

PENSIONS POLICY INSTITUTE

PPPI

ANNUAL REPORT AND FINANCIAL STATEMENTS

1 FEBRUARY 2004 to 31 JANUARY 2005

REGISTERED COMPANY NO: 04145584

CHARITY NO: 1087856

(ENGLAND & WALES)

PPI Annual Report and Statement of Financial Activity 2005

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All enquiries regarding the Pensions Policy Institute's activities should be addressed to Alison O'Connell, Director at:

King's College
Waterloo Bridge Wing
Franklin-Wilkins Building
Waterloo
London SE1 9NN

Tel: 020 7848 3744
Fax: 020 7848 3235
alison@pensionspolicyinstitute.org.uk

Chairman's report

I am pleased to present to Governors the Fourth Annual Report of the Pensions Policy Institute.

An update on the PPI's charitable activity

2004/5 was another interesting year for pensions policy with the introduction of the Pensions Act 2004 and Finance Act 2005 and publication of the Pensions Commission's First Report.

This high level of activity has ensured that pensions have featured prominently on the media's agenda over the last 12 months. An authoritative independent organisation providing analytical fact-based analysis is vital if the pensions debate is to develop constructively.

Last year, I stated that the PPI had, in a short time, established itself as the unique independent voice on pensions policy in the UK. I am pleased to report that respect for PPI's contribution to the pensions debate continues to grow, amply reflected by its increased profile and by the range and depth of its research, discussed in more detail below.

The PPI's objectives and uniqueness

The PPI continues to meet its objectives in the public interest.

The objectives of the PPI:

- Provide relevant and accessible information on the extent and nature of retirement provision
- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage pension research and debate among pensions experts
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on pensions issues

Why the PPI is unique in the field of pensions:

- Independent, with no political bias or vested interest
- Led by experts focused on pensions and retirement provision
- Considering the whole pensions framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on pensions policy outcomes
- Encouraging dialogue and debate with multiple constituencies

The remainder of this report provides an update on the success of the activities undertaken by the PPI since the last report, highlights some changes in our accounting procedures and looks ahead to next year.

Highest quality research

State pension theme

There is a growing consensus that the state pensions system should be modernised to prevent future generations retiring with lower retirement incomes than are seen today. The PPI continues to make a significant leadership contribution to this debate, in particular on the issues of the interface between state and private pensions.

A PPI Discussion Paper *A Guide to State Pension Reform* was published in July 2003. After holding a programme of seminars with various organisations interested in pensions, the PPI published *State Pension Reform: The Consultation Response* which collated a number of reform options.

The first reform option to be tested was the 'Universal' or 'Citizen's Pension'. *Citizen's Pension: Lessons from New Zealand* was published in March 2004 and tests whether a Citizen's Pension could be advantageous in the UK. This was subsequently followed up by two successful seminars.

The Citizen's Pension has attracted the attention of the media, the public, pensions organisations and the Government. The PPI's work has had a significant impact on the debate surrounding it.

Managing Transition continued the State Pension Reform theme, looking specifically at the implications of different reform options during the transition phase of state pension reform.

A Stocktake on State Pension Reform

The PPI is keeping a 'stocktake' of pension reform proposals. The stocktake maps the many proposals made by organisations, including the three main political parties, pensioner groups, business and employee organisations, and others with a major interest or expertise in pensions. So far the highlights of the stocktake are:

1. All the proposals focus in detail on the state first tier.
2. The proposals are evenly split on whether the foundation pension should be based on citizenship (or 'universal') or on national insurance record.
3. Proposals are much less detailed on what to do with the state second pension and contracting-out.
4. There is even less detail and agreement on other elements of the pensions system.

The strength of the consensus that reform of the state pension system is much needed was further confirmed in February 2005 when the Government published its principles for reform of the state pensions system.

Shaping a stable pensions solution

This year the PPI won funding from the Nuffield Foundation for a new project, *Shaping a stable pensions solution*. The aim of this project is to build up a picture of the possible shape of a consensus pension solution that could work for the long-term, through a series of papers and seminars throughout 2005 to debate the most critical pension issues on the interaction of state and private pensions.

