

The Institute of Economic Affairs
(A Charitable Company Limited by Guarantee)

REPORT AND FINANCIAL STATEMENTS

31 December 2004



Company Registration No. 755502
Registered Charity No. CC/235351

The Institute of Economic Affairs

TRUSTEES AND OFFICERS

Company Registration Number: 755502

Charity Registration Number: CC/235351

TRUSTEES

Professor DR Myddelton	Chairman
Kevin Bell	
Robert Boyd	
Michael Fisher	
Malcolm McAlpine	
Professor Anthony PL Minford	
Professor Martin Ricketts	
Sir Peter Walters	
Linda Whetstone	

SECRETARY

C Batty

REGISTERED OFFICE

2 Lord North Street
Westminster
London SW1P 3LB

AUDITORS

Baker Tilly
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Herts
WD17 1JJ

BANKERS

Barclays Bank plc
Pall Mall Corporate Banking Centre
Pall Corporate Group
PO Box 15163
London SW1A 1QD

The Institute of Economic Affairs

TRUSTEES' REPORT

The Trustees submit their report and the financial statements of The Institute of Economic Affairs for the year ended 31 December 2004.

STATUS

The organisation is a charitable company limited by guarantee, established through a trust deed in November 1955 and incorporated in 1963. It is a registered charity. The company was established under a *Memorandum of Association* which established the objects and powers of the charitable company and is governed under its Articles of Association.

OBJECTS

The company is a charity and its principal activity during the year was the promotion and advancement of learning by research into economic and political science, and by educating the public therein.

RESULTS

Net resources expended for the year were £188,000, £24,000 of which was in relation to restricted projects. The net decrease in funds after realised and unrealised gains and losses on investments was £125,000.

ORGANISATION

The IEA's activities are grouped into seven main areas:

- Research
- Publications
- Website
- Conferences, lectures and special events
- A programme for teachers and students
- Donations
- Administration

The IEA is managed by the Director General, who oversees all aspects of its activities and is responsible for achieving its goals reporting three times a year to the full board of Trustees and monthly to its Finance and General Purposes Committee.

REVIEW OF ACTIVITIES AND ACHIEVEMENTS

During 2004 the Institute published or reprinted 12 titles, and imported and distributed a further 9 titles. It organised 24 major conferences and many more lunch, dinner and evening events.

FUTURE STRATEGY

The IEA intends to continue to enhance its programmes in 2005. Emphasis will continue to be put on development of the website and the programme for teachers and students in addition to its publications and its conferences, seminars, lectures and other events. Our main focus is on four areas related to free markets: regulation, taxation, the welfare state and the impact of the European Union.

RESERVES POLICY

The Trustees' policy, which is reviewed annually, is to maintain unrestricted reserves equivalent to at least six months' expenditure. This is deemed sufficient to maintain normal operations in the event of possible seasonal fluctuations in donations and expenditure. Any shortfall in reserves may be covered by a transfer from the Warren Fund. The free reserves of the Charity as of 31 December 2004, defined as being unrestricted, undesignated funds not represented by fixed assets were £3,000.

INVESTMENT POLICY

The Institute's educational mission has a long-term orientation, whereas its ability to carry out its work depends on attracting annual donations in a highly competitive fund-raising environment. At the same time, opportunities may occur to advance the Institute's work through special projects. Accordingly, it is the Trustees' policy to manage investments in a conservative manner, mostly in managed funds and government securities. Investment income is not reinvested but used to support the Institute's work. Investment results are reviewed regularly and policy is reviewed annually.

The Institute of Economic Affairs

TRUSTEES' REPORT

GRANT MAKING POLICY

The Trustees make occasional grants to individuals to support their research and attend conferences. These are often from restricted funds raised specifically for such purposes. From time to time, grants may be made to other institutes, but this is not a regular part of the Institute's work. In both cases, projects are assessed in terms of the Institute's mission to improve understanding of a free society with particular reference to the role of markets in solving economic and social problems.

RISK REVIEW

The primary risks to which the IEA is exposed are reputational, loss of key personnel, and financial.

