        | 334                | 424                                   | 269                       | 693                |
| Management fees  | 6,320                                 | -                         | 6,320              | 6,417                                 | -                         | 6,417              |
| Insurance business – general                                 | -                                     | 1,441                     | 1,441              | -                                     | 1,681                     | 1,681              |
| Insurance business – long-term                               | -                                     | 7,279                     | 7,279              | -                                     | 6,132                     | 6,132              |
|  | <u>6,567</u>                          | <u>8,807</u>              | <u>15,374</u>      | <u>6,841</u>                          | <u>8,082</u>              | <u>14,923</u>      |
| <b>Other operating income</b>                                |                                       |                           |                    |                                       |                           |                    |
| Miscellaneous income   | 4,037                                 | -                         | 4,037              | -                                     | -                         | -                  |
| <b>Income from other fixed asset investments</b>             |                                       |                           |                    |                                       |                           |                    |
| Income from listed investments                               | 1,163                                 | 2,370                     | 3,533              | 1,365                                 | 3,725                     | 5,090              |
| Profit on investments:-                                      |                                       |                           |                    |                                       |                           |                    |
| Realised (loss)/profit                                       | -                                     | (223)                     | (223)              | 522                                   | 14,391                    | 14,913             |
| Movement on current asset and insurance business investments | -                                     | 977                       | 977                | -                                     | (3,792)                   | (3,792)            |
|  | <u>1,163</u>                          | <u>3,124</u>              | <u>4,287</u>       | <u>1,887</u>                          | <u>14,324</u>             | <u>16,211</u>      |
| <b>Other interest receivable and similar income:-</b>        |                                       |                           |                    |                                       |                           |                    |
| Interest   | 145                                   | 28                        | 173                | 279                                   | 17                        | 296                |
| Other financial income                                       | 382                                   | -                         | 382                | 316                                   | -                         | 316                |
|  | <u>527</u>                            | <u>28</u>                 | <u>555</u>         | <u>595</u>                            | <u>17</u>                 | <u>612</u>         |
| <b>Insurance expenses within net operating expenses:-</b>    |                                       |                           |                    |                                       |                           |                    |
| Acquisition costs long-term general                          |                                       | (1,920)                   |                    |                                       | (1,467)                   |                    |
|  |                                       | (333)                     |                    |                                       | (219)                     |                    |
| Administration costs long-term general                       |                                       | (2,337)                   |                    |                                       | (2,609)                   |                    |
|  |                                       | (273)                     |                    |                                       | (137)                     |                    |
| Claims long-term general                                     |                                       | (912)                     |                    |                                       | (2,421)                   |                    |
|  |                                       | (375)                     |                    |                                       | (362)                     |                    |
| Provision long-term  |                                       | 2,822                     |                    |                                       | (8,006)                   |                    |
| General expenses   |                                       | (235)                     |                    |                                       | (125)                     |                    |
|  |                                       | <u>(3,563)</u>            |                    |                                       | <u>(15,346)</u>           |                    |



## Notes to the financial statements (continued)

### 4. Net operating expenses

|  | Group         |               |
|--|---------------|---------------|
|  | 2014<br>£000  | 2013<br>£000  |
| Benefit schemes administration - other | 9,133         | 8,945         |
| Insurance business - other             | 6,385         | 7,340         |
|  | <u>15,518</u> | <u>16,285</u> |
| Insurance business - provision         | (2,822)       | 8,006         |
|  | <u>12,696</u> | <u>24,291</u> |

### 5. Profit before interest and taxation

|   | Group        |              | Company      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Profit before interest and taxation is stated after charging: |              |              |              |              |
| Staff costs (Note 6)  | 7,393        | 6,435        | 7,301        | 6,167        |
| Directors' remuneration (Note 7)                              | 347          | 334          | 108          | 99           |
| Operating lease charges (Note 24)                             |              |              |              |              |
| - motor vehicles  | 116          | 118          | 116          | 118          |
| - office machinery  | 169          | 185          | 169          | 185          |
| Depreciation (Note 10)  | 420          | 347          | 410          | 342          |

#### Services provided by the Company's auditors and its associates

During the year the Group obtained the following services from the Company's auditor and its associates:

|  |    |    |    |    |
|--|----|----|----|----|
| Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements | 65 | 39 | 65 | 39 |
| Fees payable to the Company's auditors and its associates for other services:                                    |    |    |    |    |
| The audit of Company's subsidiaries  | 33 | 46 |    |    |
| Audit-related assurance services   | 29 | 43 | -  | -  |
| Tax compliance services  | 14 | 14 | -  | -  |
| Tax advisory services  | 32 | 65 | 5  |    |

#### Notes:

(a) Audit-related assurance services included regulatory reporting on the PRA/FCA/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      |              |
|--|--------------|--------------|--------------|--------------|
|  | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Staff costs during the year amounted to: |              |              |              |              |
| Wages and salaries                       | 6,074        | 5,318        | 6,018        | 5,098        |
| Social security costs                    | 739          | 653          | 703          | 631          |
| Other defined benefit pension costs      | 487          | 464          | 487          | 438          |
| Other defined contribution pension costs | 93           | -            | 93           | -            |
|  | <u>7,393</u> | <u>6,435</u> | <u>7,301</u> | <u>6,167</u> |

Other defined benefit pension costs above are the actuarial FRS17 'Retirement benefits' cost. The employer contributions amounted to £0.396m (2013: £0.413m), employer voluntary deficit contributions £0.521m (2013: £1.25m) and Insurance Company Section 75 Debt contributions £1.486m (Note 20).