Each seminar will examine a critical and topical pensions policy question:

- What should be the balance between state and private pensions?
- How does the interaction of state and private pensions affect incentives to work and save?
- Should state pensions be universal or contributory?
- Should earnings-linked pensions be voluntary or compulsory?
- What should be the role of means-testing in state pensions?
- How can pensions policy consensus be achieved and maintained?

A number of underlying themes will be addressed throughout the seminar series, including:

- How can the pensions system best deal with the wide variety of economic life courses in the UK population?
- How do issues surrounding increasing longevity, work at older ages and later retirement interact with the pensions system?
- What can be learned from the experience of other countries?

The project will be a valuable opportunity for leading pensions experts to discuss key pensions related issues. Papers from each seminar will be collated at the end of the series and made available to all those interested.

Underlying all PPI work is evidence-based research. Economic analysis is of course vital to this. The development of our suite of models to test the economics of pension reform options - also funded by the Nuffield Foundation - is progressing well and increasingly being used in PPI research.

Private pension theme

Last year I reported that the PPI would undertake at least two pieces of work on the subject of private pensions:

Occupational pension provision in the public sector was published in March 2005. By considering an independent set of facts on the level of pension benefits, their cost, and how the proposed reforms will change them, the paper investigated the six main unfunded public sector pension schemes, the funded Local Government scheme and other quasi-public schemes.

Property or Pensions? was published in May 2004. Saving in property is often proposed as an alternative to saving in pensions. However, most people will not be able to rely solely on the equity they have in their home to sustain them throughout their retirement. This paper investigated recent trends in property and pension wealth, and analysed the extent to which property is likely to be used to provide an income in retirement.

Commissioned research

In recognition of the PPI's growing profile, this past year has seen a new funding stream emerge. The PPI welcomes all requests for commissioned research that are consistent with the charitable aims and objectives of the organisation.

Continuing the theme of state pension reform, the PPI was requested to provide independent analysis and commentary for a report published by the National Association of Pension Funds. *Towards a Citizen's Pension* studies how transition to a Citizen's Pension from the current system can be managed in a practical and affordable way. The interim report was published in December 2004 and we are working on the final report, which will be published later in 2005.

On private pensions, the PPI undertook commissioned research from Age Concern (*Tax Incentives for Pension Saving*, October 2004), the Equal Opportunities Commission (*An Analysis of Unisex Annuity Rates*, June 2004) and various smaller pieces of consultancy work from the Department for Work and Pensions.

Extending impact

The PPI does not support a particular pensions policy nor does it seek to steer pensions policy down a particular path. Rather it informs the public debate with accurate and reliable analysis and commentary to encourage evidence-based policy-making. In order to extend the reach of the PPI's work as far as possible, the PPI is open and accessible and aims to work with stakeholders across the pensions spectrum.

Free access to our reports and seminars is a fundamental aspect of our belief that our analysis should be fully accessible to all interested parties. I am pleased to report that the extent of the dissemination of our reports continues to grow. Over 45,000 copies of our reports and Briefing Notes were distributed in the year and over 300 people attended PPI seminars.

While we do not actively seek media coverage, I am also pleased that our research has been widely reported in the press, radio and television.

More importantly, perhaps, this past year has seen a significant increase in the strength and number of contacts with key policy makers and opinion formers.

The PPI was invited to give oral evidence to the House of Commons Work and Pensions Select Committee Inquiry into Pension Credit, to the House of Lords Sub-Committee on Europe on unisex annuities and to the Pensions Commission's First Report. Our research was mentioned in the House of Lords debate on the Economic Affairs Committee's report on the ageing population and other Parliamentary debates. Extensive contact has also been had with pensions advisers at No. 10, Treasury and DWP.

As a measure to which the PPI has reached the general public, I am particularly pleased to report that PPI Director, Alison O'Connell, was nominated into the top 50 and voted into the top 10 of Saga Magazine's Wise List for the PPI's work on a Citizen's Pension.