Reputational risk centres on the quality and integrity of the Institute's research. All the IEA's publications are peer reviewed. The IEA is independent from commercial, political or other interests. It does not accept commissions to perform research on behalf of others. The Trustees regularly examine the major strategic, operational and financial risks which the Institute faces. Policies and systems have been established to mitigate and monitor these risks.

MARKET VALUE OF LAND AND BUILDINGS

The trustees are of the opinion that the market value of property at 31 December 2004 would exceed the net book values included in the financial statements.

TRUSTEES

The following trustees have held office since 1 January 2004:

Professor DR Myddelton	Chairman
Kevin Bell	
Robert Boyd	
Carolyn J Fairbairn	Resigned 2 November 2004
Michael Fisher	
Malcolm McAlpine	
Professor Anthony PL Minford	
Professor Martin Ricketts	
Lord Vinson, LVO	Resigned 1 June 2004
Sir Peter Walters	
Linda Whetstone	

We are very grateful to Carolyn Fairbairn, who retired during the year, for her advice and assistance to the Institute.

We are most grateful to Lord Vinson, who has been a Trustee since November 1971, who decided not to stand for re-election in June 2004.

None of the trustees has an interest, direct or indirect, in any contract entered into by the Institute.

The Trustees may from time to time and at any time, appoint any person to be a Trustee, provided that the prescribed maximum of twelve Trustees be not exceeded. Any Trustee so appointed shall retain office until the next Annual General Meeting, but will then be eligible for re-election.

TAXATION STATUS

The company is a registered charity and, as such, for taxation purposes is entitled to exemption under the Income and Corporation Taxes Act 1988.

The Institute of Economic Affairs

TRUSTEES' REPORT

AUDITORS

A resolution to appoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board



Professor DR Myddelton
Chairman

7 June 2005

The Institute of Economic Affairs

TRUSTEES' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The Trustees are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and the incoming resources and application of resources, including the net income and expenditure for the year. In preparing those financial statements, the Trustees are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures *disclosed and explained in the financial statements*; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue on that basis.

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charity and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE INSTITUTE OF ECONOMIC AFFAIRS

We have audited the financial statements on pages 7 to 16.

This report is made solely to the charitable company'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 charitable company'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 charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The responsibilities of the trustees (who are also the directors of The Institute of Economic Affairs for the purposes of company law) for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Trustees' Responsibilities.

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. We also report to you if, in our opinion, the Annual Report is not consistent with the financial statements, if the charitable company 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 trustees' remuneration and transactions with the charity is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the charitable company Trustees Report. 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 judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 charitable company's affairs as at 31 December 2004 and of its 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.

Baker Tilly

Registered Auditor
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Herts WD17 1JJ

7 June 2005

The Institute of Economic Affairs

STATEMENT OF FINANCIAL ACTIVITIES (INCLUDING AN INCOME AND EXPENDITURE ACCOUNT)

31 December 2004

		Unrestricted	Restricted	Total	Total
	Notes	funds	funds	2004	2003
		£000	£000	£000	£000
INCOMING RESOURCES					
Membership donations	1	604	88	692	827
Activities in furtherance of the charity's objects:					
Academic programme:					
Publications and subscriptions		89	-	89	97
Lectures, conferences and seminars		184	-	184	144
Other income		4	-	4	7
Activities for generating funds:					
Investment income		27	-	27	32
Interest receivable		7	-	7	9
Total incoming resources		915	88	1,003	1,116
RESOURCES EXPENDED					
Charitable expenditure					
Costs of activities in furtherance of the charity's objects:					
Membership support		55	-	55	104
Academic programme:					
Publications		272	105	377	245
Lectures, conferences and seminars		348	7	355	360
Communications and distribution		188	-	188	240
Support costs	2	152	-	152	128
Management and administration	3	64	-	64	63
Total resources expended		1,079	112	1,191	1,140
NET RESOURCES EXPENDED					
BEFORE TRANSFERS	4	(164)	(24)	(188)	(24)
Gross transfers between funds	11	(3)	3	-	-
NET RESOURCES EXPENDED		(167)	(21)	(188)	(24)
Gains/(losses) on investment assets					
Realised	8	(1)	-	(1)	6
NET INCOME/(EXPENDITURE)		(168)	(21)	(189)	(18)
Unrealised	8	64	-	64	92
NET MOVEMENT IN FUNDS		(104)	(21)	(125)	74
TOTAL FUNDS BROUGHT FORWARD					
		2,101	71	2,172	2,098
TOTAL FUNDS CARRIED FORWARD					
	14	1,997	50	2,047	2,172

All of the above results are derived from continuing activities.