Other defined contribution pension costs are in respect of employees who are not members of the defined contribution scheme and have an EasyBuild policy. The Group made contributions into their policies up to December 2013 and from January 2014 all non-members of the defined pension scheme were offered membership in The People's Pension and Company contributions have since been made into their accounts.

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2014<br>Number | 2013<br>Number | 2014<br>Number | 2013<br>Number |
| The average monthly number of staff employed by the Group during the year was: | <u>181</u>     | <u>144</u>     | <u>181</u>     | <u>135</u>     |
| Management   | 8              | 5              | 8              | 5              |
| Clerical   | 169            | 135            | 169            | 126            |
| Manual/Services  | 4              | 4              | 4              | 4              |
|  | <u>181</u>     | <u>144</u>     | <u>181</u>     | <u>135</u>     |

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

### 7. Directors' remuneration

|                      | Group        |              | Company      |              |
|----------------------|--------------|--------------|--------------|--------------|
|                      | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Aggregate emoluments | <u>347</u>   | <u>334</u>   | <u>108</u>   | <u>99</u>    |

## Notes to the financial statements (continued)

### 7. Directors' remuneration (continued)

The aggregate remuneration for the highest paid Director was:

|                             | Group        |              | Company      |              |
|-----------------------------|--------------|--------------|--------------|--------------|
|                             | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Aggregate emoluments        | 81           | 84           | -            | -            |
| Accrued pension at year end | 16           | 21           | -            | -            |

### 8. Tax on profit on ordinary activities

|  | Group        |              |
|--|--------------|--------------|
|  | 2014<br>£000 | 2013<br>£000 |
| a) Analysis of tax charge for the year   |              |              |
| Current tax:   |              |              |
| UK corporation tax on profits of the year (excluding long-term insurance business) | (184)        | 1,162        |
| UK corporation tax on long-term insurance business                                 | 1,440        | 779          |
| Total current tax  | 1,256        | 1,941        |
| Deferred tax (including credit attributable to long-term insurance business)       | (59)         | (19)         |
| Total tax charge   | 1,197        | 1,922        |

#### b) Factors affecting tax charge for the year

The tax assessed for the year is lower (2013: higher) than the standard rate of corporation tax in the UK of 23%.

The differences are explained below:

|   | Group         |              |
|---|---------------|--------------|
|   | 2014<br>£000  | 2013<br>£000 |
| <b>Profit on ordinary activities before tax</b>                                     | <b>11,557</b> | <b>7,455</b> |
| Profit on ordinary activities multiplied by standard rate in the UK 23% (2013: 24%) | 2,658         | 1,789        |
| Effects of:   |               |              |
| Income and expenses not taxable   | (1,343)       | 225          |
| Other timing differences  | (118)         | (92)         |
| Difference in respect of long term business taxation                                | 59            | 19           |
| Total current tax   | 1,256         | 1,941        |

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

There are no recognised deferred tax assets or liabilities in respect of the B&CE Insurance Limited long-term fund. There are no deferred tax assets or liabilities in relation to the insurance business shareholders' fund (non-technical account). There are no potential or actual deferred tax assets or liabilities in respect of B&CE Financial Services Limited at the year end (2013: no potential or actual assets or liabilities).

## Notes to the financial statements (continued)

### 8. Tax on profit on ordinary activities (continued)

#### Factors affecting future tax changes

The main rate of UK corporation tax was reduced to 23% with effect from 1 April 2013. The March 2013 budget was substantially enacted on 2 July 2013, confirming that the main UK corporation tax rate will be 21% from 1 April 2014 and further reduced to 20% from 1 April 2015.

### 9. Profit for the financial year

As prescribed by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was £11,555,000 (2013: £2,212,000).

### 10. Tangible fixed assets

|  | Freehold<br>land and<br>buildings<br>£000 | Office<br>furniture<br>£000 | Office<br>machinery<br>£000 | Motor<br>vehicles<br>£000 | Total<br>£000 |
|--|---|-----------------------------|-----------------------------|---------------------------|---------------|
| <b>Group and Company cost</b>                            |   |                             |                             |                           |               |
| At 1 April 2013  | 5,986                                     | 632                         | 2,011                       | 37                        | 8,666         |
| Additions  | 129                                       | 31                          | 590                         | 30                        | 780           |
| Disposals  | -   | -                           | (3)                         | -                         | (3)           |
| <b>At 31 March 2014</b>                                  | <b>6,115</b>                              | <b>663</b>                  | <b>2,598</b>                | <b>67</b>                 | <b>9,443</b>  |
| <b>Accumulated depreciation</b>                          |   |                             |                             |                           |               |
| At 1 April 2013  | 3,300                                     | 524                         | 1,591                       | 33                        | 5,448         |
| Charge for the year                                      | 140                                       | 16                          | 251                         | 6                         | 413           |
| Disposals  | -   | -                           | (3)                         | -                         | (3)           |
| <b>At 31 March 2014</b>                                  | <b>3,440</b>                              | <b>540</b>                  | <b>1,839</b>                | <b>39</b>                 | <b>5,858</b>  |
| <b>Net book value</b>                                    |   |                             |                             |                           |               |
| <b>At 31 March 2014</b>                                  | <b>2,675</b>                              | <b>123</b>                  | <b>759</b>                  | <b>28</b>                 | <b>3,585</b>  |
| At 31 March 2013   | 2,686                                     | 108                         | 420                         | 4                         | 3,218         |
| <b>General and long-term<br/>insurance business cost</b> |   |                             | <b>£000</b>                 |                           | <b>£000</b>   |
| At 1 April 2013  |   |                             | 307                         |                           | 307           |
| Additions  |   |                             | -                           |                           | -             |
| <b>At 31 March 2014</b>                                  |   |                             | <b>307</b>                  |                           | <b>307</b>    |
| <b>Accumulated depreciation</b>                          |   |                             |                             |                           |               |
| At 1 April 2013  |   |                             | 283                         |                           | 283           |
| Charge for the year                                      |   |                             | 10                          |                           | 10            |
| <b>At 31 March 2013</b>                                  |   |                             | <b>293</b>                  |                           | <b>293</b>    |
| <b>Net book value</b>                                    |   |                             |                             |                           |               |
| <b>At 31 March 2014</b>                                  |   |                             | <b>14</b>                   |                           | <b>14</b>     |
| At 31 March 2013   |   |                             | 24                          |                           | 24            |