Further funding

PPI Membership Scheme

Last year I reported that, in order to give clear benefits to our donors, we introduced a formal PPI Membership Scheme. The Membership Scheme has been well received and not only did most of our original funders join but some increased the level of their funding and the Scheme attracted four new members.

You will notice in the annual accounts presented at the end of this report that the introduction of the Membership Scheme has resulted in a change in accounting policy. In line with the Statement of Recommended Practice for all registered charities, the portion of the Members' donations which relates to the subsequent financial year is treated, for accounting purposes, as deferred income.

This change of accounting practice results in an apparent drop in income for the financial year ending 31 January 2005, although revenue (on a cash basis) increased by over 40% compared to last year. We are confident that by keeping our accounting procedures up-to-date with the PPI's funding developments we will be able to maintain the financial security of the PPI.

Commissioned research

In addition to increasing support from PPI Members we have also been successful in increasing the diversity of the funding streams by generating revenue from commissioned research. These additional projects, though welcomed, stretched resources to the maximum and I am pleased to report that at the end of 2004 we were able to add a new member to the research team.

Governance

I am pleased to report that the PPI continues to benefit from committed and dedicated Council Members and is very grateful for all pro bono advice and facilities they have kindly donated.

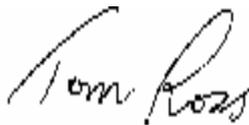
The Council has recently considered whether to propose a change to the Institute's constitution to limit the period for which a Council Member could serve. It concluded that no change was warranted at this stage, as opportunities to refresh the membership of Council are arising in a natural way. Moreover, the current constitution is not out of line with similar institutions in this respect. The Council will, however, keep the matter under review.

I would like to thank personally the Council Members for the support that each has given over the past year.

Next year

The coming year promises to be an exciting one for pensions policy. After the General Election in May, reform of the pensions system is likely to be one of the main items on the new Government's agenda. The work in which the PPI is currently engaged, which I have outlined in this report, will therefore be highly relevant in the months ahead.

We fully expect that with more resources, both intellectual and financial, the PPI will continue to be a unique and vital voice in the pensions debate.



T M Ross OBE
Chairman
29 April 2005

Legal and administrative information for the financial year ending 31 January 2005

Council Members

Professor Janet Askham	(appointed 2002, re-elected 2004)
Professor Eileen Evason	(appointed 2002)
Professor Ruth Hancock	(appointed 2000, re-elected 2004)
Paul Johnson	(appointed 2000, re-elected 2004)
Alison O'Connell (ex officio)	(appointed 2002)
John Pearson	(appointed 2002, re-elected 2004)
Stewart Ritchie OBE	(appointed 2000, re-elected 2003)
Rhoslyn Roberts	(appointed 2002)
Tom Ross OBE (Chairman)	(appointed 2000, re-elected 2003)
Joanne Segars OBE	(appointed 2000, re-elected 2004)
Teresa Sienkiewicz	(appointed 2003)
Peter Thompson	(appointed 2003)
Sue Ward	(appointed 2002)
David Yeandle	(appointed 2000, re-elected 2003)
Andrew Young	(appointed 2002)

Institute Director	Alison O'Connell
Secretary	Alison O'Connell
President	Baroness Sally Greengross OBE (appointed 15 June 2004)
	Professor Sir George Bain (retired 15 June 2004)

