

PENSIONS POLICY INSTITUTE

PPPI

ANNUAL REPORT AND FINANCIAL STATEMENTS
1 FEBRUARY 2005 to 31 JANUARY 2006

REGISTERED COMPANY NO: 04145584
CHARITY NO: 1087856
(ENGLAND & WALES)

PPI Annual Report and Statement of Financial Activity 2006

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The Pensions Policy Institute is an educational charity which provides non-political, independent comment and analysis on pension policy in the UK.

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

Chairman's report

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

An update on the PPI's activity

2005 was a remarkable year for pension policy in the UK. At the start of the year, the Government indicated for the first time that state pensions would be reformed. By the end of the year, the Government had committed to a pension reform White Paper by Spring 2006.

The PPI was set up to inform and educate on pension policy matters. We did not know that in its early days reform would feature so heavily on the policy agenda – and therefore on the PPI agenda. But I am very pleased that the PPI has been recognised for the quality, relevance and impartiality of its analysis, and that the PPI is an active independent contributor to the debate.

2005 was another exceptionally busy year for the PPI. To illustrate some of the PPI's activity, I would like to highlight the research and information output, the PPI's role in encouraging debate and the PPI's interactions with Government and policymakers. Before ending with a look forward to 2006/7, I will also cover the PPI's financial position and governance issues.

Research and information output

Not surprisingly, PPI research in 2005 was dominated by reform proposals. Many organisations published their own proposals, and a number of them commissioned analysis from the PPI, including the National Association of Pension Funds, EEF (The Manufacturers' Organisation), the Trades Union Congress, Norwich Union, and the Equal Opportunities Commission.

Assisted by a grant from the Nuffield Foundation, the PPI has developed a unique set of economic modelling tools that estimate the cost of future policy reform options and analyse the distributional consequences. The new insight this type of analysis reveals underpins not only the commissioned research referred to above, but also the PPI's own research. It means that PPI contributions to the pension reform debate are based on a solid foundation of fact-based analysis.

In the course of the year, the PPI published 3 major contributions to the policy debate:

- A factual assessment of the implications of the pension proposals of the three main parties, for the General Election in May.
- In September, a succinct 'state of the debate' commentary, covering all topics across both state and private pensions that are being considered for reform.
- In November, *What will pensions cost in future?*, a modelling-based review of the costs and distributional implications of the main state pension reform options under consideration.

The PPI also published *Occupational pension provision in the public sector* which considered the proposed reforms for this important area where the state is both policymaker and employer.

Eleven PPI Briefing Notes were published in 2005. These short summaries are among the most popular ways that the PPI informs; over 1,000 Briefing Notes are downloaded from the website in a typical month. The subjects for 2005 covered a wide range of topical issues including life expectancy, pension funds and coverage of the basic state pension.

The PPI's reference manuals, such as the *Pensions Primer* and *State Pensions Models*, are among the top downloads from the website. They are widely used by students as well as practitioners. 2005 saw an addition to the library with *Pension Facts*, a compendium of key facts and figures on demography, state pensions, private pensions and working at older ages.

PPI encouraging debate

A major strand of activity for the PPI in 2005 was the *Shaping a stable pensions solution* project, run in partnership with the Nuffield Foundation. This project aimed to find a consensus pensions solution, by debating the most critical pension issues on the interaction of state and private pensions.

The PPI was very pleased to run this project and considers it an important contribution to the reform debate. It involved around 80 experts from over 40 organisations in 5 seminar discussions through the year. Papers were written by the PPI and external contributors. The project was a real opportunity to fulfil the PPI's remit to 'extend and encourage debate', and such wide diversity of inputs improved the quality of the outputs.

The project provided an opportunity for some focused research on the most critical issues of the day. Papers covered topics such as "What should be the balance between state and private pensions?" "Should earnings-related pensions be voluntary or compulsory?" and "What should be the role of means-testing in state pensions?"