## Notes to the financial statements (continued)

### 11. Investments

| Fixed assets  | Group                |                      | Company       |               |
|---|----------------------|----------------------|---------------|---------------|
|   | 2014<br>£000         | 2013<br>£000         | 2014<br>£000  | 2013<br>£000  |
| <b>Listed investments</b>   |                      |                      |               |               |
| At 1 April  | 24,334               | 5,644                | 19,660        | -             |
| Additions   | 3,930                | 21,181               | 3,929         | 21,181        |
| Disposals   | -                    | (4,333)              | -             | (3,116)       |
| Revaluation (deficit)/surplus transfer to revaluation reserve (Note 17) | (523)                | 1,842                | (243)         | 1,595         |
| <b>Market value at 31 March</b>   | <b>27,741</b>        | <b>24,334</b>        | <b>23,346</b> | <b>19,660</b> |
| <b>Listed investments include the following:</b>                        |                      |                      |               |               |
| Eurobonds   | 16,089               | 16,142               | 11,694        | 11,468        |
| Listed equity – United Kingdom  | 11,652               | 8,192                | 11,652        | 8,192         |
| <b>Market value at 31 March</b>   | <b>27,741</b>        | <b>24,334</b>        | <b>23,346</b> | <b>19,660</b> |
| <b>General and long-term insurance business</b>                         | <b>2014<br/>£000</b> | <b>2013<br/>£000</b> |               |               |
| Open Ended Investment Companies   | 22,385               | 19,587               |               |               |
| UK Government Gilts and Eurobonds                                       | 42,932               | 43,251               |               |               |
| Bank deposits   | 7,361                | 9,228                |               |               |
| <b>Market value at 31 March</b>   | <b>72,678</b>        | <b>72,066</b>        |               |               |
| Open Ended Investment Companies   | 15,455               | 15,537               |               |               |
| UK Government Gilts and Eurobonds                                       | 41,688               | 40,104               |               |               |
| Bank deposits   | 7,361                | 9,228                |               |               |
| <b>Cost at 31 March</b>   | <b>64,504</b>        | <b>64,869</b>        |               |               |

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.

## Notes to the financial statements (continued)

### 12. Investments in subsidiary undertakings

|                                      | Group        |              | Company      |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Shares in Group undertakings at cost | -            | -            | 70,550       | 63,550       |

The Company owns 100% of the issued ordinary share capital of B&CE Financial Services Limited, and B&CE Insurance Limited, both of which are incorporated and registered in England.

The Directors believe the carrying value of the investments is supported by the underlying assets.

### 13. Debtors

|                                    | Group        |              | Company      |              |
|------------------------------------|--------------|--------------|--------------|--------------|
|                                    | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Amounts owed by Group undertakings | -            | -            | 1,900        | 650          |
| Corporation tax                    | -            | 135          | -            | 69           |
| Other debtors                      | 2,266        | 531          | 531          | 193          |
| Accrued income                     | 276          | 333          | 177          | 233          |
| Prepayments                        | 444          | 397          | 431          | 390          |
|                                    | <u>2,986</u> | <u>1,396</u> | <u>3,039</u> | <u>1,535</u> |

Amounts owed by Group undertakings represent recharged administration costs for the final quarter of the year which are normally settled in the following quarter.

### Debtors – general and long-term insurance business

|                 | 2014<br>£000 | 2013<br>£000 |
|-----------------|--------------|--------------|
| Corporation tax | 477          | 171          |
| Other debtors   | 2,207        | 2,367        |
| Accrued income  | 841          | 801          |
| Prepayments     | 16           | 11           |
|                 | <u>3,541</u> | <u>3,350</u> |

## Notes to the financial statements (continued)

### 14. Creditors – amounts falling due within one year

|                                     | Group         |               | Company       |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
|                                     | 2014<br>£000  | 2013<br>£000  | 2014<br>£000  | 2013<br>£000  |
| Unredeemed balances of: holiday pay | 7,173         | 13,753        | 7,173         | 13,753        |
| Corporation tax                     | 354           | -             | 354           | -             |
| Taxation and social security        | 336           | 323           | 327           | 319           |
| Other creditors                     | 1,923         | 1,959         | 1,916         | 1,955         |
| Accruals                            | 352           | 380           | 302           | 359           |
|                                     | <u>10,138</u> | <u>16,415</u> | <u>10,072</u> | <u>16,386</u> |

#### 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. The holiday pay scheme closed from 1 February 2014 and we no longer hold unredeemed balances of holiday pay. However we hold employer account balances in respect of contributions for B&CE products and these are contained in creditors above.