Governors

Ian Alexander	Baroness Sally Greengross OBE	Brian Ridsdale
Ros Altmann	Professor Ruth Hancock***	Stewart Ritchie OBE***
Professor Janet Askham***	Sarah Harper	Rhoslyn Roberts***
Professor Sir Tony Atkinson	Sir Graham Hart	Sir Steve Robson
Professor Sir George Bain*	Ann Hope	Michael Ross CBE
Brendan Barber	Sue Howlett	Tom Ross OBE**
Scott Bell CBE	Nigel Inglis Jones QC	Alastair Ross Goobey CBE
Professor Richard Berthoud	Paul Johnson***	Jane Samsworth
Rodney Bickerstaffe	Michael Lake CBE	Richard Saunders
Professor Philip Booth	Desmond Le Grys	Joanne Segars***
Dame Ann Bowtell	Chris Lewin	Teresa Sienkiewicz***
Professor Jonathan Bradshaw	Paul Lewis	Paul Smee (resigned November 2004)
Professor Gordon Clark	Gordon Lishman OBE	Brian Spence
Professor Sir Graeme Davies	Iain Lumsden	Richard Stroud
Evan Davis	Anne Maher	Peter Thompson***
Professor Richard Disney	Bert Massie CBE	Paul Thornton
Kenneth Dixon CBE	Harriet Maunsell OBE	Nick Timmins
Professor John Ermisch	Professor David Miles	Professor Robert Walker
Professor Eileen Evason***	Professor Jane Millar OBE	Sue Ward***
Jane Falkingham	Peter Murray	Martin Weale CBE
Terry Faulkner	Professor Sir Alan Peacock	Edward Weiss
Mary Francis	John Pearson***	Anne Wood
Norman Glass CB	Michael Pomery	David Yeandle***
		Andrew Young***

* President

** Chairman of Council

*** Council Members

Company registered number	04145584
Charity registered number	1087856
Registered office	21 Holborn Viaduct London EC1A 2DY
Principal operating office	Pensions Policy Institute King's College Waterloo Bridge Wing Franklin-Wilkins Building Waterloo Road London SE1 9NN
Company secretary	Alison O'Connell
Auditors	Trustient Chartered Accountants Registered Auditors Buckingham House East The Broadway Stanmore Middlesex HA7 4EB
Bankers	Unity Trust Bank Nine Brindley Place 4 Oozells Square Birmingham B1 2HB
Solicitors	Lovells Atlantic House Holborn Viaduct London EC1A 2FG

Council's report

The Council are pleased to present their annual report and the financial statements of the Pensions Policy Institute (the 'Institute') for the year ended 31 January 2005.

The Council confirm that the annual report and financial statements of the Institute comply with current statutory requirements, the requirements of the Institute's governing document and the provisions of the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued in October 2000.

Constitution and objects

The Institute was formed on 22 January 2001 and is registered as a charitable company limited by guarantee. It is governed by its Memorandum and Articles of Association ('constitution').

The principal object of the Institute is the advancement of education for the benefit of the public by the promotion, on a non-political basis, of the study of, and the dissemination of the useful results of the study of, pensions and other provision for retirement and old age, and the economic and social effects and influences of existing arrangements and possible changes to them.

There have been no changes in the objectives since the last annual report.

Review of activities and future developments

The principal activities and developments are set out in the Chairman's report.

Members' liability

As a company limited by guarantee, the Institute has a maximum of 100 members ('Governors'). Governors have voting rights and their responsibilities are as stated in the Institute's constitution. As members, Governors guarantee to contribute an amount not exceeding £1 to the assets of the Institute in the event of winding up.

The Governors who served throughout the period and at the date of this report are set out on page 8.

The management of the Institute is the responsibility of the Council Members, who are elected from the body of Governors.

Council Members

Council Members are directors for the purposes of company law and trustees for the purposes of charity law. Council Members are responsible for the management of the Institute, and are elected and co-opted in accordance with the constitution.

In accordance with the constitution, the minimum number of Council Members in office at any given time must be seven. The Council shall have power to appoint any Governor to be a Member of the Council at any time up to the maximum fixed number, currently fifteen persons including the Director who is ex-officio.

At the Annual General Meeting on 7 June 2005, one-third of the Members of the Council or the number nearest to one third shall retire from office. All retiring Members of the Council shall be eligible for re-election.

The Council Members retiring on 7 June 2005 are Eileen Evason, Rhoslyn Roberts, Tom Ross, Sue Ward and Andrew Young. Eileen Evason and Sue Ward are not standing for re-election.

The Council Members who served throughout the period and at the date of this report are set out on page 7.

Council's responsibilities

Company and charity law applicable to charities in England & Wales requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Institute and of the surplus or deficit of the Institute for that period. In preparing those financial statements the Council have:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepared the financial statements on a going concern basis (unless it is inappropriate to presume that the Institute will continue in operation).