The timing could not have been better. A number of the themes debated in the Nuffield seminars were reflected in the Pensions Commission report published in November 2005. The consensus solution of the experts contributing to the Nuffield projects shares much common ground with the Pensions Commission's proposals, with some different emphasis. The consensus of the PPI/Nuffield project would prefer a simpler solution, with a far shorter period of transition, than the Pensions Commission recommended.

The publication of the final report of this project in March 2006 is another major piece of work for the Government to consider for the White Paper.

PPI interaction with Government and policymakers

There have been continued regular meetings of the PPI team with senior politicians, officials and representative organisations.

The team meets regularly with Department for Work and Pensions (DWP) and HM Treasury officials to swap notes on research and in particular on economic modelling. DWP and Government Actuary's Department officials reviewed the validity of PPI models and the DWP commissioned the PPI to validate one of its models.

Of particular interest in 2005 has been the PPI's interaction with the Pensions Commission. The PPI gave written and oral evidence following the Pensions Commission's First Report. We were delighted that John Hills was the keynote speaker at our 2005 AGM, and that he recognised the value of the PPI's contribution to the pension policy debate.

The PPI's initial response to the Commission's proposals made for an interesting seminar for our Supporting Members in December, and a publication in early 2006. As attention switches to the White Paper proposals, the PPI is preparing analysis on alternatives to the Pensions Commission proposals for state pension reform. And building on in-depth analysis of the KiwiSaver plans in New Zealand, the PPI will also be offering ideas for a national auto-enrolment savings scheme for the UK.

PPI financial position

As noted above, the PPI was commissioned in 2005 by a number of organisations. All the commissioned work adds to the stock of freely available independent and fact-based analysis on important pension policy issues. It is also a helpful funding stream for the PPI.

The PPI's core research and information activities are funded by regular donations made by Supporting Members, of whom there are currently 20. The level of this core funding has remained stable since the PPI started, which is very pleasing. Considering the range and quality of the activities this pays for – from research and information publications to communications such as speeches, presentations and the PPI website, as well as the more personal 'sounding board' meetings of the Director and Research Director – this is excellent value for money.

Last year I reported that the introduction of the Membership Scheme had resulted in a change in accounting policy. In line with the Statement of Recommended Practice for all registered charities, the portion of Supporting Members' donations which relates to the subsequent financial year is treated, for accounting purposes, as deferred income. Because of this, income appears artificially low in 2004/5.

Income increased very satisfactorily in the year 2005/6, and ahead of expenses. This excellent result means that the Institute's reserves have increased to the equivalent of seven months' expenditure and this gives us confidence to plan for a modest expansion of the research activities in the coming year.

PPI governance

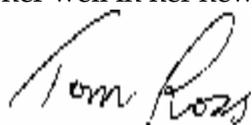
I am again very grateful for the efforts of my colleagues on Council for their support and commitment, and all the pro bono time they give to the PPI.

During 2005, the PPI's policies and procedures were updated. Council went through an effectiveness review, and agreed that as the PPI grows we would want to keep ahead of Charity Commission requirements and aim for best practice governance. In March 2006, Council decided to widen the responsibilities of the Nominations Committee. Under the new name of Governance Committee, it will continue to have responsibility for appointing Governors and also for reviewing governance processes where necessary.

Looking forward to 2006/7

In May 2005, Council met for a day of strategy discussions. We reaffirmed the reasons for the PPI's success: independent, quality fact-based research, well-communicated. We have kept a strong focus on pensions, which has helped to develop a unique expertise. The demands of the policy reform agenda have dictated a focus on state pension reform, on which the PPI has developed a thought leadership position. As reform moves into its next phase, after the White Paper and legislation, we look forward to applying the PPI's unique skills and position in the policy environment to wider subjects, but of course still within the retirement field.

Finally, we will be saying farewell to our Director, Alison O'Connell, in July 2006. Alison has made a remarkable contribution to the rapid establishment of the Institute as a unique and respected source of independent analysis and commentary on pension policy issues. On behalf of all those who have taken an interest in the Institute and its work, I want to thank her most warmly for her contribution. I am delighted that she will retain a connection with the Institute as a Governor and I wish her well in her new life.