The Institute of Economic Affairs

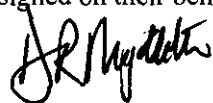
BALANCE SHEET

31 December 2004

	Notes	2004 £000	2003 £000
FIXED ASSETS			
Tangible assets	7	881	875
Investments	8	1,024	1,041
		<u>1,905</u>	<u>1,916</u>
CURRENT ASSETS			
Debtors	9	87	72
Cash at bank and in hand		236	287
		<u>323</u>	<u>359</u>
CREDITORS: Amounts falling due within one year	10	(181)	(103)
NET CURRENT ASSETS		<u>142</u>	<u>256</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,047</u>	<u>2,172</u>
FUNDS			
Restricted funds	11	50	71
Unrestricted funds			
Designated funds (including revaluation reserve £141,000)	12	1,813	1,917
General funds	13	184	184
TOTAL FUNDS	14	<u>2,047</u>	<u>2,172</u>

Approved by the Trustees on
and signed on their behalf by

7 June 2005



Professor DR Myddelton

Trustee

The Institute of Economic Affairs

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments at market value, and in accordance with the Companies Act 1985 and follow the recommendations in Accounting and Reporting by Charities: Statement of Recommended Practice, issued in October 2000.

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets other than investment properties at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Freehold property	over 40 years
Office equipment	over 3 years

Investment properties are stated at cost, as the trustees consider that the costs of a valuation outweigh the benefit to the users of the accounts.

STOCKS AND WORK IN PROGRESS

No value for accounts purposes is attributed to stocks of unsold publications.

PENSION CONTRIBUTIONS

The Institute operates a defined contribution scheme. Contributions are charged to the Statement of Financial Activities as incurred.

INCOMING RESOURCES

Income from donations is included in incoming resources when these are receivable, except :

- when donors specify that donations given to the charity must be used in future accounting periods, the income is deferred until those periods;
- when donors impose conditions, which have to be fulfilled before the charity becomes entitled to use such income, the income is deferred and not included in incoming resources until the pre-conditions for use have been met.

Subscription income is credited to incoming resources for the subscription period covered.

All other income including income from investments is credited to incoming resources when receivable by the charity.

RESOURCES EXPENDED

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributable to particular headings they have been allocated to activities on a basis consistent with use of the resources.

FOREIGN CURRENCY

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the statement of financial activities.

RESEARCH EXPENDITURE

Research expenditure is written off in the accounts as it is incurred.

The Institute of Economic Affairs

ACCOUNTING POLICIES

RESTRICTED AND DESIGNATED FUNDS

Restricted funds are those donated to the Institute for a specific purpose. Designated funds are unrestricted funds for which the Trustees have currently designated specific purposes.

INVESTMENTS

Investments held as fixed assets are stated at year end market value.

The Institute of Economic Affairs

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1	MEMBERSHIP DONATIONS	2004 £000	2003 £000
	Foundations, corporate and individuals	694	827
		<hr/>	<hr/>
2	SUPPORT COSTS	2004 £000	2003 £000
	Salaries and staff costs	74	56
	Printing, postage and stationery	13	23
	Premises expenses	55	38
	Sundry office expenses	10	11
		<hr/>	<hr/>
		152	128
		<hr/>	<hr/>
3	MANAGEMENT AND ADMINISTRATION	2004 £000	2003 £000
	Salaries and staff costs	57	54
	Audit and accountancy	7	6
	Legal and professional	-	3
		<hr/>	<hr/>
		64	63
		<hr/>	<hr/>
4	NET INCOMING RESOURCES/(RESOURCES EXPENDED)	2004 £000	2003 £000
	Net incoming resources/(resources expended) for the year are stated after charging:		
	Depreciation	30	30
	Auditors' remuneration	7	6
		<hr/>	<hr/>

5 TAXATION

The Institute is not liable to corporation tax on its income and gains in the current year to the extent that they are applied for charitable purposes.