The Council have overall responsibility for ensuring that the Institute has an appropriate system of controls, financial and otherwise. They are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Institute and enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Institute and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

Organisational structure and decision making

The Council is responsible for the overall control of the Institute's operations and meets regularly to review the performance of the Institute, and authorise strategic decisions. Four Sub-Committees focus on specific areas of the Institute's management:

Finance	Chair :	David Yeandle
	Members:	Teresa Sienkiewicz Rhoslyn Roberts
Funding	Chair:	Peter Thompson
	Members:	John Pearson Stewart Ritchie Tom Ross
Nominations	Chair:	Tom Ross
	Members:	Janet Askham Andrew Young
Remuneration	Chair:	Tom Ross
	Members:	Rhoslyn Roberts Paul Johnson

The Institute Director manages the Institute's business on a day-to-day basis.

Reserves policy

The Council has established a reserves policy which aims to achieve an adequate level of funds to allow the Institute to be managed efficiently and to provide a contingency reserve in the event of financial difficulty.

In practice, the Council considers that holding unrestricted reserves equivalent to six months' core costs provides sufficient resource to respond to unexpected adverse changes in the Institute's funding or activities. This is equivalent to between £120,000 and £130,000 based on current costs.

In calculating the reserves, the Council takes into account the deferred income (the portion of PPI Supporting Membership which falls in the subsequent financial year).

At the end of the financial year, 31 January 2005, the reserves level was £154,473 (2004 - £133,171) including the deferred income of £107,250.

The level of reserves is reviewed at regular intervals by the Council and is considered adequate in the context of current activities.

Investment policy and performance

Under the Memorandum and Articles of Association, the Institute has the power to deposit or invest funds in any manner (but to invest only after obtaining advice from a financial expert and having regard to the suitability of investments and the need for diversification).

Risk management

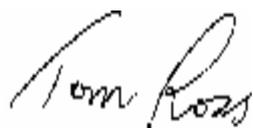
The Council has assessed the major risks to which the Institute is exposed, in particular those related to the operations and finances of the Institute, and is satisfied that systems are in place to mitigate its exposure to the major risks.

Auditors

Trustient were appointed as auditors of the Institute on 1 March 2005. A resolution proposing that Trustient be re-appointed as auditors of the Institute will be put to the Governors at the forthcoming Annual General Meeting.

This report was approved by the Council on 29 April 2005 and signed on its behalf, by:

By order of the Council



T M Ross OBE
PPI Chairman
29 April 2005



D Yeandle
Chairman of the Finance Sub-Committee
29 April 2005

Independent auditor's report to the members of the Pensions Policy Institute

We have audited the financial statements of the Pensions Policy Institute for the year ended 31 January 2005 set out on pages 16-26. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) under the historical cost convention and the accounting policies set out on pages 18-19.

This report is made solely to the Institute's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Institute's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Institute and the Institute's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of the Council Members and auditors

As described in the statement of Council Members' responsibilities, the Council Members are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice (SORP), 'Accounting and Reporting by Charities', published in October 2000.

We also report to you if, in our opinion, the Council's report is not consistent with the financial statements, if the Institute has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Council Members' remuneration and transactions with the Institute is not disclosed.

We read other information contained in the Institute's annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council Members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Institute's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Institute's affairs as at 31 January 2005 and of the incoming resources and application of resources, including its income and expenditure, for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The logo for Trustient, featuring a stylized, handwritten-style signature of the word "Trustient" in black ink.**Trustient**

Chartered Accountants
Registered Auditors

Buckingham House East
The Broadway
Stanmore
Middlesex
HA7 4EB

Date: 29 April 2005

Statement of Financial Activities for the year ending 31 January 2005 (incorporating income and expenditure account)