T M Ross OBE
Chairman
25 April 2006

Legal and administrative information for the financial year ending 31 January 2006

Council Members

Professor Janet Askham	(appointed 2002, re-elected 2004)
Professor Eileen Evason	(appointed 2002, resigned 2005)
Professor Ruth Hancock	(appointed 2001, re-elected 2004)
Harriet Maunsell	(appointed 2005)
Paul Johnson	(appointed 2001, re-elected 2004)
Alison O'Connell (ex officio)	(appointed 2002)
John Pearson	(appointed 2002, re-elected 2004)
Stewart Ritchie OBE	(appointed 2001, re-elected 2003)
Rhoslyn Roberts	(appointed 2002, re-elected 2005)
Tom Ross OBE (Chairman)	(appointed 2001, re-elected 2005)
Joanne Segars OBE	(appointed 2001, re-elected 2004)
Teresa Sienkiewicz	(appointed 2003)
Peter Thompson	(appointed 2003)
Sue Ward	(appointed 2002, resigned 2005)
David Yeandle	(appointed 2001, re-elected 2003)
Andrew Young	(appointed 2002, re-elected 2005)

Institute Director	Alison O'Connell
Secretary	Alison O'Connell
President	Baroness Sally Greengross OBE (appointed 15 June 2004)

Governors

Ian Alexander (deceased 2005)	Sir Graham Hart	Michael Pomery
Ros Altmann	Tony Hobman	Stewart Ritchie OBE ***
Professor Janet Askham***	Ann Hope	Rhoslyn Roberts***
Professor Sir Tony Atkinson	Sue Howlett	Sir Steve Robson
Professor Sir George Bain	Nigel Inglis Jones QC	Michael Ross CBE
Brendan Barber	Paul Johnson***	Tom Ross OBE**
Scott Bell CBE	Professor Paul Johnson	Alastair Ross Goobey CBE
Professor Richard Berthoud	John Kay	Jane Samsworth
Rodney Bickerstaffe	Lord Kirkwood	Richard Saunders
Professor Philip Booth	Michael Lake CBE	Joanne Segars OBE***
Dame Ann Bowtell	Desmond Le Gry	David Severn
Professor Jonathan Bradshaw	Chris Lewin	Teresa Sienkiewicz***
Professor Gordon Clark	Paul Lewis	Brian Spence
Professor Sir Graeme Davies	Gordon Lishman OBE	Richard Stroud
Evan Davis	Iain Lumsden	Peter Thompson***
Professor Richard Disney	Anne Maher	Paul Thornton
Kenneth Dixon CBE	Bert Massie CBE	Nick Timmins
Professor John Ermisch	Harriet Maunsell***	Anthony Tomei
Professor Eileen Evason	Professor Stephen McNair	Professor Robert Walker
Jane Falkingham	Professor David Miles	Sue Ward
Christine Farnish	Professor Jane Millar OBE	Martin Weale CBE
Terry Faulkner	Peter Murray	Edward Weiss
Mary Francis	Professor Sir Alan Peacock	Anne Wood
Norman Glass CB	Brian Ridsdale	David Yeandle***
Baroness Sally Greengross OBE*	John Pearson***	Andrew Young***
Professor Ruth Hancock***	Chris Phillips	
Sarah Harper	Alan Pickering CBE	

* 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 2006.

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 7.

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 2006, 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 2006 are Stewart Ritchie, Teresa Sienkiewicz, Peter Thompson and David Yeandle. Stewart Ritchie will not be standing for re-election.

The Council Members who served throughout the period and at the date of this report are set out on page 6.

