

**Overseas
Development
Institute**

Annual Report and Financial Statements
31 March 2014

Company Limited by Guarantee, registration number
661818 (England and Wales)

Charity registration number: 228248

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REPORT OF THE TRUSTEES

Reference and Administrative Information

ODI Charity Board of Trustees

James Cameron – Chair

Ann Grant

Isobel Hunter

Kate Jenkins (Resigned 14 October 2013)

Richard Laing

Martin Tyler

Sue Unsworth

Stewart Wallis OBE

Chris West

ODI Sales Ltd (Trading Subsidiary) Board of Directors

Richard Laing – Chair

Peter Cleland

Martin Tyler

Fraser Winterbottom

(Executive) Director

Kevin Watkins (from June 2013)

Andrew Norton (interim April – June 2013)

Secretary

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ODI Sales Ltd Company registration number	7157505 (England and Wales)
Charity registration number	228248
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Objectives and Activities

Charitable Objects and Mission

The Institute's primary object, as set out in our Memorandum, is to promote the study and discussion of and the exchange of information upon the economic and social development of nations, and the influence thereon of various policies, actions and institutions. This primary object is reflected by ODI's mission statement: to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods in developing countries.

ODI aims to achieve its object and mission by locking together high quality applied research, practical policy advice, and policy-focused dissemination and debate. To do this, we work with partners in the public and private sectors, in both developing and developed countries.

Our new strategic priorities

ODI launched its new three-year strategy *Rising to the global challenge – going to the next level of impact*, in March 2014. The immediate backdrop to the new strategy is a decade of momentous change. Progress towards the Millennium Development Goals (MDGs) has been impressive, but many countries will miss the 2015 deadline for their achievement. Poverty has fallen and many developing countries have achieved rates of economic growth that have outstripped OECD averages. Wider human development indicators – from child survival to school participation – are improving. Democracy is spreading and new technologies are pushing back the frontiers of what is possible in development.

But economic success in parts of the developing world masks deep inequalities, making it imperative that future growth is fair and equal. Meanwhile, the impacts of climate change threaten to undermine the sustainability of hard-won development progress. These new challenges, taken together, shape ODI's five strategic priorities.

Our new strategic priorities reflect the changing context in which ODI works, focusing on areas where we are well-placed to identify practical, evidence-based solutions to real problems and to inform the wider policy dialogue. The aim: to maximise the impact of our resources at every level. We will mobilise the full and combined weight of our research, communication and convening capabilities around these priorities, working with others to make a difference.

1. Leave no-one behind: Eradicating absolute poverty and equalising opportunity

Despite impressive progress on poverty in recent years, there are still more than one billion people living on less than \$1.25 a day and another three billion – at least – on less than \$2.50 a day. Global inequality is growing, a reflection, primarily, of elite incomes that are rising at speed. This has slowed the pace of poverty reduction, while already extreme gaps in health, nutrition, education and other aspects of human development are widening.

ODI aims to influence the post-2015 agenda by informing approaches to poverty and inequality, identifying best practices on social protection, and engaging in the debates that matter. We will build integrated approaches to development finance, humanitarian provision and climate finance, with a focus on fragile states. We shall strengthen engagement with the private sector and our voice on poverty and inequality.

2. Sustainable futures: Promoting effective action on climate change and managing resources sustainably

Few challenges to development are more pressing than climate change. Creating the conditions for a global climate deal requires fundamental shifts – in particular, breaking the link between economic growth and our continued reliance on carbon-based energy. Even with effective decarbonisation of the global economy, the climate change effects that are already locked in need urgent action to build resilience and strengthen disaster preparedness.

ODI aims to inform the debates around key events, including climate change summits, and highlight links between climate change and poverty. We will explore climate finance, green economic transitions, how public policy can leverage private investment for renewable energy in developing countries and how to balance competing claims for natural resources. We will also review incentives for fossil-fuel subsidies in OECD and developing countries.

3. Saving lives, reducing vulnerability: Protecting people threatened by conflict, disasters and insecurity

Many countries and communities are still plagued by conflict and violence, with the most disadvantaged people still facing the greatest risks to their lives, their health and their livelihoods. Some societies that were on the brink of positive political change or of consolidating political freedoms have fallen back into civil conflict, proving that development gains are often more fragile than we would like to think.

ODI aims to build on its track record and growing partner network to argue for a more inclusive and effective humanitarian system, looking beyond the humanitarian sector to engage with a wider foreign-policy audience. We will seek new ways to empower communities to reduce their vulnerability to conflict and violence. Recognising violence against women as a threat to human security, we aim to inform dialogue on this problem and the possible solutions.

4. Effective institutions, engaged citizens: Building accountable and inclusive institutions

Public institutions are the centre of the social contract between citizens and states, shaping the delivery of public goods and basic services. Citizens use institutions to express democratic rights, solve common problems and hold leaders accountable; governments use them to mobilise and spend public money. But a crisis of confidence in institutions is undermining their role in progress, including a lack of trust in politics and the perceived failure of 'business as usual' approaches.

ODI aims to stress practical solutions, rather than the internal workings of institutions themselves. We focus on three areas: service delivery to marginalised groups, budgeting and public finance management, and the participation of citizens in political processes. We will create

a multi-year, ODI-wide initiative combining research, policy engagement and public affairs on the politics of service delivery reform, focused on selected 'cities under stress' and fragile contexts.

5. Transformative growth: Increasing productivity and creating jobs through transformative growth

Future progress on all of the major development deficits – from poverty to health and from malnutrition to education – depends on whether the poorest countries can achieve economic growth that is genuinely transformative. Such growth would raise productivity, generate jobs, underpin the growing tax base needed to extend services, and provide a basis for shared prosperity.

At international level, ODI focuses on global economic governance to identify the rules and practices in international trade and finance that foster growth in developing countries. At national level, we aim to identify strategies to raise productivity, build skills, generate jobs and attract high-quality investment. We will also work to support the effective deployment of 'blended' public and private finance instruments.

Our Activities in 2013/14

ODI works across a wide range of sectors that have a direct impact on the well-being of the poorest people in developing countries. We have 12 core research programmes:

- Agricultural Development and Policy (ADP);
- The Centre for Aid and Public Expenditure (CAPE);
- Climate and Environment Programme (CEP);
- Growth, Poverty and Inequality Programme (GPIP);
- Humanitarian Policy Group (HPG);
- International Economic Development Group (IEDG);
- Politics and Governance (POGO);
- Private Sector and Markets (PSM);
- Research and Policy in Development (RAPID);
- Social Development (SOCDEV);
- Social Protection (SOCPRO); and
- Water Policy Programme (WPP).

Each research programme undertakes a variety of projects every year that focus on their specific areas of expertise. Some larger pieces of work also cut across programmes, drawing on the knowledge and

skills of a range of research teams. In total, ODI was involved in 565 unique research projects over the course of FY 2013/14.

In addition to these core programmes, ODI hosts important networks, including the Humanitarian Practice Network (HPN) and the Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP).

The ODI Fellowship Scheme has given postgraduate economists an opportunity to work in the public sectors of developing countries since 1963. As of 31 March 2014, there are 102 Fellows in post.

Public Benefit

In setting the objectives above and planning the activities of ODI, the Trustees have given careful consideration to the Charity Commission's general guidance on public benefit. Examples of our activities undertaken can be found in the Strategic Report.

Structure, Governance and Management

ODI is an independent think tank with more than 200 staff, including researchers, communicators and specialist support staff.

Group constitution

ODI was founded in 1960 and is a charitable company limited by guarantee. The Charity has a wholly owned trading subsidiary, ODI Sales Limited, which was set up to allow the Charity to continue to operate exclusively in non-business activity, as defined by HMRC with respect to VAT. The object of the company is to generate income for the objects of the Charity. ODI Sales Limited has a Board of four Directors, two of whom are Trustees for the Charity, one of whom is independent, and one a staff member. Both the Charity and the trading subsidiary have a Memorandum and Articles of Association as their governing documents.

Changes to the governance structure during 2013/14

Our new strategy aims to ensure that ODI delivers as one, deploying resources across teams and disciplines and ensuring cross-institutional work to ensure maximum impact.

A full governance effectiveness review was undertaken during the year, with assistance from an external consultant, Howard Exton-Smith. This review identified some areas of the structure which it would be beneficial to change in order to ensure that ODI's governance is as effective and efficient as possible – a better fit for the organisation. The result was that we decided to move away from having a two tier system and de-link the Council from the governance structure, setting up instead a new advisory group to support the strategic priorities.

The Board of Trustees

The Institute is governed by a Board of up to 12 Trustees, chaired by James Cameron.

The terms of reference for the Board are to maintain the values of the organisation and set the overall strategy and direction. It monitors the performance of the Institute and its management, and appoints the Director.

Trustee recruitment and training

Trustees can serve for up to three terms of three years on the Board. ODI aims to maintain a balance amongst the Trustees to include research, academic, business and political expertise and knowledge, as well as a gender balance. Trustees are both Charity Trustees and Directors under company law. In order to maintain an effective Board with the appropriate skills and experience, the trustees undertake a regular skills evaluation.