#### Creditors - general and long-term insurance business

|                              | 2014<br>£000 | 2013<br>£000 |
|------------------------------|--------------|--------------|
| Taxation and social security | 96           | 120          |
| Other creditors              | 1,330        | 1,918        |
| Accruals                     | 75           | 188          |
|                              | <u>1,501</u> | <u>2,226</u> |

### 15. Provision for liabilities

#### Deferred tax liability relating to pension deficit

|   | Group        |              | Company      |              |
|---|--------------|--------------|--------------|--------------|
|   | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| 1 April   | (91)         | 19           | (91)         | 19           |
| Deferred tax charged/(credited) to the statement of Group total recognised gains and losses: on actuarial loss/(gain) | 33           | (110)        | 33           | (110)        |
| 31 March  | <u>(58)</u>  | <u>(91)</u>  | <u>(58)</u>  | <u>(91)</u>  |

#### General and long-term insurance business

|  | 2014<br>£000 | 2013<br>£000 |
|--|--------------|--------------|
| Deferred tax provision                           |              |              |
| 1 April  | 269          | 288          |
| Credited to consolidated profit and loss account | (59)         | (19)         |
| 31 March   | <u>210</u>   | <u>269</u>   |

## Notes to the financial statements (continued)

### 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.

|  | 2014<br>£000 | 2013<br>£000    |
|--|--------------|-----------------|
| Linked business sterling reserve       | 6,290        | 6,404           |
| Annuities                              | 50           | 88,344          |
| Term Assurance: gross provisions       | 167          | 167             |
|  | <u>6,507</u> | <u>94,915</u>   |
| Annuities: reinsurers share            | -            | (85,368)        |
| Term Assurance: reinsurer's share      | (15)         | (15)            |
|  | <u>(15)</u>  | <u>(85,383)</u> |
|  | <u>6,492</u> | <u>9,532</u>    |
| This is shown on the balance sheet as: |              |                 |
| Long-term business provision           | 6,507        | 94,915          |
| Reinsurers share of provision          | (15)         | (85,383)        |
|  | <u>6,492</u> | <u>9,532</u>    |

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

|   | Class of business               | 2014                   | 2013                   |
|---|---------------------------------|------------------------|------------------------|
| <b>Mortality</b>                              | Unit-linked stakeholder pension | 80% AM/F92(2) ultimate | 80% AM/F92(2) ultimate |
| <b>Valuation interest rates<sup>(1)</sup></b> | Unit-linked stakeholder pension | 2.90% pa               | 2.40% pa               |
| <b>Unit growth rate</b>                       | Unit-linked stakeholder pension | 4.20% pa               | 2.40% pa               |

**Notes:**

1. In the 2014 valuation, a deduction of 0.50% p.a. is made from the valuation interest rate for the unit-linked stakeholder pension product to allow for investment-related expenses (unchanged from 2013). The rates shown above are net of these deductions.

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.

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.



## Notes to the financial statements (continued)

### 16. Long-term business provision (continued)

A reduction in valuation 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.

Where future premiums are reasonably predictable, stakeholder pension policies are valued as regular premium. As in 2013, a prudent assumption has been made that all regular premiums for EasyBuild 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 or join their employer's auto-enrolment solution and it is therefore likely that EasyBuild contributions will cease.

INSPRU 1.2.54A allows firms to separate expenses into attributable and non-attributable expenses. The attributable expenses only are used to derive the per policy expense assumption for the unit-linked stakeholder pension product. For the 2014 valuation, the per policy expense for stakeholder pension policies is £2.60 p.a. (£2.40 p.a. in 2013), 25% lower for currently dormant policies (unchanged from 2013).

Non-unit fund related investment expenses are allowed for through a reduction to the valuation interest rate. For 2014 the reduction is 0.50% p.a. (unchanged from 2013). For the 2014 valuation, expenses are assumed to inflate at 4.20% p.a. (3.60% p.a. in 2013). If expenses were assumed to be higher, the long-term business provision would increase.

A small provision continues to be held for frozen annuity policies that were not transferred to Partnership Life Assurance Company Limited at the time of the Part VII transfer.

### 17. Reserves

|   | Group<br>£000  | Company<br>£000 |
|---|----------------|-----------------|
| <b>Profit and loss reserve</b>                      |                |                 |
| At 1 April 2013                                     | 99,060         | 91,481          |
| Profit for the financial year                       | 10,360         | 11,555          |
| Actuarial loss on pension scheme                    | (1,002)        | (1,002)         |
| Movement on deferred tax relating to pension scheme | 33             | 33              |
| <b>At 31 March 2014</b>                             | <b>108,451</b> | <b>102,067</b>  |
| <b>Revaluation reserve</b>                          |                |                 |
| At 1 April 2013                                     | 1,925          | 1,595           |
| Movement for the year                               | (523)          | (243)           |
| <b>At 31 March 2014</b>                             | <b>1,402</b>   | <b>1,352</b>    |

## Notes to the financial statements (continued)

### 18. Reconciliation of movements in total funds

|  | 2014<br>£000   | 2013<br>£000   |
|--|----------------|----------------|
| Profit for financial year                    | 10,360         | 5,533          |
| Actuarial losses/(gains) net of deferred tax | (969)          | 2,364          |
| Movement in revaluation reserve              | (523)          | 1,842          |
| Net change in total funds                    | 8,868          | 9,739          |
| Opening total funds                          | 100,985        | 91,246         |
| <b>Closing total funds</b>                   | <b>109,853</b> | <b>100,985</b> |