	Note	Restricted Funds 2005 £	Unrestricted Funds 2005 £	Total Funds 2005 £	Total Funds 2004 £
Incoming resources					
Donations, legacies and similar incoming resources	2	-	11,412	11,412	164,520
Activities in furtherance of the Institute's objects	3	33,921	120,275	154,196	24,600
Investment income	4	-	4,215	4,215	3,025
Total incoming resources		<u>33,921</u>	<u>135,902</u>	<u>169,823</u>	<u>192,145</u>
Resources expended					
Cost of generating funds:					
Fund raising costs	5	-	16,209	16,209	12,555
Charitable expenditure:					
Costs of activities in furtherance of the Institute's objects	7	31,067	183,452	214,519	189,340
Resources expended on managing and administering the Institute	6	-	22,189	22,189	18,158
Total resources expended	8	<u>31,067</u>	<u>221,850</u>	<u>252,917</u>	<u>220,053</u>
Net income/(expenditure) for the year		2,854	(85,948)	(83,094)	(27,908)
Total funds at 1 February 2004		<u>7,609</u>	<u>133,171</u>	<u>140,780</u>	<u>168,688</u>
Total funds at 31 January 2005		<u>£ 10,463</u>	<u>£ 47,223</u>	<u>£ 57,686</u>	<u>£ 140,780</u>

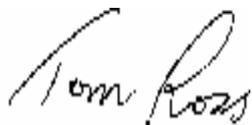
The Statement of Financial Activities includes all gains and losses recognised in the year. The notes on pages 18-26 form part of these financial statements.

Balance sheet as at 31 January 2005

	Note	£	2005 £	£	2004 £
Fixed assets					
Tangible fixed assets	11		1,702		4,630
Current assets					
Debtors	12	5,754		-	
Cash at bank		193,764		145,154	
			<u>199,518</u>	<u>145,154</u>	
Creditors: amounts falling due within one year	13	(143,534)		(9,004)	
			<u>55,984</u>	<u>136,150</u>	
Net current assets	16				
Net assets			<u>£ 57,686</u>	<u>£ 140,780</u>	
Institute funds					
Restricted Funds	15		10,463		7,609
Unrestricted - General Funds	15		47,223		133,171
			<u>£ 57,686</u>	<u>£ 140,780</u>	

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the Council Members on 29 April 2005 and signed on their behalf, by:



Tom Ross OBE
PPI Chairman



David Yeandle
Chairman of the Finance Sub-Committee

The notes on pages 18-26 form part of these financial statements.

Notes to the financial statements for the year ending 31 January 2005

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002). The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), 'Accounting and Reporting by Charities' published in October 2000, applicable accounting standards and the Companies Act 1985.

Some of the comparatives figures have been restated to more accurately comply with the accounting and disclosure requirements of SORP 2000.

1.2 Company status

The Institute is a company limited by guarantee. The members of the Institute are the Governors named on page 8. In the event of the Institute being wound up, the liability in respect of the guarantee is limited to £1 per member of the Institute.

1.3 Fund accounting

General funds are unrestricted funds which are available for use at the discretion of the trustees in furtherance of the general objectives of the Institute and which have not been designated for other purposes.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors which have been raised by the Institute for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund are set out in the notes to the financial statements.

1.4 Incoming resources

All incoming resources are included in the Statement of Financial Activities when the Institute is legally entitled to the income and the amount can be quantified with reasonable accuracy except as follows:

- When donors specify that donations and grants given to the Institute must be used in future accounting periods, the income is deferred until those periods.
- PPI Supporting Members renew their membership on a 12-month rolling basis. All membership income relating to the financial period covered by this report is recorded in the Statement of Financial Activity. Any membership income relating to the subsequent financial year is stated, for accounting purposes, as deferred income.

In the year ended 31 January 2005, the accounting policy with respect to donations has changed to recognise the increased benefits to donors granted by the introduction of a formal PPI Supporting Membership Scheme. Had the policy not been changed the incoming resources would have been £277,073 compared to the £169,823 highlighted in the Statement of Financial Activities (2004: £192,145).

Notes to the financial statements for the year ending 31 January 2005

1.5 Resources expended

All expenditure is accounted for on an accruals basis and has been included under expense categories that aggregate all costs for allocation to activities. Where costs cannot be directly attributed to particular activities they have been allocated on a basis consistent with the use of the resources.

Overheads have been allocated on the basis of cost of activities in furtherance of Institute's objects.