The Board is now self-appointing. When elected, Trustees are provided with a Trustee Pack with information on the constitution, annual cycle, various relevant terms of reference, job descriptions of senior staff, business and strategic plans, accounts, relevant internal policies and references to relevant laws, regulations and sources of information. They are also given a detailed induction.

Brief biographical details of our new Chair, James Cameron, are provided below:

James Cameron, the chairman and co-founder of Climate Change Capital, is a lawyer by training and has spent much of his legal career working on climate change matters, including negotiating the UNFCCC and Kyoto Protocol as an adviser to the Alliance of Small Island States. James is a member of the WEF's Agenda Council on Climate Change and a Trustee Member of the UK Green Building Council and the Carbon Disclosure Project, a member of the Prime Minister's Business Advisory Group and of the Green Investment Bank Commission. He has held academic appointments at Cambridge, London and Sydney and is currently affiliated with the Yale Centre for Environmental Law and Policy. He is a member of Oxfam's development board and a senior adviser to the Climate Group, a member of the Smith School's development board and Chair of the China Dialogue.

Members' liability

The Members of the charitable company comprise the Trustees and in the event of the Charity being wound up, the current Trustees, and those who had left the Board in the previous year, are required to contribute an amount not exceeding £1 (as ODI is a company limited by guarantee). The Institute's insurance policies indemnify Trustees up to £1 million.

Statement of Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' report and financial statements in accordance with applicable law and United Kingdom Accounting Standards. Company law requires the Trustees to prepare financial statements for each financial year that give a true and fair view of the affairs of the group; the incoming resources and their application, including the income and expenditure of the group. In preparing these financial statements, the Trustees have:

- selected suitable accounting policies and then applied them consistently;
- observed the methods and principles in the Statement of Recommended Practice (Accounting and Reporting by Charities);
- made judgements and estimates that are reasonable and prudent; and
- noted that applicable UK Accounting Standards have been followed and any material departures disclosed and explained in the financial statements, and prepared the financial statements on the going concern basis.

The Trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Charity and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Trustees confirms that: so far as they are aware, there is no relevant audit information of which the Charity's auditor is unaware, and that they have taken all the steps that they ought to have

taken as a Trustee in order to make themselves aware of any relevant audit information and to establish that the Charity's auditor is aware of that information. This confirmation should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The Trustees are also responsible for the maintenance and integrity of the Charity and financial information included on the ODI website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Organisational Structure and Reporting

The Board meets formally four times a year and is responsible for strategy, reviewing progress against business and strategic plans, results versus the budget, the final income and expenditure for the year, new or amended policy, risk management and other applicable current projects. Its role is to direct and guide management. They also meet informally at least once each year.

The Board also has the following sub-committees:

- Finance Audit and Risk Committee, which meets four times a year in advance of each Board meeting;
- The Reward and Remuneration Committee, which is currently being formalised and which meets at least once a year; and
- The Nominations Committee, which meets once or twice a year depending on requirements

When necessary, the Trustees ask management to seek professional advice from solicitors and accountants etc. A certain level of authority is delegated to the Executive Director via the organisation's Statement of Delegated Authority.

Management is responsible for the day to day running of the Institute, the implementation of policy and ensuring that goals and objectives are attained. The Executive Director, Kevin Watkins is supported by a Senior Management Team (SMT) of nine others. The role of the SMT is to provide strategic leadership of the Institute. This involves:

- developing the strategic vision and the annual business plans with the Board and in line with the Institute's mission, and ensuring that progress is monitored
- maximising the strengths and capacity of the organisation and overseeing the delivery of value for money
- managing reputation, risk and change – again with the Board, and
- taking strategic decisions on research programmes, fundraising, public affairs, finance, human resources, IT and premises.

The Heads of Programmes and Departments are an important component of the Institute's management framework. Heads of Programmes are at the forefront of ODI's mission and business and are responsible for much of the Institute's direct fundraising, research and advisory support and line management of research staff.

STRATEGIC REPORT

Achievements and Performance in 2013/14

The five pillars of our new strategy, launched in March 2014, have been developed over the past year and already provide the framework for our research and advocacy.

1. Leave no-one behind

ODI has worked from global to local levels over the past year to inform approaches to poverty and inequality and to frame a vision of inclusive development progress. As the global community finalises what follows the Millennium Development Goals (MDGs), ODI has reinforced the need for the full inclusion of the most marginalised people in the future development framework and for monitoring that looks beyond progress on numbers to progress on outcomes. We have pushed for new indicators to measure key drivers of development, including indicators on governance that have sparked discussions with the United Nations Development Programme (UNDP).

The MY World survey has become the largest global survey in history – brainchild of ODI and the UNDP and developed with Ipsos Mori. To date, 2 million citizens have shared their view on the future development goals and the data from the survey, coupled with our wide research, has informed recommendations from the High-Level Panel on the post-2015 goals (led by David Cameron and the Presidents of Indonesia and Liberia). The survey has become part of political life at the UN, where the Secretary-General is among those who have discussed the findings. There are plans for a similar survey to monitor progress on the new goals.

We presented research to the UN Open Working Group (the main inter-governmental negotiating forum on the framework) and organised a conference at Wilton Park for the UN Secretary-General's Advisor on the post-2015 development framework, bringing together major figures from the worlds of business, charity and NGOs, as well as government. We built new global links with partners involved in post-2015 processes, including through simultaneous events in Bogota, Dhaka, London and Nairobi in June 2013 to mark the launch of the UN High-Level Panel report.

At local level, our qualitative research on social exclusion confirmed the risk of focusing on national averages while overlooking pockets of disadvantage. Findings from Ethiopia, Nepal, Viet Nam and Uganda outlined how social norms work for or against the inclusion of adolescent girls in their own societies, particularly those from already marginalised groups. This research stimulated policy engagement in all four countries, and led to a packed house for our public event 'Leave no girl behind' in October 2013, which argued for a post-2015 gender goal. It also generated concrete proposals to measure progress towards such a goal, including tracking the age at which women give birth to their first child and their freedom from violence. We subsequently shared our findings with Justine Greening, UK Minister for Overseas Development, at the Committee on the Status of Women in New York in March 2014.

Other major contributions to gender debates and programming included the launch of the book *Gender and social protection: beyond mothers and safety nets*, the development of vulnerability assessment guidelines for the UN, and the exploration of gender-based violence in humanitarian crises.

ODI has also taken a lead on how data can support the allocation of resources for social protection – a bulwark against poverty. Poor coordination and lack of harmonised data systems on social protection policies and programmes has resulted in fragmented and often ill-informed policy decisions. ODI has convened major stakeholders on this issue over the past year, identifying ways in which policy-makers can make good use of more consistent programme and cost data – essential for the more rational and equitable allocation of social protection resources. As a result, ODI is now seen as a key advisor and convenor for global inter-agency work on the harmonisation of social protection finance and data.

2. Building sustainable futures

ODI's work on climate change and the sustainable management of resources has been characterised by joined-up thinking over the past year, as our research programmes have come together to pool their expertise on cross-cutting issues. Our detailed new evidence on the Geography of poverty and disasters, developed with the Met Office and Risk Management Solutions, explored how climate change could increase the global prevalence and distribution of poverty by 2030, mapping out the countries at greatest risk. Cyclone Phailin offered a stark demonstration of the costs of inaction, and our experts appeared on dozens of UK media channels to push this message home.

Our report *Time to change the game: fossil-fuel subsidies and climate* exposed the massive subsidies received by fossil-fuel companies, which stand in sharp contrast to the small amounts of financing tracked by ODI for climate change responses. The World Bank and Iranian and Bangladeshi Government negotiators used our research and interactive hand-held game during discussions at the Warsaw Climate Change Summit in November, and the UK Government is now looking to include subsidy reform in its climate support to developing countries.

Our Climate Funds Update platform is recognised as the premier global resources on climate finance, with more than 34,000 individual users visiting the site last year, and we have proposed a road map for climate finance to 2015.

The past year has also seen our work on land transparency feeding into the June 2013 G8 discussions at Lough Erne. And in December, we shared evidence on the impact of biofuels on food security, addressing German Members of the European Parliament (MEPs) and media in the run-up to a crucial European Union (EU) Parliamentary vote on biofuel mandates.

At the request of the UK Department for International Development (DFID), ODI identified risks and solutions around the delivery of water, sanitation and hygiene (WASH) in the face of climate change. Case study work in Malawi, Tanzania and Sierra Leone generated an approach to help donors screen potential risks to WASH delivery – an approach that is now influencing DFID programmes in a number of countries. Our exploration of the problems poor people face in accessing secure water and sanitation for their health and livelihoods led to advisory work for UN-Water on a post-2015 water goal.

Towards the end of the year, our Future diets report explored the links between changing diets, new health challenges and pressures on agriculture, becoming the most cited report in ODI's history.