### 19. 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:

|  | Charge for Year |              | Balance outstanding |              |
|--|-----------------|--------------|---------------------|--------------|
| Industrial organisation                    | 2014<br>£000    | 2013<br>£000 | 2014<br>£000        | 2013<br>£000 |
| UCATT                                      | 132             | 132          | -                   | -            |
| Unite the Union T & G Section              | 108             | 108          | -                   | 27           |
| GMB  | 30              | 30           | 7.5                 | 15           |
| UK Contractors Group*                      | 24              | 18           | -                   | -            |
| Civil Engineering Contractors Association* | 24              | 18           | 3                   | 10           |
| Scottish Building Federation*              | 24              | 18           | 6                   | -            |
| National Federation of Builders*           | 24              | 18           | 6                   | 5            |
| National Specialist Contractors Council*   | 24              | 18           | -                   | -            |
| Federation of Master Builders*             | 24              | 18           | -                   | 5            |

*\*There were also combined payments totalling £38,000 made to these parties in relation to one off sponsorships throughout the year.*

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 p.a. 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 p.a. Plus value added tax, Unite the Union appointing two Directors and receiving a fee of £90,000 p.a. plus value added tax, and the GMB appointing one Director and receiving a fee of £25,000 p.a. 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).

The Group has taken advantage of the exemption available under FRS8 not to disclose transactions and balances between Group entities that have been eliminated on consolidation.

## Notes to the financial statements (continued)

### 20. 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 an appropriate 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.

With effect from 1 January 2012, the participating employer contribution rate reduced from 19.6% to 14.05% of pensionable salary for all members. Members contribute 6.3% of pensionable salary.

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 results show a reduction in the deficit position from £4.4m at 31 December 2007 to £2.5m at 31 December 2010, a funding level of 94% of liabilities (2007 – 89%). The Pension Scheme actuary is currently in the process of carrying out the valuation at 31 December 2013.

The participating employers paid additional contributions into the Pension Scheme at a rate of £1.25m per annum paid monthly up to 31 August 2013. On 30 June 2013 the staff employed by B&CE Insurance Limited were transferred to the employment of the Company. This was an employer cessation event and triggered a Section 75 Debt to be calculated by the Pension Scheme actuary. The Section 75 Debt amounted to £1.486m and is being paid by B&CE Insurance Limited in monthly instalments of £104,167 for 14 months from September 2013 to October 2014 with a final payment in November 2014 of £27,662.

On 3 January 2014 the Pension Scheme closed to new entrants and all non-members employees offered membership into The People's Pension in its place.

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%, or a shortfall of £6.9m).

The Company estimates the employer contributions into the Pension Scheme for the year ended 31 March 2014 to be £1.7m.

## Notes to the financial statements (continued)

### 20. Pension commitments (continued)

The principal assumptions used by the professionally qualified Pension Scheme actuary in agreement with the Company after updating the latest valuation of the Pension Scheme for FRS17 purpose were:

|   | <b>31 March<br/>2014<br/>% p.a.</b> | <b>31 March<br/>2013<br/>% p.a.</b> | <b>31 March<br/>2012<br/>% p.a.</b> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| Discount rate   | <b>4.3</b>                          | 4.6                                 | 4.6                                 |
| Rate of increase in salaries                                  | <b>3.6</b>                          | 3.7                                 | 3.3                                 |
| Price inflation   | <b>3.6</b>                          | 3.7                                 | 3.3                                 |
| Pension increases:  |                                     |                                     |                                     |
| - on pension accrued before 1 January 1995                    | <b>3.0</b>                          | 3.0                                 | 3.0                                 |
| - on pension accrued between 1 January 1995 and 31 March 2006 | <b>3.4</b>                          | 3.7                                 | 3.3                                 |
| - on pension accrued since 1 April 2006                       | <b>2.0</b>                          | 2.3                                 | 2.5                                 |
| Returns on assets   | <b>5.5</b>                          | 5.0                                 | 5.3                                 |

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 0.5% would be an increase/decrease to the liabilities of around 10.7% or £5.4m.

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 3.0% or £1.5m.

| <b>Change in assumptions compared with 31 March 2014 actuarial assumptions</b>          | <b>Actuarial value of liabilities on 31 March 2014<br/>£000</b> |               |
|---|---|---------------|
| - 0.5% decrease in discount rate  | <b>57,939</b>   |               |
| - 1 year increase in member life expectation  | <b>54,021</b>   |               |
| + 0.5% increase in inflation  | <b>56,169</b>   |               |
|   | <b>Male</b>   | <b>Female</b> |
| Average future life expectancy in years for a pensioner currently aged 60               | 28.3  | 30.0          |
| Average future life expectancy in years at age 60 for a non-pensioner currently aged 45 | 29.9  | 31.2          |