The Institute of Economic Affairs
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

6	EMPLOYEES	2004 No.	2003 No.
	The average monthly number of persons employed by the Institute during the year was:		
	Office and management	12	13
		<hr/>	<hr/>
		2004 £000	2003 £000
	Staff costs for above persons:		
	Wages and salaries	432	422
	Social security costs	49	47
	Other pension costs	38	37
		<hr/>	<hr/>
		519	506
		<hr/>	<hr/>
	The number of employees whose emoluments as defined for taxation purposes amounted to over £50,000 in the year was as follows:	2004 No.	2003 No.
	£ 50,001 - £ 60,000	1	1
	£110,001 - £120,000	1	1
		<hr/>	<hr/>

The employees earning over £50,000 participate in the company pension scheme. Contributions paid in the year in respect of these employees amounted to £28,000 (2003 £29,000).

No trustee, or person related or connected to them, has received any remuneration or reimbursement of expenses from the Institute during the year.

7 TANGIBLE FIXED ASSETS

	Freehold properties £000	Equity share in leasehold property £000	Office equipment £000	Total £000
Cost or valuation				
31 December 2003	936	71	92	1,099
Additions	19	-	17	36
31 December 2004	<hr/> 955	<hr/> 71	<hr/> 109	<hr/> 1,135
Depreciation				
31 December 2003	138	-	86	224
Charged in the year	23	-	7	30
31 December 2004	<hr/> 161	<hr/> -	<hr/> 93	<hr/> 254
Net book value				
31 December 2004	<hr/> 794	<hr/> 71	<hr/> 16	<hr/> 881
31 December 2003	<hr/> 798	<hr/> 71	<hr/> 6	<hr/> 875

The Institute of Economic Affairs

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

8	FIXED ASSETS INVESTMENTS	Equities £000	Open-end funds £000	Fixed interest securities £000	Currency £000	Total £000
	Market value at 31 December 2003	198	318	507	18	1,041
	Additions	14	-	-	11	25
	Disposals	-	-	(105)	-	(105)
	Realised loss	-	-	(1)	-	(1)
	Unrealised gain	18	35	11	-	64
	Market value at 31 December 2004	230	353	412	29	1,024
	Historical cost at 31 December 2004	141	308	405	29	883

The following investments represent more than 5% of the value of the charity's investment portfolio:

	2004 £000	2003 £000
Treasury 5% stock 2004	-	81
Treasury 5.75% stock 2009	187	188
Treasury 2.5% stock 2020	170	160
Gartmore UK Index Fund	223	199
Fidelity Funds International Fund (Luxembourg)	56	52
Franklin Templeton Global Growth Fund (Luxembourg)	75	67

Equities and fixed interest securities are held directly by the Charity. Equities include £65,000 (2003 £60,000) and open-ended funds £131,000 (2003 £119,000) of non-UK investments.

9	DEBTORS	2004 £000	2003 £000
	Due within one year:		
	Trade debtors	62	43
	Other debtors	1	7
	Income tax recoverable	12	-
	Prepayments and accrued income	12	22
		87	72
10	CREDITORS: Amounts falling due within one year	2004 £000	2003 £000
	Trade creditors	61	49
	Taxation and social security	20	18
	Other creditors and accruals	42	36
	Deferred income	58	-
		181	103

The Institute of Economic Affairs

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

11 RESTRICTED FUNDS

The income funds of the Institute include restricted funds comprising the following unexpended balance of donations and grants held in trust to be applied for specific purposes:

	Movement in funds				
	At 31 December 2003 £000	Income £000	Expenditure £000	Transfers £000	At 31 December 2004 £000
Classical Liberal Publication	9	5	(5)	-	9
Student and Teacher Outreach Programme	-	41	(44)	3	-
UK's relationship with Europe publication update	27	-	(25)	-	2
European Free Trade Publication	9	11	(18)	-	2
Railways and Goods Publication	1	2	(2)	-	1
British Countryside Publication	25	-	-	-	25
Foundation for Business Responsibility	-	18	(18)	-	-
Lord Harris Travel Fund	-	11	-	-	11
	<u>71</u>	<u>88</u>	<u>(112)</u>	<u>3</u>	<u>50</u>

The Classical Liberal Publication Fund was provided by the Earhart Foundation of Ann Arbor, Michigan to support a study of social capital by Drs John Meadowcroft & Mark Pennington.