3. Saving lives, reducing vulnerability

ODI reflects and responds to the ever-changing and diverse nature of the humanitarian landscape, with a strong focus on international and regional convening and collaboration.

Building on support for its international engagement from ODI, the g7+ group of fragile and conflict-affected states has achieved notable successes over the past year. These include a commitment from the World Bank's International Development Association deputies to increase funding allocations to such states by 50-70% and the adoption of all g7+ demands in the UN High-level Panel report on the post-2015 agenda.

At regional level, the year began with our roundtable on the critical role of regional organisations, held in Jakarta with senior officials from the Association of Southeast Asian Nations. In autumn, our October 2013 conference in Istanbul on the changing humanitarian landscape, organised with Wilton Park and the International Committee of the Red Cross, attracted delegates from the Ministries of Foreign Affairs of Brazil, Mexico, Qatar, Russia, Turkey, as well as the Organisation of Islamic Cooperation (OIC), to name a few. And in January 2014, we partnered with the Humanitarian Forum, the UN Office for the Coordination of Humanitarian Affairs (UN OCHA), OIC and the Jordan Hashemite Charity Organization for the conference 'Humanitarian action in the Arab region'. Held in Amman, the conference brought together over 80 participants from across the Middle East and from international organisations.

At the national level, ODI is the only major think tank that has talked to armed non-state actors (ANSAs) about how they work with humanitarian agencies. Our case study on Al-Shabaab, in partnership with Somalia's first independent think tank, the Heritage Institute for Policy Studies, revealed the compromises that agencies have to make to get the aid through. Our findings influenced the UN Secretary-General's report on the protection of civilians in armed conflict and headlined the BBC's Today programme and Al-Jazeera (among others). They also set off high-level discussions within the UN and governments on how counter-terror laws affect the ability of aid agencies to negotiate with armed non-state groups.

As South Sudan contends with growing unrest and ethnic division, ODI experts have highlighted the political nature of the violence and the need for a long-term process of reconciliation. An opinion piece questioning the overly technocratic nature of aid to the world's youngest country was syndicated worldwide, while two closed-door roundtables convened by ODI – one in London and one in South Sudan – provided a rare opportunity for open and frank discussions on the situation. ODI has also been asked to speak at a range of public events, including a high profile panel at the UK Houses of Parliament, and has been asked to advise a range of donors and humanitarian organisations on how best to respond to this emerging crisis.

ODI has applied an international and regional lens to the continuing tragedy of the Syrian conflict over the past year, with a cross-cutting body of work to support the humanitarian response.

Starting with an analysis of the scope for discussion with humanitarian officials linked to warring factions in Syria, ODI has also exerted direct influence on the UN with its research on resilience and on tracking aid flows for the region-wide Syria response. We explored the impact on and the role of the countries that host the majority of Syrian refugees by convening the December 2013 high-level conference in Beirut on education for refugees with the UN High Commissioner for Refugees (UNHCR), the UN Educational, Scientific and Cultural Organization (UNESCO) and other partners, and we worked with UN OCHA and others to examine how the private sector in Jordan could support the refugee response.

4. Effective institutions, engaged citizens

ODI has continued to pioneer new thinking on the role of public institutions over the past year, with the emphasis firmly on the non-technical – their delivery of services to marginalised groups, their financial governance and their accountability – rather than formal structures. The aim: to promote what works, so that public institutions can win or regain the trust of the citizens they serve.

Our analysis of how aid can enhance the delivery of public services in developing countries has drawn on the experience aid programmes in Sierra Leone, Tanzania and Uganda that have managed to address governance constraints. The analysis, captured in the report *Unblocking results*, listed six practical lessons for others to follow, ranging from spotting and seizing windows of opportunity to adapting and responding to lessons learned.

The World Health Organization (WHO) has picked up on the approach in an analysis – led by ODI – on how technical assistance could be more effective. DFID has now called for more specific advice on how donors can change their approach and the recommendations are being applied to an evaluation methodology of water resources by Gesellschaft für Internationale Zusammenarbeit (GIZ) and to the evaluation of the work of two civil-society organizations in Tanzania. It has also sparked discussion across the development blogosphere.

Public services were also highlighted in February 2014 at a major conference organised with the World Bank to mark the tenth anniversary of the ground-breaking *World Development Report 2004: Making Services Work for Poor People*. As well as celebrating the influence of the 2004 report on a decade of development thinking and practice, it also highlighted just how far we have to go before every citizen worldwide has access to good quality basic services such as education, health, water and electricity. As well as attracting high-profile speakers, the conference was commended for the quality of the discussion and its communication outreach, which included interviews with the authors of the original report.

ODI's work on financial governance this year has included partnership with the Government of Nepal on a review of the challenges and opportunities for its reform of public financial management (PFM). By zooming in on the prioritisation and sequencing of these reforms, the review has provided a 'reality check' on Nepal's existing PFM, shifting the focus from the technical processes to the non-technical factors – including politics – that often determine success or failure.

The Budget Strengthening Initiative (BSI), hosted by ODI, has continued to provide research and advisory support to the g7+ group of fragile and conflict-affected countries as it positions itself as a major player. All of its demands have been included in the UN High-Level Panel report on the post-2015 agenda and the group itself has been 'institutionalised' by the World Bank as the main global platform for fragile and conflict-affected states.

We have looked more closely at the institutions that should, in theory, engage citizens with the state, including elections. Kicking off a new stream of work on why elections matter, our infographics on 'Ten things to know about democracy and elections' have been downloaded more than 5,000 times, shared more than 150 times on Twitter and have appeared on UNDP and World Bank blogs.

5. Transformative growth

ODI's work to inform global and national debates on growth, trade and investment has sparked high-level debate and solid country engagement throughout the year. On global economic governance, for example, our April 2013 assessment of the development work of the G20, commissioned by the Commonwealth Secretariat, was the only paper to be cited in the Saint Petersburg G20 Accountability Report on Development Commitments.

Our analysis for the Growth Research Programme run by DFID and the Economic and Social Research Council on state-business relations and industrial policy, financial sector development and the garment industry generated dialogue with ministers in Bangladesh and bankers in Ghana, as well as significant media hits in both countries and in the UK.

On trade, we hosted the July roundtable to launch the *2013 World Investment Report: Global Value Chains – Investment and Trade for Development*, with the Secretary General of UNCTAD Dr Supchai Panitchpakdi. We also continued to influence the global debate on Aid for Trade (AfT), particularly around the World Trade Organization's (WTO) 4th Global Aid for Trade Review in July, when we organised a panel session with the Commonwealth Secretariat on AfT effectiveness. As well as our papers on AfT and global value chains for the African and Asian Development Banks, we prepared a wealth of materials including high-level blogs from senior figures in the EU, WTO and OECD, and the definitive book on a key area of development practice, *Assessing Aid for Trade*, featuring a chapter co-authored by Nobel prize winner Joseph Stiglitz among others.

ODI has also developed its work on social enterprise and impact investment. In July, our report *Impact investing and beyond* drew on a pilot study funded by the Shell Foundation to explore the range of support to social enterprises in emerging markets. The lack of data on this support remains a stumbling block to investment in under-funded areas, and the pilot study paves the way for an annual survey that would collect such data to boost investment, collaboration and further research. We have convened workshops in Hanoi and Nairobi on social enterprise investment in key sectors, such as health and agriculture, bringing together business schools, commercial and impact investors, fund managers and social entrepreneurs – new partners for ODI.

A stronger relationship has been forged with the Foreign and Commonwealth Office as a result of our December 2013 presentation on the latest policy developments in Brazil, Russia, India, China and South Africa (BRICS) to diplomats from the UK embassies in these countries, as well as prominent representatives from their financial and business communities.

Plans for future periods

Over the course of the year the Research Programmes have engaged with great energy and commitment in the strategy process, and the benefits in terms of joined up planning between teams for future planning and fundraising are already evident.

At the heart of the forward-looking strategy are the five Strategic Priorities. The text below outlines the major elements of the framework, and selected key activities for the coming year.

1 Eradicating absolute poverty and equalising opportunity.

The international community is framing a post-2015 agenda aimed at eliminating \$1.25-a-day poverty and other forms of extreme deprivation by 2030. But going the final mile will be more difficult than the mile just travelled. Sustained poverty reduction will require patterns of growth, employment creation and public spending that extend opportunities to the world's most marginalised people – to those that have been left behind. This implies a greatly strengthened focus in national policies on the most disadvantaged, and on the underlying drivers of disadvantage rooted in gender, wealth, ethnic, regional, religious and other identity-based inequalities.

At the same time as one global process (the post-2015 debate) has focused on eradicating extreme deprivation there is a clear rising concern in global policy debates on the issue of rising global inequality (largely driven by rapidly growing elite incomes and wealth). This debate touches all countries, at all levels of wealth and income. In this context it is important to strengthen ODI's voice in debates on poverty and inequality.