## Notes to the financial statements (continued)

### 20. 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<br>rate of<br>return<br>expected<br>at 31/03/14 | Value at<br>31/03/14 | Long term<br>rate of<br>return<br>expected<br>at<br>31/03/13 | Value at<br>31/03/13 | Long term<br>rate of<br>return<br>expected at<br>31/03/12 | Value at<br>31/03/12 |
|--|---|----------------------|--|----------------------|---|----------------------|
|  | % p.a.  | £000                 | % p.a.   | £000                 | % p.a.  | £000                 |
| Equities                               | 6.7   | 30,421               | 6.0  | 28,529               | 6.3   | 24,805               |
| Corporate bonds                        | 4.3   | 15,642               | 4.1  | 15,559               | 4.6   | 13,641               |
| Property                               | 4.8   | 1,003                | 5.0  | 912                  | 5.3   | 932                  |
| Government bonds                       | 3.5   | 8,457                | 3.0  | 7,815                | 3.3   | 6,728                |
| Other                                  | -   | 757                  | 3.0  | -                    | 3.3   | -                    |
| Cash                                   | 3.7   | 360                  | 3.0  | 227                  | 3.3   | 107                  |
| Total market value assets              |   | <u>56,640</u>        |  | <u>53,042</u>        |   | <u>46,213</u>        |
| Present value of scheme liabilities    |   | <u>(52,439)</u>      |  | <u>(50,137)</u>      |   | <u>(47,266)</u>      |
| Surplus/(deficit) in the scheme        |   | 4201                 |  | 2,905                |   | (1,053)              |
| Related deferred tax (liability)/asset |   | <u>(58)</u>          |  | <u>(91)</u>          |   | <u>19</u>            |
| Net scheme asset/(liability)           |   | <u>4,143</u>         |  | <u>2,814</u>         |   | <u>(1,034)</u>       |

#### Basis of expected return on equities and other asset classes

Under FRS17 the expected return on assets should be derived as the long term expectation of the total return. The Company has set the expected return on equities using a stochastic model which uses probability distributions to project a range of possible outcomes for the future behaviour of different asset returns and economic variables – the expected returns produced are the level at which 50% of model outcomes are above, and 50% of model outcomes are below. This approach differs to previous years where returns were set relative to the yield on government bonds. Using the model, the expected return on equities at 31 March 2014 is 6.7% p.a. The expected return on assets assumptions as at 31 March 2014 are as follows:

Equities: fixed interest gilts (over 15 year index yield) + 3.0% p.a.  
= 6.7% p.a. (6.0% p.a. at 31 March 2013)

Property: fixed interest gilts (over 15 year index yield) + 2.3% p.a.  
= 4.8% p.a. (5.0% p.a. at 31 March 2013)

Corporate bonds: The FRS17 discount rate derived as above  
= 4.3% p.a. (4.1% p.a. at 31 March 2013)

Gilts: fixed interest gilts (over 15 year index yield)  
= 3.5% p.a. (3.0% p.a. at 31 March 2013)

Cash: Over the long term, assumed to be in line with fixed interest gilts  
= 3.7% p.a. (3.0% p.a. at 31 March 2013)

## Notes to the financial statements (continued)

### 20. Pension commitments (continued)

|  | 2014<br>£000   | 2013<br>£000   |
|--|----------------|----------------|
| <b>Analysis of amounts recognised in profit and loss account:</b>                      |                |                |
| <b>Analysis of the amount charged to net operating expenses</b>                        |                |                |
| Current service cost   | (487)          | (495)          |
| <b>Total operating charge</b>  | <u>(487)</u>   | <u>(495)</u>   |
| <b>Analysis of the amounts credited to other interest receivable on similar income</b> |                |                |
| Expected return on the scheme assets   | 2,640          | 2,455          |
| Interest on pension scheme liabilities   | (2,258)        | (2,139)        |
| <b>Net return</b>  | <u>382</u>     | <u>316</u>     |
| <b>Net profit and loss charge</b>  | <u>(105)</u>   | <u>(179)</u>   |
| <b>Analysis of amounts recognised in STRGL:</b>  |                |                |
| Actual return less expected return on scheme assets                                    | 81             | 4,714          |
| Actuarial (loss) on scheme liabilities   | (1,083)        | (2,240)        |
| <b>Actuarial (loss)/gain recognised in STRGL</b>                                       | <u>(1,002)</u> | <u>2,474</u>   |
| <b>Cumulative actuarial loss recognised in STRGL</b>                                   | <u>(5,662)</u> | <u>(4,660)</u> |
| <b>Reconciliation of present value of scheme liabilities:</b>                          |                |                |
| 1 April  | 50,137         | 47,266         |
| Current service cost   | 487            | 495            |
| Interest cost  | 2,258          | 2,139          |
| Contributions paid by members  | 176            | 182            |
| Actuarial loss   | 1,083          | 2,240          |
| Benefits paid  | (1,702)        | (2,185)        |
| <b>31 March</b>  | <u>52,439</u>  | <u>50,137</u>  |
| <b>Reconciliation of fair value of scheme assets:</b>                                  |                |                |
| 1 April  | 53,042         | 46,213         |
| Expected return on scheme assets   | 2,640          | 2,455          |
| Contributions paid by members  | 176            | 182            |
| Contributions paid by employer*  | 2,403          | 1,663          |
| Actuarial gains  | 81             | 4,714          |
| Benefits paid  | (1,702)        | (2,185)        |
| <b>31 March</b>  | <u>56,640</u>  | <u>53,042</u>  |

\* Amounts in 2014 include £1.486m relating to B&CE Insurance Limited Section 75 Debt (£729k paid by year end) that arose in the current financial year.