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 were active throughout the course of the year on specific areas of the Institute's management:

Finance Chair: David Yeandle
 Members: Teresa Sienkiewicz
 Rhoslyn Roberts

Funding Chair: Peter Thompson
 Members: Harriet Maunsell
 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 ensures an adequate level of funds is maintained to allow the charity to be managed efficiently and to provide a contingency reserve in the event of financial difficulty.

At the end of the last financial year, 31 January 2006, the free reserves were at £201,858 including the deferred income of £85,917 (2005: £152,771). This is sufficient for the charity to continue operating for a period of 7 months in the event of the worst case scenarios taking place. This is slightly higher than the agreed amount which is equivalent to 6 months and will be monitored by the Council.

Both the level of reserves and the policy are reviewed on an annual basis.

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

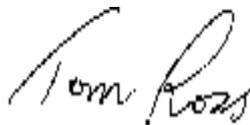
The Council has assessed the major risks to which the Institute is exposed, in particular those related to the operation and finances of the Institute, and is satisfied that systems are in place to mitigate its exposure to the major risks.

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 2006 and signed on its behalf:

By order of the Council



T M Ross OBE
PPI Chairman
25 April 2006



D J Yeandle
Chairman of the Finance Sub-Committee
25 April 2006

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 2006 set out on pages 15-25. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) the Statement of Recommended Practice: Accounting by Charities, under historical cost convention and the accounting policies set out on pages 17-18.

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 (United Kingdom Generally Accepted Accounting Practice applicable to charities).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 International Standards on Auditing (UK and Ireland) 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 judgments made by the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 in accordance with United Kingdom Generally Accepted Accounting Practice applicable to charities, of the state of the company's affairs as at 31 January 2006 and of its incoming resources and application of resources in the year.
- have been properly prepared in accordance with the Companies Act 1985.

The logo for Trustient, featuring the word "Trustient" in a stylized, handwritten-style font with a horizontal line above the letters.

Trustient
Chartered Accountants
Registered Auditors
Buckingham House East
The Broadway
Stanmore
Middlesex
HA7 4EB

Date: 25 April 2006

Statement of Financial Activities for the year ending 31 January 2006 (incorporating income and expenditure account)

	Note	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	Total Funds 2005 £
Incoming resources					
Donations and similar incoming resources	2	-	200	200	11,412
Activities in furtherance of the Institute's objects	3	77,986	259,275	337,261	154,196
Investment income	4	-	4,776	4,776	4,215
Total incoming resources		<u>77,986</u>	<u>264,251</u>	<u>342,237</u>	<u>169,823</u>
Resources expended					
Cost of generating funds:					
Fund raising costs	5	-	13,248	13,248	16,209
Charitable expenditure:					
Costs of activities in furtherance of the Institute's objects	7	72,118	158,868	230,986	214,519
Resources expended on managing and administering the Institute	6	-	20,593	20,593	22,189
Total resources expended	8	<u>72,118</u>	<u>192,709</u>	<u>264,827</u>	<u>252,917</u>
Net income/(expenditure) for the year		5,868	71,542	77,410	(83,094)
Total funds at beginning of year		<u>10,463</u>	<u>47,223</u>	<u>57,686</u>	<u>140,780</u>
Total funds at end of year		<u>£ 16,331</u>	<u>£ 118,765</u>	<u>£ 135,096</u>	<u>£ 57,686</u>

The Statement of Financial Activities includes all gains and losses recognised in the year. The notes on pages 17-25 form part of these financial statements.

Balance sheet as at 31 January 2006

	Note	£	2006 £	£	2005 £
Fixed assets					
Tangible fixed assets	11		2,824		1,702
Current assets					
Debtors	12	7,958		5,754	
Cash at bank		226,929		193,764	
			<u>234,887</u>	<u>199,518</u>	
Creditors: amounts falling due within one year	13	(102,615)		(143,534)	
			<u>132,272</u>	<u>55,984</u>	
Net current assets	16				
Net assets			<u>£ 135,096</u>	<u>£ 57,686</u>	
Institute funds					
Restricted Funds	15		16,331		10,463
Unrestricted - General Funds	15		118,765		47,223
			<u>£ 135,096</u>	<u>£ 57,686</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 25 April 2006 and signed on their behalf, by:



Tom Ross OBE
PPI Chairman



David Yeandle
Chairman of the Finance Sub-Committee

The notes on pages 17-25 form part of these financial statements.