One of our central priorities is to provide effective support for the dialogue on post-2015 development financing. If the new goals are to have any traction, they will have to be underpinned by a new global partnership that goes beyond aid to encompass domestic resource mobilisation, national and international tax policies, private investment, and a range of concessional and non-concessional financial flows. ODI will work with partners to address the current fragmentation in policy approaches to develop an integrated approach to development finance, humanitarian provision, and climate finance, with a special focus on fragile states. We shall also engage more actively with the private sector, reflecting its central role in investment, employment generation, international trade and finance.

2 Promoting effective action on climate change and managing resource scarcity.

Climate change represents a global systemic threat to human development. That threat has the potential to reverse development gains built up over generations, closing the escape route from poverty for millions of the world's most vulnerable people. Pressure on natural resources is also growing, raising concerns that it will be ever harder to meet the welfare needs of future populations, and that current disadvantaged groups, lacking an ability to establish secure rights to land, water and other resources, may lose out to economically powerful and politically connected rivals.

Working in partnership with others, ODI will seek to inform and influence the debates, policies and public dialogue that will determine the outcome of the key events, which include the UNSG's climate change summit in 2014, and the COP21 climate summit in Paris. Through our analytical work, we shall

seek to increase awareness and understanding of the links between climate change and poverty, drawing on the evidence to make the case for more effective approaches to disaster risk reduction and building resilience.

A key area of focus will be to find effective ways that public policy can leverage private investment to produce a rapid acceleration in finance available for renewable energy in developing countries. But tackling global public policy challenges – such as reducing emissions – cannot be done only (or even primarily) in developing countries. Our work on challenging the perverse practice of subsidising fossil fuels will be global, and as likely to seek to change bad domestic policies in OECD countries as in developing countries (as in our EU-funded project supporting public awareness for subsidy reform in European countries). Competition for land, water and other natural resources is intensifying in many countries. Demography, economic growth, urbanisation, growing use of biofuels and concerns over the future of food prices all play a role.

International concern has tended to focus on ‘land grabs’ in poor countries by speculators and foreign investors from rich countries. Some of the concern is unquestionably justified. Yet insufficient attention has been directed towards competition for resources in poor countries themselves, and the ways in which domestic consolidation of assets may affect livelihoods. Conflicts over land and water are growing in many countries, raising fundamental questions about how to balance competing claims. ODI will address these questions through engagement on water security, land rights, resource governance and wider entitlements.

3 Protecting people threatened by conflict, disasters and insecurity

The crises in Syria and Typhoon Haiyan have powerfully illustrated in very different contexts the suffering associated with humanitarian emergencies. They have also illustrated the weaknesses of the current humanitarian architecture. With evidence pointing in the direction of increasing human exposure to emergencies associated with conflict, climate and natural disasters, the international community needs to develop a more effective and inclusive system for humanitarian response urgently, and to invest in disaster prevention and preparedness.

ODI has an impressive track record of policy engagement and influence on humanitarian reform. Building on that record, the new strategy will prioritise making the case for the development of a more inclusive and effective humanitarian system.

In that context, we shall seek to engage beyond the humanitarian sector with a wider foreign-policy audience. We will seek innovative ways of empowering communities to reduce their vulnerability to conflict and violence. Recognising that violence against women is a systemic threat to human security in many countries, we shall also seek to inform dialogue on the scale of the problem and potential solutions.

4 Building accountable and inclusive institutions

Institutional development is a critical part of the wider development process. While ‘governance and institutions’ may appear to be abstract concepts, they are at the heart of the social contract between citizens and states. It is through institutions and their associated rules and norms that governments, businesses and other actors deliver public goods and basic services. It is through institutions that

citizens express their democratic rights and claims, engage in collective action to address common problems, and exercise oversight. And it is through institutions that governments mobilise and spend public money.

ODI has helped to pioneer new thinking that places an emphasis on practical problem-solving, rather than on formal institutional appearance. Our strategy envisages the development of ODI's distinctive approach, with a focus on three areas: the delivery of services to marginalised groups, budgeting and public finance management, and the participation of citizens in political processes.

A particular focus will be to build a multi-year, integrated, ODI-wide initiative of research, policy engagement and public affairs on *the politics of reform: improving service delivery for all*. This will involve thematic programmes on: the service delivery agenda for middle-income countries; improving outcomes and reducing inequalities through political and institutional reform in water, sanitation, health, education and security; and delivering services under stress, which focuses on selected rapidly expanding cities and fragile and conflict-affected contexts.

5 Increasing productivity and creating jobs

Economic growth is one of the most powerful drivers of poverty reduction and development. Without growth, countries cannot build shared prosperity. Yet growth alone is not enough. Genuinely transformative growth is about raising productivity, generating jobs, developing skills and building inclusive societies.

Our strategy envisages an increased focus on transformative economic growth. At an international level, our research and policy engagement will focus on global economic governance in institutions such as the WTO, the EU, regional trade groupings and international financial institutions. ODI will seek to identify the rules and practices in international trade and finance that create an enabling environment for growth in developing countries. Our work at the national level will concentrate on using research to identify strategies aimed at raising productivity, building skills, generating jobs and attracting high-quality investment. As in the climate policy space, an important issue for delivery over the coming five years will be to work to ensure that 'blended' public/private financial instruments, which are rapidly becoming highly significant in donor toolkits – particularly to support infrastructure – are effectively deployed.

Financial and Operational Performance

The past financial year has been characterised by growth on three fronts for ODI: income, headcount and diversity in our funding. This growth reflects the strength of ODI's 'brand' as a trusted source of independent research and policy analysis. And that brand is built on the bed-rock of our most valuable (and valued) asset: the professionalism and commitment of our staff.

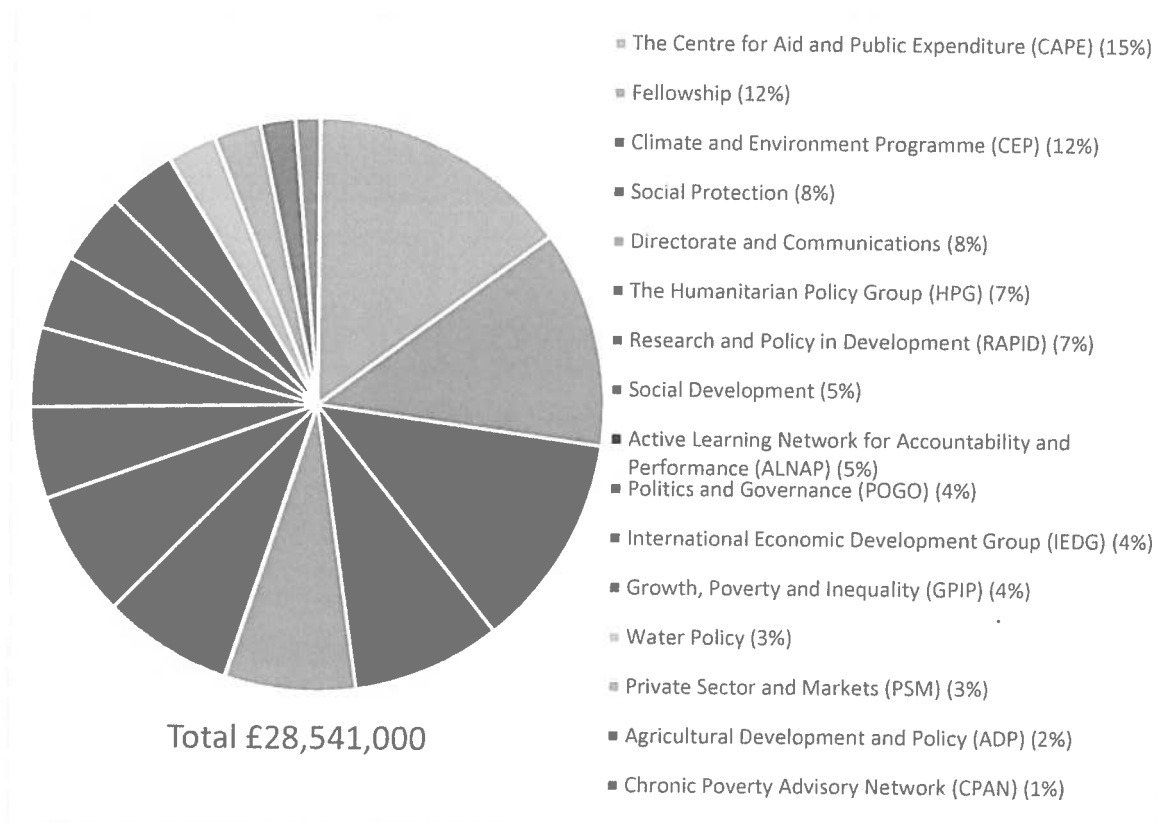
Growing our income

ODI's turnover has increased annually for the past three years, from £18.5 million in 2010/11 to £28.5m million in 2013/14, of which £25.6m was restricted income.