## Notes to the financial statements (continued)

### 20. Pension commitments (continued)

|  | 2014<br>£000 | 2013<br>£000 | 2012<br>£000 | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>History of experience gains and losses:</b>                 |              |              |              |              |              |
| Fair value of scheme assets                                    | 56,640       | 53,042       | 46,213       | 42,552       | 39,150       |
| Present value of scheme liabilities                            | (52,439)     | (50,137)     | (47,266)     | (40,337)     | (44,088)     |
| Surplus/(deficit)  | 4,201        | 2,905        | (1,053)      | 2,215        | (4,938)      |
| <b>Actuarial return less expected return on scheme assets:</b> |              |              |              |              |              |
| Amount   | 81           | 4,714        | 732          | 268          | 6,968        |
| Percentage of scheme assets                                    | 0.1%         | 8.9%         | 1.6%         | 0.6%         | 17.8%        |
| <b>Experience gain on scheme liabilities:</b>                  |              |              |              |              |              |
| Amount   | -            | -            | -            | 2,391        | -            |
| Percentage of scheme liabilities                               | 0.0%         | 0.0%         | 0.0%         | 5.9%         | 0.0%         |
| <b>Actuarial (loss)/gain on scheme liabilities:</b>            |              |              |              |              |              |
| Amount   | (1,083)      | (2,240)      | (5,937)      | 3,641        | (12,843)     |
| Percentage of scheme liabilities                               | (2.1%)       | (4.5)%       | (12.6)%      | 9.0%         | (29.1)%      |

The 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 scheme's long term ability to provide the required benefits.

### 21. Contingent liabilities

#### 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 2014 (2013: £Nil).

#### The Building and Civil Engineering Charitable 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. From January 2012 to September 2013 B&CE Financial Services has made donations amounting to £950,000. At the year-end £589,102 in total has been transferred to the trust by the Group.

### 22. Reinsurance arrangements

Reinsurance arrangements are in force as follows:

- Term Assurance – 90% quota share with an 11.4% overriding commission receivable.
- Linked business – 100% reinsurance of unit liabilities.

### 23. 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.

## Notes to the financial statements (continued)

### 23. FRS27 'Life Assurance' (continued)

#### Restrictions on available capital resources

The available capital of B&CE Insurance Limited and B&CE Financial Services Limited is subject to certain restrictions as to its availability to meet capital requirements. In particular for B&CE 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 £28.2m (2013: £26.4m) of B&CE 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 £105.4m (2013: £97.8m) of which £66.5m (2013: £63.1m) is held by B&CE Insurance Limited and £10.3m (2013: £6.2m) is held by B&CE Financial Services Limited. The capital held by these companies 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.

|  | <b>Total life<br/>business<br/>reserves</b> | <b>Other<br/>activities</b> | <b>Group<br/>total</b> | <b>Total life<br/>business<br/>reserves</b> | <b>Other<br/>activities</b> | <b>Group total</b> |
|--|---|-----------------------------|------------------------|---|-----------------------------|--------------------|
|  | <b>2014</b>                                 | <b>2014</b>                 | <b>2014</b>            | <b>2013</b>                                 | <b>2013</b>                 | <b>2013</b>        |
|  | <b>£000</b>                                 | <b>£000</b>                 | <b>£000</b>            | <b>£000</b>                                 | <b>£000</b>                 | <b>£000</b>        |
| Total reserves                               | <b>38,475</b>                               | <b>71,378</b>               | <b>109,853</b>         | 37,223                                      | 63,762                      | 100,985            |
| Adjustments onto<br>regulatory basis:        |   |                             |                        |   |                             |                    |
| Other adjustments                            | <b>(160)</b>                                | <b>(4,259)</b>              | <b>(4,419)</b>         | (431)                                       | (2,705)                     | (3,136)            |
| <b>Total available capital<br/>resources</b> | <b>38,315</b>                               | <b>67,119</b>               | <b>105,434</b>         | 36,792                                      | 61,057                      | 97,849             |

#### Liability analysis

#### Total Life business

|  | <b>2014</b>  | <b>2013</b> |
|--|--------------|-------------|
|  | <b>£000</b>  | <b>£000</b> |
| Unit-linked                                  | <b>6,290</b> | 6,404       |
| Annuities                                    | <b>50</b>    | 88,344      |
| Term Assurance: gross provision              | <b>167</b>   | 167         |
|  | <b>6,507</b> | 94,915      |
| Annuities: reinsurer's share                 | -            | (85,368)    |
| Term Assurance: reinsurer's share            | <b>(15)</b>  | (15)        |
| <b>Technical provisions in balance sheet</b> | <b>6,492</b> | 9,532       |



## Notes to the financial statements (continued)

### 23. FRS27 'Life Assurance' (continued)

#### Capital management

In reporting financial strength, capital and solvency are measured using the regulations prescribed by the Prudential Regulation Authority ('PRA'). 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 maintain financial strength to support existing business; and
- to satisfy the requirements of its policyholders and the PRA.

B&CE Insurance Limited is required to hold sufficient capital to meet the PRA's capital requirements. Management intends to maintain surplus capital in excess of the minimum solvency requirement, determined in accordance with PRA regulations, to absorb changes in both capital and capital requirements. At 31 March 2014, the available capital within the long-term fund was 526% (2013: 340%) of the capital requirement of £8.1m (2013: £10.8m).

| <b>Movement in capital resources</b>                                    | <b>2014</b> | <b>2013</b>        |
|---|-------------|--------------------|
|   | <b>£m</b>   | <b>£m</b>          |
| Balance as at 1 April   | 36.8        | 33.8               |
| Effect of investment variations   | 1.0         | 3.9 <sup>(1)</sup> |
| Effect of EasyBuild charges received                                    | 6.9         | 6.2                |
| Effect of expenses (administration, claims, acquisition and investment) | (4.7)       | (4.5)              |
| Change in EasyBuild non-unit reserve (assumption changes)               | 0.1         | 1.5                |
| Movement in 'other insurance and non-insurance liabilities'             | 0.2         | (0.5)              |
| Change in annuity reserves (reinsurer default and frozen policies)      | 2.9         | (3.0)              |
| Corporation tax   | (0.6)       | (0.8)              |
| Capital transfers to general fund                                       | (3.5)       | -                  |
| Other   | 0.3         | 0.2                |
| <b>Balance at 31 March</b>  | <b>39.4</b> | <b>36.8</b>        |

Notes:

<sup>1</sup> Includes impact of the premium paid to Partnership Life Assurance Company Limited under the terms of the annuity reinsurance treaty.