Notes to the financial statements for the year ending 31 January 2006

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.

1.2 Company status

The Institute is a company limited by guarantee. The members of the Institute are the Governors named on page 7. 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 is 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.

Notes to the financial statements for the year ending 31 January 2006

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 and similar incoming resources

	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Donations	£ <u>200</u>	<i>£ <u>11,412</u></i>

Notes to the financial statements for the year ending 31 January 2006

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

	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Nuffield Foundation	77,986	33,921
Other fees	3,369	2,975
Commissioned research	82,740	43,550
Membership income	173,166	73,750
Total	<u>£ 337,261</u>	<u>£ 154,196</u>

4. Investment income

	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Bank interest receivable	<u>£ 4,776</u>	<u>£ 4,215</u>

5. Fund raising costs

	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Salaries	12,576	16,209
Other costs	672	-
	<u>£ 13,248</u>	<u>£ 16,209</u>

6. Resources expended on managing and administering the Institute

	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Salaries	16,315	18,501
Audit and accountancy	3,887	3,390
Bank charges	391	298
Total	<u>£ 20,593</u>	<u>£ 22,189</u>

Notes to the financial statements for the year ending 31 January 2006

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

	2006	2005
	£	£
Salaries	184,543	158,693
Agency staff	1,497	748
Rent and rates	13,839	13,961
Repairs and maintenance	-	300
Insurance	332	331
Depreciation	1,057	2,928
Life assurance	750	750
Printing, postage and stationery	2,690	3,855
Publication costs	1,695	2,600
Seminars and conferences	-	529
Research	9,156	11,046
Travel and subsistence	3,440	2,773
Recruitment	3,775	4,441
Legal and professional fees	980	717
Council meetings	1,457	1,041
Telephone	2,137	2,338
IT costs	1,634	4,977
Website	1,370	1,351
Other costs	634	1,140
Total	<u>£ 230,986</u>	<u>£ 214,519</u>

Notes to the financial statements for the year ending 31 January 2006

8. Analysis of resources expended by expenditure type

	Staff Costs 2006 £	Depreciation 2006 £	Other Costs 2006 £	Total 2006 £	Total 2005 £
Costs of generating funds:					
Fund raising costs	12,576	-	672	13,248	16,209
Subtotal costs of generating funds	<u>12,576</u>	<u>-</u>	<u>672</u>	<u>13,248</u>	<u>16,209</u>
Charitable expenditure:					
Cost of activities in furtherance of Institute's objects	184,543	1,057	45,386	230,986	214,519
Resources expended on managing and administering the Institute	<u>16,315</u>	<u>-</u>	<u>4,278</u>	<u>20,593</u>	<u>22,189</u>
Subtotal charitable expenditure	<u>200,858</u>	<u>1,057</u>	<u>49,664</u>	<u>251,579</u>	<u>236,708</u>
Total resources expended	£ <u>213,434</u>	£ <u>1,057</u>	£ <u>50,336</u>	£ <u>264,827</u>	£ <u>252,917</u>

9. Net incoming resources / (resources expended)

This is stated after charging:

	2006 £	2005 £
Depreciation of tangible fixed assets:		
- owned by the Institute	1,057	2,928
Auditors' remuneration	2,785	2,350
Pension costs	18,386	15,244

During the year, no Council Members received any remuneration (2005 - £NIL).

During the year, no Council Members received any benefits in kind (2005 - £NIL).

During the year, one Council Member received reimbursement of travel expenses - £139 (2005 - £138).