The British Countryside Publication Fund was provided by the Esmee Fairbairn Foundation of London, UK to support a multi-authored monograph on the economics of the countryside to be published Autumn 2005.

Foundation for Business Responsibility - the second of three grants from the Foundation Business Responsibility of London, UK to support monographs, events and other activities relating to the moral aspects of the market economy.

Lord Harris Travel Fund was monies collected from a range of sources to defray travel costs for Lord Harris of High Cross. The fund is to be used in February 2005.

The Institute of Economic Affairs
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2004

12 DESIGNATED FUNDS

	At 31 December 2003 £000	Income £000	Expenditure £000	Investment gains £000	Transfers £000	At 31 December 2004 £000
Freehold Fund	755	-	-	-	-	755
Leonard Harris Fund	24	-	(5)	-	-	19
Novak Fund	7	-	(1)	-	-	6
The Malcolm Fund	358	-	-	23	-	381
Warren Fund	761	-	-	40	(161)	640
Aims of Industry Fund	12	-	-	-	-	12
	<u>1,917</u>	<u>-</u>	<u>(6)</u>	<u>63</u>	<u>(161)</u>	<u>1,813</u>

The Freehold Fund represents donations made to the Institute currently designated and used by the Trustees for the purpose of acquiring freehold property.

The Leonard Harris Fund has currently been designated by the Trustees to make grants.

The Novak Fund represents donations made to the Institute currently designated and used by the Trustees for the purpose of funding a series of annual lectures.

The Malcolm Fund was set up with the aim of producing income to promote research into the further reduction in the size of the public sector and to promote an interest in market economy policies on the part of teachers and senior pupils.

The Warren Fund is used by the Trustees to support major commitments, fund unforeseen revenue shortfalls, and to generate investment income to support the Institute's activities.

The Aims of Industry Fund was received in 2001 and is to be used for the following purposes:

- (i) to fund teachers and students to attend IEA and IEA related events as Michael Ivens Fellows; and
- (ii) to pay any costs associated with the awarding annually of the Free Enterprise Award.

13 UNRESTRICTED FUNDS

	At 31 December 2003 £000	Income £000	Expenditure £000	Investment Gains £000	Transfers £000	At 31 December 2004 £000
General income and expenditure account	-	915	(1,073)	-	158	-
Other general fund	184	-	-	-	-	184
	<u>184</u>	<u>915</u>	<u>(1,073)</u>	<u>-</u>	<u>158</u>	<u>184</u>
Designated Funds (see note 12)	1,917	-	(6)	63	(161)	1,813
	<u>2,101</u>	<u>915</u>	<u>(1,079)</u>	<u>63</u>	<u>(3)</u>	<u>1,997</u>

The Institute of Economic Affairs

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

14	ANALYSIS OF NET ASSETS BETWEEN FUNDS	Designated Funds £000	General Funds £000	Restricted funds £000	Total funds £000
	Fund balances at 31 December 2004 are represented by:				
	Tangible fixed assets	700	181	-	881
	Investments	1,024	-	-	1,024
	Current assets	89	184	50	323
	Current liabilities	-	(181)	-	(181)
	Total net assets	<u>1,813</u>	<u>184</u>	<u>50</u>	<u>2,047</u>

15 PENSION SCHEMES

The Institute operates a defined contribution scheme and contributions to the scheme are made to an independent insurance company.

The pension costs of the Institute's scheme amounted to £38,000 (2003: £37,000). There were no contributions outstanding at the end of either the current or preceding financial years.

16 STATUS

The Institute is a company limited by guarantee and has no share capital. The Institute had 9 (2003: 12) members at the year end.

The Memorandum of Association provides that members are liable to contribute a sum not exceeding £1 each in the event of the company being wound up while they are members or within one year of ceasing to be members.