Fund-raising costs are those incurred in seeking voluntary contributions and do not include the costs of disseminating information in support of the charitable activities.

Management and administration costs are those incurred in connection with administration of the Institute and compliance with constitutional and statutory requirements.

1.6 Cash flow

The financial statements do not include a cash flow statement because the charitable company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

1.7 Tangible fixed assets and depreciation

All assets costing more than £300 are capitalised.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Office Equipment	- 10%	straight line
Computer Equipment	- 33.33%	straight line

1.8 VAT

The Institute is not registered for VAT. In common with many other registered charities, the Pensions Policy Institute's expenses are inflated by VAT, which cannot be recovered.

2. Donations, legacies and similar incoming resources

	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Donations	£ <u>11,412</u>	<i>£ <u>164,520</u></i>

Notes to the financial statements for the year ending 31 January 2005

3. Incoming resources from activities in furtherance of the Institute's objects

	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Nuffield Foundation	33,921	15,950
Other fees	2,975	1,750
Commissioned research	43,550	6,900
Membership income	73,750	-
Total	<u>£ 154,196</u>	<u>£ 24,600</u>

4. Investment income

	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Bank interest receivable	<u>£ 4,215</u>	<u>£ 3,025</u>

5. Fund raising costs

	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Salaries	<u>£ 16,209</u>	<u>£ 12,555</u>

6. Resources expended on managing and administering the Institute

	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Salaries	18,501	16,111
Audit and accountancy	3,390	1,819
Bank charges	298	228
Total	<u>£ 22,189</u>	<u>£ 18,158</u>

Notes to the financial statements for the year ending 31 January 2005

7. Cost of activities in furtherance of Institute's objects

	2005 £	2004 £
Salaries	158,693	148,598
Agency staff	748	-
Rent and rates	13,961	14,285
Repairs and maintenance	300	485
Insurance	331	330
Depreciation	2,928	2,929
Life assurance	750	750
Printing, postage and stationery	3,855	5,856
Publication costs	2,600	3,178
Seminars and conferences	529	792
Research	11,046	2,344
Travel and subsistence	2,773	2,475
Recruitment	4,441	-
Legal and professional fees	717	755
Council meetings	1,041	1,994
Telephone	2,338	1,422
IT costs	4,977	-
Website	1,351	1,710
Gratuities	-	161
Other costs	1,140	1,276
Total	<u>£ 214,519</u>	<u>£ 189,340</u>

Notes to the financial statements for the year ending 31 January 2005

8. Analysis of resources expended by expenditure type

	Staff Costs 2005 £	Depreciation 2005 £	Other Costs 2005 £	Total 2005 £	Total 2004 £
Costs of generating funds:					
Fund raising costs	16,209	-	-	16,209	12,555
Subtotal costs of generating funds	<u>16,209</u>	<u>-</u>	<u>-</u>	<u>16,209</u>	<u>12,555</u>
Charitable expenditure:					
Cost of activities in furtherance of Institute's objects	158,693	2,928	52,898	214,519	189,340
Resources expended on managing and administering the Institute	<u>18,501</u>	<u>-</u>	<u>3,688</u>	<u>22,189</u>	<u>18,158</u>
Subtotal charitable expenditure	<u>177,194</u>	<u>2,928</u>	<u>56,586</u>	<u>236,708</u>	<u>207,498</u>
Total resources expended	<u>£ 193,403</u>	<u>£ 2,928</u>	<u>£ 56,586</u>	<u>£ 252,917</u>	<u>£ 220,053</u>

9. Net incoming resources / (resources expended)

This is stated after charging:

	2005 £	2004 £
Depreciation of tangible fixed assets:		
- owned by the Institute	2,928	-
Auditors' remuneration	2,350	881
Pension costs	15,244	26,734

The pension cost in 2004 was higher due to backdated payments.

During the year, no Council Members received any remuneration (2004 - £NIL).

During the year, no Council Members received any benefits in kind (2004 - £NIL).

During the year, two Council Members received reimbursement of travel expenses - £138 (2004 - £NIL).