Clearly, we are in good financial shape, entering the 2014/15 financial year with a confirmed order book for fees approaching £9 million, bid proposals topping an additional £23 million and an increasingly secure outlook for our long-term funding agreements.

Diversifying our income

We are working hard to diversify our income so that we are not reliant on a small group of donors – particularly DFID, which still accounts for 41% of total research fees. As a result of our efforts to diversify, more than 20% of our funding came from the private sector, foundations and other non-governmental sources in the past year, including the Bill & Melinda Gates Foundation, PriceWaterhouse Coopers and Coffey International development, all of whom are among our top 10 funders. We will continue to develop a range of funding partnerships that are more diverse to improve our resilience, including a broader range of sources of multi-year funding partnerships.



Reserves policy

In March 2013, and in the light of the changing business context in which ODI operates, the Trustees reviewed – using a risk-based methodology – ODI's Reserves Policy to determine what would be ODI's

appropriate level of free reserves i.e. those unrestricted funds not invested in tangible fixed assets, designated for specific purposes or otherwise committed. The purpose of such reserves is to enable ODI better to manage financial risks such as volatility of income, the fixed nature of ODI's costs or other unplanned external environmental changes. The creation and maintenance of such reserves fulfil an important element of Trustees' responsibilities towards all of the charity's stakeholders and, therefore, balance the needs of current and future beneficiaries. As a result of this review, the trustees agreed that ODI should aim for a target level for unrestricted reserves of £5,000,000 to be achieved within three years. £5,000,000 represents approximately six months of ODI operating costs. It is the trustees' intention to continue to review this policy regularly to ensure the policy is commensurate with the organisation's evolving needs.

As at March 31st 2014 ODI held unrestricted reserves of £3.9m, of which £1.39m is held within a designated fund. This designated fund represents the net book value of the tangible fixed assets held by the Charity. These assets are of fundamental importance to the Charity in carrying out its objectives. As such, a decision was made to separate the fund from general funds in order to demonstrate that the value does not comprise assets that can be realised with ease in order to meet ongoing expenditure.

Investment policy

ODI's current investment policy requires investments underpinning general funds to remain in investments that can be realised within a few days, with a maximum of one month, and to pose minimal credit risk or risk of losses to ODI. During the year the organisation sold all of its investment holdings and placed them on short-term deposit. These funds were placed with a new investment manager, Veritas, after the balance sheet date. Veritas will now manage the funds in accordance with the risk and liquidity requirements of ODI.

Strengthening our human resources

We have been through three years of rapid growth in our human resources, with the total number of staff increasing from 170 in 2011/12 to 238 staff in 2013/14. Most of this growth has taken place within the research programmes, with an increase in the number of research posts (from 111 to 135) complemented by the expansion of programme management and administration, freeing up more time for research.

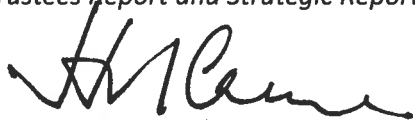
We now have well-recognised expertise in research that spans a wide range of development issues, in effective monitoring and evaluation and in communication, with growing demands on our staff time from developing-country governments, donors, the private sector, civil society and international institutions. Add to this the more than 100 ODI Fellows working for developing-country governments this year, and you have a unique blend of human resource assets.

Principal Risks and Uncertainties

The Trustees undertake a full risk assessment on an annual basis and monitor progress quarterly. This process is supported by the new Finance, Audit and Risk Committee of the Board, who assess risk in detail at each of their quarterly meetings. The aim is to identify the major risks to the Institute and to ensure that measures are taken to mitigate the impact of these risks as far as is practical. The internal risk-management processes are integrated into the annual business planning and reporting cycle, which has enabled improved decision-making by the Board. The Board identified the following areas of risk over FY 2014/15

- **Strategic** – there is a risk that continuing changes in the external funding environment will make it more difficult for ODI to deliver its mission. We continue to mitigate this risk by working to diversify our income wherever possible and seek out new audiences and partnerships. We have also implemented a programme reinvestment scheme to allow research teams to invest in innovative new lines of research that might not otherwise be funded.
- **Long Term Funding** – several of ODI's major long-term funding agreements are due to end in 2015/16. ODI has identified the need to replace or extend these arrangements to avoid a sudden drop in incoming resources, and outlines various approaches for doing so in its current Business Plan.
- **Capacity** – while failure to attract and retain quality human resources is always a potential risk for ODI, the Board currently assess the likelihood of this risk occurring as low. We are working with the HR team to put in place procedures and structures that will allow us to diversify our staffing base and draw in more in-country expertise.
- **Operational delivery** – risks around operational delivery include threats to traveller safety and the possible financial and reputational impacts of the failure of a major high profile contract. Travel security remains fundamental to our operations and our systems for ensuring the safety of those who travel are robust; incorporating traveller tracking, alert services, training prior to high risk travel and full security inductions. Contract management and quarterly financial review processes have also been developed considerably to allow the early identification of potential issues.
- **Resilience** – following the implementation of a new finance system last year, financial resilience and liquidity have been monitored and progress on mitigation efforts has been good. ODI has also instituted a new reserves policy, and an overdraft facility. The Trustees have assessed the likelihood of this risk presenting a problem as low.

Trustees Report and Strategic Report signed on behalf the Board:



James Cameron, Chair

Approved by the Board on 28 July 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OVERSEAS DEVELOPMENT INSTITUTE

We have audited the financial statements of Overseas Development Institute for the year ended 31 March 2014 set out on pages 24 to 44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, section 151 of the Charities Act 2011 and regulations made under section 154 of that Act. 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 Auditors' 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 its members, as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of Trustees and auditors

As explained more fully in the Trustees' Responsibilities Statement, the Trustees (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditors under the Companies Act 2006 and section 151 of the Charities Act 2011 and report to you in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Trustees' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent charitable company's affairs as at 31 March 2014 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and the Charities Act 2011.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Act 2011 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate and sufficient accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Trustees were not entitled to take advantage of the small companies' exemption from the requirement to prepare a Group Strategic Report.



Murtaza Jessa (Senior Statutory Auditor)

for and on behalf of

haysmacintyre
Statutory Auditors
26 Red Lion Square
London
WC1R 4AG

Date: 28/07/2014.

haysmacintyre are eligible to act as auditors in terms of section 1212 of the Companies Act 2006.

Consolidated Statement of Financial Activities (including income and expenditure account)
for the year ended 31 March 2014

	Notes	Unrestricted funds £'000	Restricted funds £'000	Total funds 2014 £'000	Total funds 2013 £'000
Income and expenditure					
Incoming resources					
Incoming resources from generated funds					
Interest receivable		11	-	11	6
Income from trading subsidiary	3	2,026	-	2,026	1,232
Incoming resources from charitable activities:					
Research	2	876	22,123	22,999	20,873
Fellowship programme		-	3,504	3,504	3,479
Publications and other income		1	-	1	3
Total incoming resources		2,914	25,627	28,541	25,593
Resources expended					
Cost of generating funds					
Resources expended by trading subsidiary	7	1,415	-	1,415	756
Charitable activities					
Research	4	1,793	20,284	22,077	21,360
Fellowship programme	4	-	3,163	3,163	3,168
Governance costs	5	37	-	37	33
Total resources expended		3,245	23,448	26,693	25,317
Net incoming resources before transfers and net investment		(331)	2,180	1,849	276
Transfers between funds	16	-	-	-	-
Net (expenditure) income		(331)	2,180	1,849	276
Realised loss on disposal of investments	12	(57)	-	(57)	128
Net movement in funds	9	(388)	2,180	1,792	404
Balances brought forward at 1 April 2013		4,292	-	4,292	3,888
Balances carried forward at 31 March 2014		3,904	2,180	6,084	4,292

All of the results in the consolidated statement of financial activities are derived from continuing activities. There were no other recognised gains or losses other than those stated above. The notes on pages 29 to 46 form part of these financial statements.

Balance sheet
at 31 March 2014

		Charity 2014 £'000	Group 2014 £'000	Charity 2013 £'000	Group 2013 £'000
	Notes				
Fixed assets					
Tangible assets	11	1,391	1,391	1,477	1,477
Investments	12	-	-	1,821	1,821
		<u>1,391</u>	<u>1,391</u>	<u>3,298</u>	<u>3,298</u>
Current assets					
Debtors	13	8,590	7,946	6,801	6,458
Short-term deposits		2,202	2,202	1,215	1,215
Cash at bank and in hand		1,326	2,162	955	1,487
		<u>12,118</u>	<u>12,310</u>	<u>8,971</u>	<u>9,160</u>
Creditors:					
amounts falling due within one year	14	(7,425)	(7,617)	(7,797)	(7,986)
Net current assets		<u>4,693</u>	<u>4,693</u>	<u>1,174</u>	<u>1,174</u>
Provisions for liabilities and charges	15	-	-	(180)	(180)
Total net assets		<u>6,084</u>	<u>6,084</u>	<u>4,292</u>	<u>4,292</u>
Represented by:					
Funds and reserves					
<i>Income funds</i>					
Unrestricted funds					
Tangible fixed assets fund	16	1,391	1,391	1,477	1,477
General funds		2,513	2,513	2,815	2,815
		<u>3,904</u>	<u>3,904</u>	<u>4,292</u>	<u>4,292</u>
<i>Restricted Funds</i>	17	2,180	2,180	-	-
		<u>6,084</u>	<u>6,084</u>	<u>4,292</u>	<u>4,292</u>

The notes on page 27 onwards form part of these financial statements.