Notes to the financial statements for the year ending 31 January 2006

10. Staff costs and numbers

Staff costs were as follows:

	2006	2005
	£	£
Wages and salaries	175,219	160,876
Social security costs	19,829	17,283
Other pension costs	18,386	15,244
	<u>£ 213,434</u>	<u>£ 193,403</u>

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

	2006	2005
	No.	No.
Charitable activities	4	4
Administration	1	1
	<u>5</u>	<u>5</u>

The number of higher paid employees was:

	2006	2005
	No.	No.
In the band £50,001 - £60,000	<u>2</u>	<u>2</u>

Notes to the financial statements for the year ending 31 January 2006

11. Tangible fixed assets

	Furniture, fittings and equipment £
Cost	
At 1 February 2005	10,386
Additions	<u>2,179</u>
At 31 January 2006	<u>12,565</u>
Depreciation	
At 1 February 2005	8,684
Charge for the year	<u>1,057</u>
At 31 January 2006	<u>9,741</u>
Net book value	
At 31 January 2006	<u>£ 2,824</u>
At 31 January 2005	<u>£ 1,702</u>

12. Debtors

Due within one year	2006 £	2005 £
Prepayments	2,000	
Grants receivable	<u>5,958</u>	<u>5,754</u>
	<u>£ 7,958</u>	<u>£ 5,754</u>

13. Creditors:

Amounts falling due within one year

	2006 £	2005 £
Social security and other taxes	-	6,785
Pension	1,622	1,000
Other creditors	1,878	205
Accruals	13,198	28,294
Deferred income (see note below)	<u>85,917</u>	<u>107,250</u>
	<u>£ 102,615</u>	<u>£ 143,534</u>

Notes to the financial statements for the year ending 31 January 2006

14. Deferred income

	2006 £	2005 £
Deferred income brought forward at 1 February 2005	107,250	-
Membership income received in advance	85,917	181,000
Released to Statement Of Financial Activities	(107,250)	(73,750)
	<u> </u>	<u> </u>
Deferred income carried forward at 31 January 2006	<u>£ 85,917</u>	<u>£ 107,250</u>

15. Statement of funds

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
Unrestricted funds				
General funds	<u>47,223</u>	<u>264,251</u>	<u>192,709</u>	<u>118,765</u>
Restricted funds				
Evaluating long-term policy reforms project	10,463	39,986	38,618	11,831
Shaping a stable pensions solution	<u>-</u>	<u>38,000</u>	<u>33,500</u>	<u>4,500</u>
Subtotal	<u>10,463</u>	<u>77,986</u>	<u>72,118</u>	<u>16,331</u>
Total Funds	<u>£ 57,686</u>	<u>£ 342,237</u>	<u>£ 264,827</u>	<u>£ 135,096</u>

Evaluating long-term policy reform options in the UK pension system project is funded by the Nuffield Foundation. 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.

Shaping a stable pensions solution project, is run in partnership with the Nuffield Foundation. This project is aimed to find a consensus pensions solution, by debating the most critical pension issues on the interaction of state and private pensions.

Summary of funds

	Brought Forward £	Incoming Resources £	Resources Expended £	Carried Forward £
General funds	47,223	264,251	192,709	118,765
Restricted funds	10,463	77,986	72,118	16,331
Total funds	<u>£ 57,686</u>	<u>£ 342,237</u>	<u>£ 264,827</u>	<u>£ 135,096</u>

Notes to the financial statements for the year ending 31 January 2006

16. Analysis of net assets between funds

	Restricted Funds 2006 £	Unrestricted Funds 2006 £	Total Funds 2006 £	<i>Total Funds 2005 £</i>
Tangible fixed assets	-	2,824	2,824	1,702
Current assets	16,331	218,556	234,887	199,518
Creditors due within one year	-	(102,615)	(102,263)	(143,534)
Total	<u>£ 16,331</u>	<u>£ 118,765</u>	<u>£ 135,096</u>	<u>£ 57,686</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 £18,386 (2005, £15,244). Contributions totalling £1,622 (2005, £1,000) were payable to the fund at the balance sheet date and are included in creditors.

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