Notes to the financial statements for the year ending 31 January 2005

10. Staff costs and numbers

Staff costs were as follows:

	2005	2004
	£	£
Wages and salaries	160,876	135,649
Social security costs	17,283	14,881
Other pension costs	15,244	26,734
	<u>193,403</u>	<u>177,264</u>
	<u>£</u>	<u>£</u>

The pension cost in 2004 was higher due to backdated payments.

The average full-time equivalent number of employees during the year was as follows:

	2005	2004
	No.	No.
Charitable activities	4	3
Administration	1	1
	<u>5</u>	<u>4</u>

The number of higher paid employees was:

	2005	2004
	No.	No.
In the band £50,001 - £60,000	<u>2</u>	<u>1</u>

Notes to the financial statements for the year ending 31 January 2005

11. Tangible fixed assets

	Furniture, fittings and equipment £
Cost	
At 1 February 2004 and 31 January 2005	<u>10,386</u>
Depreciation	
At 1 February 2004	5,756
Charge for the year	<u>2,928</u>
At 31 January 2005	<u>8,684</u>
Net book value	
At 31 January 2005	<u>£ 1,702</u>
At 31 January 2004	<u>£ 4,630</u>

12. Debtors

Due within one year	2005 £	2004 £
Accrued income	<u>£ 5,754</u>	<u>£ -</u>

13. Creditors:

Amounts falling due within one year

	2005 £	2004 £
Social security and other taxes	6,785	4,753
Pension	1,000	-
Other creditors	205	2,446
Accruals	28,294	1,805
Deferred income (see note below)	<u>107,250</u>	<u>-</u>
	<u>£ 143,534</u>	<u>£ 9,004</u>

Notes to the financial statements for the year ending 31 January 2005

14. Deferred income

	2005 £	2004 £
Deferred income brought forward at 1 February 2004	-	-
Membership income received	181,000	-
Released to Statement Of Financial Activities	(73,750)	-
	<u>107,250</u>	<u>-</u>
Deferred income carried forward at 31 January 2005	<u>£ 107,250</u>	<u>£ -</u>

15. Statement of funds

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
Unrestricted funds				
General funds	<u>133,171</u>	<u>135,902</u>	<u>221,850</u>	<u>47,223</u>
Restricted funds				
Evaluating long-term policy reforms project	<u>7,609</u>	<u>33,921</u>	<u>31,067</u>	<u>10,463</u>
Total Funds	<u>£ 140,780</u>	<u>£ 169,823</u>	<u>£ 252,917</u>	<u>£ 57,686</u>

The restricted fund relates to a project funded by the Nuffield Foundation, *Evaluating long-term policy reform options in the UK pension system*. The aim of this project is to construct a suite of simulation models to analyse long-term outcomes of the current UK pension system and possible reforms.

The models will allow consistent analysis of individual outcomes, aggregate levels of government expenditure, and the distributional impact on pensioners' incomes. The models will enhance policy analysis, and add new capability in simulation modelling.

Summary of funds

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
General funds	133,171	135,902	221,850	47,223
Restricted funds	7,609	33,921	31,067	10,463
Total funds	<u>£ 140,780</u>	<u>£ 169,823</u>	<u>£ 252,917</u>	<u>£ 57,686</u>

Notes to the financial statements for the year ending 31 January 2005

16. Analysis of net assets between funds

	Restricted Funds 2005 £	Unrestricted Funds 2005 £	Total Funds 2005 £	<i>Total Funds 2004 £</i>
Tangible fixed assets	-	1,702	1,702	4,630
Current assets	10,463	189,055	199,518	145,154
Creditors due within one year	-	(143,534)	(143,534)	(9,004)
Total	<u>£ 10,463</u>	<u>£ 47,223</u>	<u>£ 57,686</u>	<u>£ 140,780</u>

17. Pension commitments

The Institute is a participating employer in a money purchase scheme administered by The Pensions Trust. The pensions cost charge represents contributions made by the Institute to The Pensions Trust and amounted to £15,244 (2004, £26,734). Contributions totalling £1,000 (2004, £NIL) were payable to the fund at the balance sheet date and are included in creditors.

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