Approved by the Board of Trustees on 28 July 2014 and signed on their behalf by:



James Cameron, Chair

Consolidated cash flow statement
for the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Cash inflow from operating activities	A	66	2,084
Returns on investments and servicing of finance			
Interest received		11	6
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(179)	(1,696)
Proceeds from sale of investments		1,764	-
Management of liquid resources			
Short-term deposits		(987)	(657)
Increase / (decrease) in cash	B	675	(263)

Notes to consolidated cash flow statement

A. Adjustment of net incoming resources before transfers and net investment gains to net cash inflow from operating activities

	2014 £'000	2013 £'000
Net incoming resources before transfers and net investment gains	1,849	276
Depreciation	265	392
Interest receivable	(11)	(6)
Increase in debtors	(1,488)	(652)
(Decrease) / Increase in creditors & provision	(549)	2,074
Net cash inflow from operating activities	66	2,084

	At 1 Apr 2013 £'000	Cash flows £'000	At 31 Mar 2014 £'000
B. Analysis of changes in net funds			
Short-term deposits	1,215	987	2,202
Cash at bank and in hand	1,487	675	2,162
	2,702	1,662	4,364

Notes to the financial statements

For the year ended 31 March 2014

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the inclusion of investments at market value, and in accordance with the requirements of the Companies Act 2006, applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP 2005).

Basis of consolidation

These financial statements consolidate the results of the Charity and its wholly owned subsidiary, ODI Sales Limited, on a line by line basis. A separate statement of financial activities is not prepared by the Charity itself following the exemption afforded by section 408 of the Companies Act 2006 and the note in paragraph 397 of SORP 2005. In the year under review, the charity made a surplus of £1,791,840 (2012: £404,500).

Incoming resources

Incoming resources are recognised when the Charity becomes entitled to the income and the amount can be measured with reasonable certainty.

Incoming resources receivable under contract for services are recognised to the extent that the relevant work has been performed. Income received in advance of work performed is deferred.

Grant income is recognised in full when the Charity becomes entitled to the income unless it is a performance-related-grant relating to a future period.

Investment and other income is recognised when receivable.

Resources expended and the basis of apportioning costs

Resources expended comprise the following:

- a) The cost of generating funds comprises the expenditure on commercial trading operations.
- b) The costs of charitable activities comprise expenditure on the Charity's primary charitable purposes, namely:

- Research and dissemination of information
- Fellowship activities and services.

The majority of costs are directly attributable to specific activities. Certain shared support costs are apportioned to charitable activities on the basis of the number of staff members employed by each activity.

- c) Governance costs include those incurred in the governance of the Charity and its assets and are primarily associated with constitutional and statutory requirements.
- d) Support costs include the central office functions such as general management, finance, information technology, human resources and establishment & facilities.

Tangible fixed assets

All assets with a cost of more than £3,000 and with an expected useful life exceeding one year are capitalised.

Depreciation is provided at the following annual rates, on a straight-line basis, in order to write off all other assets over their estimated useful lives:

Leasehold improvements	- over the remaining years of the lease
Furniture, fixtures and fittings	- 20% on cost
Equipment	- 33.33% on cost
Computer software	- 33.33% on cost

Notes to the financial statements
For the year ended 31 March 2013

1 Principal accounting policies (continued)

Fixed asset investments

Fixed asset listed investments are included in the financial statements at their market value as at the end of the financial period. Realised and unrealised gains (or losses) are credited (or debited) to the statement of financial activities in the year in which they arise.

The investment in the subsidiary undertaking, ODI Sales Limited, is stated at cost.

Fund accounting

Restricted Funds are used in line with the specific purposes laid down by the donor. Expenditure supporting those purposes is charged to the fund, together with a fair allocation of overheads and support costs.

Unrestricted funds are incoming resources received or generated for expenditure on the general objectives of the charity.

Designated funds are unrestricted funds, which have been designated for specific purposes by the Trustees. The tangible fixed assets fund represents the net book value of the Charity's tangible fixed assets.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the net movement in funds.

Leased assets

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the statement of financial activities on a straight-line basis over the lease term.

Pension costs

Contributions in respect of defined benefit pension schemes are recognised in the statement of financial activities so as to spread the cost of pensions over employees' working lives.

Liquid resources

Liquid resources comprise term deposits with banks registered in the United Kingdom.

Notes to the financial statements
For the year ended 31 March 2014

2 Research grants and project finance receivable

Research grants and project finance receivable during the year are broken down by programme as follows:

	2014	2013
<u>Research grants and project finance receivable</u>	<u>£'000</u>	<u>£'000</u>
The Centre for Aid and Public Expenditure (CAPE)	4,243	3,855
Research and Policy in Development (RAPID)	2,037	2,500
The Humanitarian Policy Group (HPG)	2,084	1,811
International Economic Development Group (IEDG)	1,132	624
Social Protection	2,393	2,207
Politics and Governance (PoGo)	1,202	1,090
Climate and Environment Programme (CEP)	3,456	2,715
Social Development	1,475	1,598
Private Sector and Markets (PSM)	756	716
Water Policy	788	769
Agricultural Development and Policy (ADP)	567	623
Growth, Poverty and Inequality (GPIP)	1,086	621
Directorate and Communications	2,116	1,732
	23,335	20,861
Active Learning Network for Accountability and Performance (ALNAP)	1,272	860
Chronic Poverty Advisory Network (CPAN)	405	375
Group research grants and project finance receivable	25,012	22,096
ODI Sales Limited research grants and project finance receivable (note 3)	(2,013)	(1,223)
Charity research grants and project finance receivable	22,999	20,873

Notes to the financial statements
For the year ended 31 March 2014

2 Research grants and project finance receivable (continued)

Notable research grants during the year included:		2014 £
Budget Strengthening Initiative	DFID London & Others	1,514,134
Budget Strengthening Initiative	DFID South Sudan	1,149,080
		<u>2,663,214</u>
Accountable Grant	DFID London	<u>2,479,532</u>
Secure Livelihoods Research Consortium	DFID Glasgow & Others	<u>1,565,288</u>
Development Progress	Bill and Melinda Gates Foundation	<u>1,356,426</u>
HPG Integrated Programme Support	Ministry of Foreign Affairs Denmark	221,106
	Swedish International Development	
HPG Integrated Programme Support	Co-operation Agency	185,640
HPG Integrated Programme Support	Ministry of Foreign Affairs Norway	158,434
	Department of Foreign Affairs Trade	
HPG Integrated Programme Support	& Development Canada	107,741
HPG Integrated Programme Support	Irish Aid	106,590
	Department of Foreign Affairs &	
HPG Integrated Programme Support	Trade Australia (DFAT)	102,930
	Ministry of Foreign Affairs	
HPG Integrated Programme Support	Netherlands	100,000
HPG Integrated Programme Support	Swiss Department of Foreign Affairs	67,200
	Office of US Foreign Disaster	
HPG Integrated Programme Support	Assistance (USAID)	50,713
HPG Integrated Programme Support	Oxfam	15,000
HPG Integrated Programme Support	World Vision International	6,072
HPG Integrated Programme Support	British Red Cross	5,000
HPG Integrated Programme Support	IRC UK	1,000
		<u>1,127,426</u>
European Report on Development	European Union	<u>697,367</u>
Promoting Change & VFM (EDCSP)	DFID London	<u>182,231</u>
Grant Agreement with GFDRR	World Bank	<u>149,601</u>
Improving the effectiveness of development financing	DFAT	<u>119,575</u>
Climate risk screening for rural water supply in Ethiopia	DFID Glasgow	<u>87,168</u>
Gender Equality, State-building and Peace-building	DFID London	<u>81,514</u>
Micro project CAPE workshop	New Venture Fund, DFAT & Others	<u>91,413</u>
Links between economics and conflict in the OPT's	DFID Glasgow	<u>50,066</u>

Notes to the financial statements
For the year ended 31 March 2014

3 ODI Sales Limited research income

The Charity has a wholly owned subsidiary, ODI Sales Limited, which is incorporated in the UK for the purposes of generating income for the charitable purposes of the Charity. A summary of the full trading result of the company is shown in note 7 to the accounts but a breakdown of the research income of ODI Sales Limited is provided below:

	2014	2013
	£'000	£'000
Climate and Environment Programme (CEP)	1,029	830
Politics and Governance (PoGo)	37	130
International Economic Development Group (IEDG)	257	77
The Humanitarian Policy Group (HPG)	92	47
Private Sector and Markets (PSM)	15	7
Agricultural Development and Policy (ADP)	25	-
The Centre for Aid and Public Expenditure (CAPE)	365	56
Social Protection	-	6
Water Policy	89	10
Research and Policy in Development (RAPID)	38	9
Directorate and Communications	66	51
Total ODI Sales Limited research grants and project finance receivable:	2,013	1,223
Research publications and other income	13	9
Total ODI Sales Limited research income	2,026	1,232

4 Resources Expended

	2014	2013
	£'000	£'000
a) Research and dissemination of information		
Direct project costs		
Staff costs (note 8)	7,701	6,711
Temporary staff	66	43
Research fees payable to consultants and related costs	5,828	7,039
Knowledge exchange and dissemination	2,347	1,573
Travel	1,822	1,839
Other costs	217	242
	17,981	17,447
Support costs allocation (note 6)	5,511	4,661
Group research and dissemination of information costs	23,492	22,108
ODI Sales Limited research and dissemination of information costs	(1,415)	(749)
Charity research and dissemination of information costs	22,077	21,359

Notes to the financial statements

For the year ended 31 March 2014

4 Resources Expended (continued)

	2014	2013
	£'000	£'000
b) Fellowship activities and services		
Supplementation award costs	1,949	1,933
Staff costs (note 8)	194	227
Support costs allocation (note 6)	111	95
Other costs	910	913
	3,164	3,168

5 Governance Costs

	2014	2013
	£'000	£'000
Auditor's remuneration	20	29
Legal fees	4	1
Other costs	13	3
	37	33

6 Support Costs

	2014	2013
	£'000	£'000
Staff costs (note 8)	2,173	1,937
Staff overheads	722	565
Premises	1,133	884
Depreciation	264	392
Other costs	1,329	978
	5,621	4,756

The above support costs are apportioned to charitable activities on the basis of the number of staff members employed by each activity as follows:

	2014	2013
	£'000	£'000
Support costs allocation		
Research and dissemination of information	5,511	4,661
Fellowship activities and services	111	95
	5,622	4,756

7 ODI Sales Limited

The Overseas Development Institute owns the entire called up share capital of ODI Sales Limited, a trading company registered in England and Wales, Company Registration Number 7157505, incorporated on 15 February 2010. A summary of the trading results of ODI Sales Limited for the year ended 31 March 2014 are given below. All taxable profits each year are transferred to the Charity.

Notes to the financial statements
For the year ended 31 March 2014

7 ODI Sales Limited (continued)

	2014 £'000	2013 £'000
ODI Sales Limited		
Income	2,026	1,232
Cost of sales	(1,415)	(749)
Gross Surplus	611	483
Administrative expenses	(4)	(7)
Operating surplus	607	476
Other interest receivable and similar income	-	-
Surplus on ordinary activities before taxation and Gift Aid	607	476
Taxation	-	-
Surplus on ordinary activities before Gift Aid	607	476
Gift Aid donation to parent undertaking	(607)	(476)
Surplus / Deficit for the financial year	-	-

At 31 March 2014, the total capital and reserves of the company was £10 (2013: £10).

8 Staff costs and Trustees' remuneration

a) Staff costs during the year were as follows:	2014 £'000	2013 £'000
Wages and salaries	8,213	7,233
Social security costs	750	665
Other pension costs	1,105	977
	10,068	8,875
Temporary staff costs	502	256
	10,570	9,131
b) Staff cost (excl. temporary staff) by function was as follows:	2014 £'000	2013 £'000
Research and dissemination of information	7,701	6,711
Fellowship activities and services	194	227
Support	2,173	1,937
	10,068	8,875

The number of employees who earned £60,000 per annum or more (including taxable benefits but excluding employer pension contributions) during the year was as follows:

	2014	2013
£60,001 - £70,000	16	10
£70,001 - £80,000	5	7
£80,001 - £90,000	2	-
£90,001 - £100,000	3	2
£100,001 - £110,000	1	-
£120,001 - £130,000	-	1

Notes to the financial statements

For the year ended 31 March 2014

8 Staff costs and Trustees' remuneration (continued)

Employer contributions were made to the charity's defined benefit pension schemes for all eligible employees, including those who earned £60,000 or more during the year (as defined above), apart from those who decided to opt out. None of the employees earning more than £60,000 a year opted out of the pension scheme schemes

The average number of employees during the year, analysed by function, was as follows:

	2014	2013
Research and dissemination of information	159	148
Fellowship activities and services	3	3
Support	38	34
	200	185

During the year ended 31 March 2014 expenses of £210 (2013: £1,748) were reimbursed to 1 Trustee (2013: 5 Trustees) for attending Board, Council and Sub-Committee meetings. No Trustees were paid for project based work (2013: Nil).

The Trustees have taken out Trustee indemnity insurance to cover the liability of the Trustees which by virtue of any rule of law would otherwise attach to them in respect of any negligence, default, breach of trust or breach of duty of which they may be guilty in relation to ODI. The premium paid by the charity amounted to £2,438 (2013: £2,414) and provided cover of £1,000,000 (2013: £1,000,000).

9 Net movement in funds

This is stated after charging:	2014 £'000	2013 £'000
Auditor's remuneration		
- Current year audit services – ODI	15	16
- Prior year audit services – ODI	(3)	10
- Current year audit services – ODI Sales Limited	5	4
- Prior year audit services – ODI Sales Limited	(1)	1
- Other audit and accounting services	4	11
	20	42
Depreciation	265	392
Operating lease rentals		
- Premises	899	638
- Equipment	13	13

10 Taxation

The charity is a registered charity and therefore it is not liable for income tax or corporation tax on income derived from its charitable activities, as it falls within the various exemptions available to registered charities.

The subsidiary, ODI Sales Limited, donates its taxable profits, if any, to ODI each year.

Notes to the financial statements
For the year ended 31 March 2014

11 Tangible fixed assets

Group and Charity	Leasehold improvements	Computers	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2013	1,085	500	535	2,120
Additions	1	120	58	179
Disposals	-	-	-	-
At 31 March 2014	1,086	620	593	2,299
Depreciation				
At 1 April 2013	84	448	111	643
Charge for year	96	55	114	265
Disposals	-	-	-	-
At 31 March 2014	180	503	225	908
Net book values				
At 31 March 2013	1,001	52	424	1,477
At 31 March 2014	906	117	368	1,391

The depreciation charge in respect to computers includes an impairment provision of £nil (2013: £125,377) relating to computer software which has not been utilised to the extent intended when installed.

12 Investments

Group	Total		
	£'000		
Listed investments			
Market value at 1 April 2013			1,821
Proceeds on disposal of investments			(1,764)
Realised loss on sale of investments			(57)
Market value at 31 March 2014			-
Historical cost of listed investments at 31 March 2014			-
	Shares in subsidiary company	Listed investments	Total
Charity	£'000	£'000	£'000
Market value at 1 April 2013	-	1,821	1,821
Proceeds from disposal of investments	-	(1,764)	(1,764)
Realised loss on investments	-	(57)	(57)
Market value at 31 March 2014	-	-	-
Historical cost of investments at 31 March 2014	-	-	-

Notes to the financial statements

For the year ended 31 March 2014

12 Investments (continued)

During the year the organisation sold all the Charinco accumulation unit and placed the proceeds on short term deposit with a view to investing in different funds managed by a new investment manager. The funds were placed with the investment manager between the balance sheet date and the date of this report.

At 31 March 2014 the Charity owned 10 £1 shares, being the entire called up share capital, of ODI Sales Limited, which is incorporated in the UK for the purposes of generating income for the charitable purposes of the Charity. A summary of the financial results of the company is shown in note 7.

13 Debtors	Charity	Group	Charity	Group
	2014	2014	2013	2013
	£'000	£'000	£'000	£'000
Grants receivable and accrued income	6,390	7,755	5,459	6,168
Other debtors	15	15	253	253
Prepayments	175	176	37	37
Amount due from subsidiary	2,010	-	1,084	-
	8,590	7,947	6,833	6,458

Included within other debtors is £nil (2013: £235,552) relating to monies forming a bank guarantee. These monies were held by the bank on ODI's behalf in order to secure certain EU grant funding and were released in March 2014 on completion of the project.

14 Creditors	Charity	Group	Charity	Group
	2014	2014	2013	2013
	£'000	£'000	£'000	£'000
Grants received in advance	4,286	4,374	5,494	5,540
Expense creditors	1,086	1,237	1,447	1,500
Social security and other taxes	455	391	198	283
Accruals and deferred income	1,598	1,615	658	663
	7,425	7,617	7,797	7,986

15 Provision for liabilities and charges

There is no provision at the 31 March 2014, as the provision of £180,000 at 31 March 2013 with respect for dilapidations on the charity's former premises at 111 Westminster Bridge Road, London was released during the year, as a final agreement was reached in December 2013.