#### 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.

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 that would arise if the rate of return on unit funds was less than expected, leading to a reduction in anticipated annual management charges; and
- Persistency risk in relation to unit-linked pensions business that would arise if the rate of lapses was higher than expected, leading to a reduction in anticipated annual management charges.

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)

### 24. Financial commitments

At 31 March 2014 the Group had annual commitments under non-cancellable operating leases for motor vehicle and office machinery assets expiring as follows:

|                          | Group        |              | Company      |              |
|--------------------------|--------------|--------------|--------------|--------------|
|                          | 2014<br>£000 | 2013<br>£000 | 2014<br>£000 | 2013<br>£000 |
| Within one year          | 156          | 267          | 156          | 267          |
| Within two to five years | 137          | 123          | 137          | 123          |
| After five years         | -            | -            | -            | -            |
|                          | <u>293</u>   | <u>390</u>   | <u>293</u>   | <u>390</u>   |

### 25. Notes to the consolidated cash flow statement

#### A - Gross cash flows

|   | 2014<br>£000 | 2013<br>£000    |
|---|--------------|-----------------|
| <b>Capital expenditure and financial investment</b> |              |                 |
| Purchase of fixed asset investments                 | -            | (21,181)        |
| Purchase of insurance business investment assets    | (682)        | (368)           |
| Purchase of tangible fixed assets                   | (780)        | (350)           |
| Sales of fixed asset investments                    | -            | 4,854           |
| Sales of insurance business investment assets       | 730          | 4,372           |
| Sales of tangible fixed assets                      | 1            | 16              |
|   | <u>(731)</u> | <u>(12,657)</u> |

## Notes to the financial statements (continued)

### 25. Notes to the consolidated cash flow statement (continued)

|                                       | 2014<br>£000 | 2013<br>£000  |
|---------------------------------------|--------------|---------------|
| <b>Management of liquid resources</b> |              |               |
| Purchase of gilts and euro bonds      | -            | (230)         |
| Sale of gilts and euro bonds          | -            | 21,402        |
|                                       | <u>-</u>     | <u>21,172</u> |

### B - Analysis of net cash

|                          | 1 April<br>2013<br>£000 | Cash<br>flows<br>£000 | 31 March<br>2014<br>£000 |
|--------------------------|-------------------------|-----------------------|--------------------------|
| Cash in hand and at bank | 22,227                  | (8,721)               | 13,506                   |
| Liquid resources         | 5,655                   | (3,144)               | 2,511                    |
| Total                    | <u>27,882</u>           | <u>(11,865)</u>       | <u>16,017</u>            |

Liquid resources comprise short-term deposits with banks and current asset investments that are traded in an active market.

### Insurance business liquid resources analysed in balance sheet

|  | 2014<br>£000 | 2013<br>£000 |
|--|--------------|--------------|
| Insurance business – bank deposits               | 7,361        | 9,228        |
| Less long-term insurance business – bank deposit | (4,850)      | (3,573)      |
|  | <u>2,511</u> | <u>5,655</u> |

### 26. Ultimate parent undertaking and controlling party

The immediate parent undertaking, the ultimate parent undertaking and the controlling party is Building and Civil Engineering Holidays Scheme Management Limited, a company incorporated in the United Kingdom.

Building and Civil Engineering Holidays Scheme Management Limited is the parent undertaking of the smallest and the largest group of undertakings to consolidate these financial statements.

## Dedicated to improving the financial wellbeing of our members

B&CE is a not-for-profit organisation, which operates for the benefit of its members and their dependants. Established in 1942 and founded in construction, B&CE's current offerings include a workplace pension, employee accident cover, employee life cover and employee healthcare. Today it manages assets of £2.2 billion, with 2.3 million members and provides financial benefits to over 800,000 active individuals on behalf of over 9,000 corporate accounts. (Information correct as of 31 May 2014)

For over 30 years, B&CE has been providing workplace pensions to employers with transient, low to moderate earning workforces, both large and small. B&CE has been operating a form of automatic enrolment for over ten years through its stakeholder product. In November 2011, B&CE announced details of The People's Pension, as an additional product to assist employers in complying with their automatic enrolment duties.

The People's Pension is a flexible and portable workplace pension scheme designed for people, not profit and is suitable for any organisation, large or small, in any sector.

B&CE has won a number of awards, as the provider of The People's Pension, including DC Provider of Year at the UK Pensions Awards 2014, Best Master Trust Provider at the 2014 Pension and Investment Provider Awards (PIPs), Auto-Enrolment Provider of the Year at the UK Pensions Awards 2013 and best 'DC Master Trust' at the 2013 PIPs.

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Registered in England No. 377361. This is the parent company for the B&CE Group of companies.  
B&CEHSML also acts in the capacity of administrator of the retirement, death and accident benefit schemes on behalf of Building & Civil Engineering Benefits Scheme Trustee Limited. B&CEHSML is an appointed representative of B&CE Insurance Limited which is Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority Ref: 177791, and B&CE Financial Services Limited which is Authorised and regulated by the Financial Conduct Authority Ref: 122787.