Notes to the financial statements
For the year ended 31 March 2014

16 Funds

	At 1 April 2013	Incoming Resources	Resources expended	Realised gains and losses	Transfers	At 31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000
Unrestricted funds						
<i>Designated</i>						
Tangible fixed assets fund	1,477	-	-	-	(86)	1,391
<i>General funds</i>						
Income and expenditure account	2,815	2,914	(3,245)	(57)	86	2,513
Total unrestricted funds	4,292	2,914	(3,245)	(57)	-	3,904
Restricted funds						
DFID (Fellowship)	-	3,504	(3,163)	-	-	341
DFID (Accountable Grant)	-	2,480	(1,602)	-	-	878
DFID (Budget Strengthening Initiative)	-	2,663	(2,089)	-	-	574
DFID (Secure Livelihoods Research Consortium)	-	1,565	(1,383)	-	-	182
Bill and Melinda Gates Foundation (Development Progress)	-	1,356	(1,065)	-	-	291
ALNAP (multifunder)	-	1,272	(740)	-	-	532
HPG Integrated Programme (multi-funder)	-	1,417	(806)	-	-	611
European Commission (ERD)	-	697	(529)	-	-	168
Research Triangle Institute	-	312	(222)	-	-	90
International Development Research Centre (Canada)	-	212	(151)	-	-	61
Other research projects	-	10,149	(11,697)	-	-	(1,548)
	-	25,627	(23,447)	-	-	2,180
Total funds	4,292	28,541	(26,692)	(57)	-	6,084

Analysis of net assets between funds	Unrestricted funds £ 000	Restricted funds £ 000	Total Funds £ 000
Tangible fixed assets	1,391	-	1,391
Net current assets	2,513	2,180	4,693
Total net assets	3,904	2,180	6,084

Designated Funds

Designated funds represent monies that have been set aside by the Trustees for specific purposes.

Tangible fixed assets fund

The tangible fixed assets fund represents the net book value of the tangible fixed assets owned by the Charity. These assets are of fundamental importance to the Charity in carrying out its objectives. As such, a decision was made to separate this fund from general funds in order to demonstrate that the value does not comprise assets that can be realised with ease in order to meet ongoing expenditure.

Notes to the financial statements
For the year ended 31 March 2014

16 Funds (continued)

Restricted Funds

Restricted funds are to be used for specified purposes laid down by the donor. Expenditure for those purposes is charged to the relevant fund.

Department for International Development (Fellowship)

This fund represents a restricted grant from DFID to fund ODI's Fellowship Programme. Revenue is recognised on the basis of activities undertaken in the year.

Department for International Development (Accountable Grant)

This fund represents a restricted grant from DFID to fund a range of ODI core development Programmes. Income is not dependent on future activity so revenue is recognised in the year in which it is received.

Department for International Development (Budget Strengthening Initiative)

This fund represents a restricted grant from DFID to fund ODI BSI's Programme which is part of the Centre for Public Expenditure Programme. Income is not dependent on future activity so revenue is recognised in the year in which it is received.

Department for International Development (Secure Livelihoods Research Consortium)

This fund represents a restricted grant from DFID to fund ODI's SLRC Programme. Revenue is recognised on the basis of activities undertaken in the year.

Bill and Melinda Gates Foundation (Development Progress)

This fund represents a restricted grant from the Bill and Melinda Gates Foundation to support ODI's Development Progress project. Revenue is recognised on the basis of activities undertaken in the year.

Active Learning Network for Accountability and Performance (in Humanitarian Action) (multifunder)

This fund represents restricted grants from a range of funders to support ODI's ALNAP Programme. Income is not dependent on future activity so revenue is recognised in the year in which it is received.

Humanitarian Policy Group (multifunder)

This fund represents restricted grants from a range of funders to support ODI's HPG Programme. Income is not dependent on future activity so revenue is recognised in the year in which it is received.

European Commission (European Report on Development)

This fund represents a restricted grant from the European Commission to produce the quarterly ERD report. Income is not dependent on future activity so revenue is recognised in the year in which it is received.

Research Triangle Institute

This fund represents a restricted grant from the Research Triangle Institute (US) to fund ODI's Knowledge Sector Initiative (Indonesia) project. Revenue is recognised on the basis of activities undertaken in the year.

International Development Research Centre (Canada)

This fund represents a restricted grant from the IDRC (Canada) to fund ODI's PRISE project. Revenue is recognised on the basis of activities undertaken in the year.

Other research projects

All other restricted grants have been grouped together under one heading for the purposes of these accounts. Income has been recognised sometimes in the year in which it has been received and sometimes deferred to future periods depending on the relevant funder contract conditions. ODI operates in an environment where funding is increasingly in arrears. The reported deficit for the year therefore represents contracted work undertaken, the payment for which has been received after the end of the financial year.

17 Lease commitments

At 31 March 2014 the Charity had annual commitments under a non-cancellable operating leases as set out below:

	2014	2013
	£'000	£'000
Group and charity		
Land and buildings		
Operating leases which expire:		
After more than five years	804	804
Equipment		
Operating leases which expire:		
Between one and two years	13	-
Between two and three years	-	13

With regard to the lease for land and buildings, the actual payment by the Charity in the year to 31 March 2014 will differ from the charge to the statement of financial activities for the year shown above as a consequence of the lease containing a provision for an initial rent free period.

Notes to the financial statements

For the year ended 31 March 2014

18 Pensions

Retirement benefits for employees are provided by two independently administered schemes, which are funded by contributions from the employer and employees. Contributions to the schemes are charged to the statement of financial activities so as to spread the cost of the pensions over the employees' working lives.

Under the definitions set out in Financial Reporting Standard 17, Retirement Benefits, both schemes are classed as multi-employer pension schemes. The Institute is unable to identify its share of the underlying assets and liabilities of the schemes. Accordingly, the Institute has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the schemes as if they were defined contribution schemes. The Institute has set out below the latest information available for each scheme.

The Universities Superannuation Scheme (USS)

The Institute participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions that have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions and assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

Notes to the financial statements
For the year ended 31 March 2014

18 Pensions (continued)

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows :

Male members' mortality	S1NA ["light"] YoB tables - No age rating
Female members' mortality	S1NA ["light"] YoB tables - rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism. To allow for further improvements in mortality rates the CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are :

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of the newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high.

Notes to the financial statements
For the year ended 31 March 2014

18 Pensions (continued)

Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the valuation effective date there have been changes to the benefits provided by the scheme although these became effective from October 2011.

These include:

- Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.
- The normal pension age was increased for future service and new entrants, to age 65.
- Flexible retirement options were introduced.
- Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS section members and CRB section members respectively.
- If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.
- For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilt basis at that date was approximately 55%.

Surpluses or deficits which arise at future valuations may impact on the Institute's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below :

Notes to the financial statements

For the year ended 31 March 2014

18 Pensions (continued)

<i>Assumption</i>	<i>Change in assumption</i>	<i>Impact on shortfall</i>
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuations of the scheme.

The trustee believes that over the long-term equity investment and investment in selected asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund's size and scale to one side for the moment, it might be theoretically possible to select investments broadly similar to the estimated liability cash flows.

However, in order to meet the long-term funding objective within a level of contributions that it considers the sponsoring employers would be willing to make, it is necessary and appropriate for the trustee to take on a degree of investment risk relative to the liabilities. This taking on of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments.

Some short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014.

18 Pensions (continued)

The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together - in an integrated form - the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

As at 31 March 2014, USS had over 145,000 active members and the Institute had 119 members participating in the scheme. The total pension costs for the Institute under this scheme were 2014: £861,289 (2013: £773,334). The contribution rate payable by the Charity was 16% of pensionable salaries.

Superannuation arrangements of the University of London (SAUL)

The Charity also participates in the Superannuation Arrangements of the University of London "(SAUL)", which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations.

The Charity participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The Charity has now adopted FRS17 for accounting for pension costs. It is not possible to identify the share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (ie cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The main assumptions used to assess the technical provisions were:

	31 March 2011
Discount rate	
- pre-retirement	6.80% p.a.
- post-retirement	4.70% p.a.
General* Salary Increases	3.75% p.a. until 31 March 2014, 4.50% p.a.
Retail Prices Index inflation ("RPI")	3.50% p.a.
Consumer Price Index Inflation ("CPI")	2.80% p.a.
Pension Increases in payment (excess over	2.80% p.a.
Mortality – base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females.
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

*an additional allowance is made for promotional Salary increases

Notes to the financial statements

For the year ended 31 March 2014

18 Pensions (continued)

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in deficit at the last formal valuation date (31 March 2011). As part of this valuation, the Trustee and Employer have agreed that no additional contributions will be required to eliminate the current shortfall.

The more material changes (the introduction of a Career Average Revalued Earnings, or "CARE", benefit structure) to SAUL's benefit structure applies from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members are replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021, which is 10 years from the valuation date.

As at 31 March 2014, the Institute had 63 members participating in the scheme. The total pension costs for the Institute under this scheme were £247,800 (2012: £203,977). The contribution rate payable by the Charity was 13% of pensionable salaries.