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INSTITUTE FOR GOVERNMENT

**ANNUAL REPORT AND ACCOUNTS
FOR THE PERIOD TO 31 MARCH 2014**

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**INSTITUTE FOR GOVERNMENT
ANNUAL REPORT AND ACCOUNTS
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**INSTITUTE FOR GOVERNMENT
LEGAL AND ADMINISTRATIVE INFORMATION
FOR THE PERIOD TO 31 MARCH 2014**

Board of Governors

Governor

Lord Sainsbury of Turville
Hon Jocelyne Bourgon
Rt Hon Liam Byrne MP
Sir Andrew Cahn
Lord Currie of Marylebone
Miranda Curtis
Dame Sandra Dawson
Lord Finkelstein
Lord Heseltine
Susan Hitch
Sir Andrew Likierman
Philip Rutnam
Lord Sharkey
Lord Simon of Highbury
Sir Jonathan Stephens

Chair

Appointed 11 June 2014
Resigned 18 September 2013

Chair, Finance & Audit Committee
Appointed 11 June 2014

Governors' are appointed for an initial term of 3 years. They may be reappointed for further periods of 3 years.

Executive Directors

Peter Riddell is Director of the Institute and is responsible for the day-to-day running of the Institute along with a team of Directors and Programme Directors.

Bankers

The Co-operative Bank
9 Prescott Street, London E1 8AZ

Registered Auditors

Crowe Clark Whitehill LLP
St Brides House
10 Salisbury Square
London EC4Y 8EH

Principal & Registered Office

2 Carlton Gardens
London
SW1Y 5AA

Website

www.instituteforgovernment.org.uk

The Institute for Government is a registered charity (No. 1123926) and a company limited by guarantee registered in England and Wales (No. 6480524). It was granted an exemption from the requirement to use the word Limited on 18 January 2008.

**INSTITUTE FOR GOVERNMENT
FOREWORD BY LORD SAINSBURY
FOR THE PERIOD TO 31 MARCH 2014**

Foreword

By Lord Sainsbury of Turville, Founder of the Institute and Chair of Governors

The mission of the Institute for Government is to work with politicians and civil servants to improve the machinery and working of Government to meet today's needs and challenges. 2014 marked our first five years at 2 Carlton Gardens, and I am proud of the reports we have produced, the collaborative projects we have done, and the impact that we have had over this period. We believe that the most important measure of our performance is the impact we have, and we measure it carefully and regularly.

The Institute continues to flourish under Peter Riddell's wise direction. He has a close but independent relationship with the current Coalition and the Shadow Cabinet, as well as the Cabinet Secretary, the Head of the Home Civil Service and many individual departments. He was responsible for establishing a five-year planning cycle, which helps us to keep our long-term aims in sight as well as focusing on current issues. One such aim is the improvement of management and financial information in Whitehall, on which we have put particular emphasis this year. The Whitehall Monitor, the Institute's systematic annual analysis of the size, shape and performance of Government, is now an important measure of Whitehall's resources, effectiveness and success in achieving its goals. Meanwhile the newly fixed five year Parliamentary term has enabled us this year to concentrate particularly on how best political parties can prepare for Government.

My warm thanks to Peter Riddell, Julian McCrae, Gareth Morgan, Nadine Smith, Tom Gash and all the staff of the Institute for their hard work and enthusiasm. I am also, as always, particularly grateful to our Governors for their commitment, wisdom and expertise. Thanks to them and to everyone who has brought their knowledge and enthusiasm to our doors we have made significant and measurable progress again this year.

David Sainsbury

**INSTITUTE FOR GOVERNMENT
DIRECTOR'S INTRODUCTION
FOR THE PERIOD TO 31 MARCH 2014**

Introduction

By Peter Riddell

The Institute for Government celebrated five years in 2 Carlton Gardens just after the end of the financial year, in April 2014. Over that period we have established ourselves as part of what I like to call the governing conversation. Within our clearly defined remit of improving the effectiveness of government, our views are sought, both publicly and privately, by ministers, senior civil servants, the media and others. This has been achieved through a combination of thorough research and patience, establishing our expertise and non-partisan authority and engaging on a sustained basis with decision-makers. We are clear about what we believe will produce improvements but try to persuade rather than to confront.

We can claim progress, for instance, in influencing the debates on policymaking in government, on accountability and relations between ministers and Permanent Secretaries, on functional leadership, and especially on improved management and financial information. We have set out firm positions on civil service reform and how to achieve change in Whitehall based on evidence both in the centre and in departments. We have clarified the debate on public sector markets and commissioning and on relations between the centre and arm's length bodies. We have continued to monitor the working of the coalition government particularly towards the end of the parliament and, as the focus has shifted towards the general election, we have stepped up our work in helping to prepare politicians and their advisers in helping to understand the challenges of government. We also produced a widely praised analysis of the operations of government in the first of a series of Whitehall Monitor annual reports.

The Institute's output has included conventional research reports, shorter briefings, a steady stream of blogs on issues of the day and an active Twitter presence, in addition to a very active programme of public events, private seminars and workshops. We have run successful event series, in conjunction with outside sponsors, on women leaders, on business and government, and what we call Big Thinkers: academics, policymakers and others with views on broader questions of government.

The Institute now has a team of over 40, including full-time staff, a handful of secondees and people on fixed-term contracts, a revolving group of paid interns who spend up to six months with us and make a big contribution to our work. Both permanent staff and interns are recruited via a competitive process which attracts a large number of applications. Despite a relatively low staff turnover so far, we have been able to refresh and expand the team with some excellent new recruits.

One of the most positive aspects of being Director is the high level of commitment and energy of the whole staff, whether involved in administration and operations, events, communications and research. One of my priorities is to provide opportunities and career development at all levels, as well ensuring the future of the Institute. This is underpinned by careful and consistent financial management, as reflected in the accounts, and by the support of the Gatsby Charitable Foundation.

I am also grateful for the continuing high level of support and interest from the Governors.

Right Honourable Peter Riddell CBE, Director

INSTITUTE FOR GOVERNMENT GOVERNORS' ANNUAL REPORT FOR THE PERIOD TO 31 MARCH 2014

Background

The Institute for Government ("the Institute") is an independent charity. We work with all the main political parties in Westminster and with senior civil servants in Whitehall, providing evidence based advice that draws on best practice from around the world.

The Institute was initially incorporated as a company limited by guarantee (No. 6480524) on 22 January 2008 and registered as a charity (No. 1123926) on 30 April 2008.

The Institute's original core funder was Lord Sainsbury of Turville. Its principal core funder is now the Gatsby Charitable Foundation, one of the Sainsbury Family Charitable Trusts. Lord Sainsbury is Chair of the Governors.

The Governors are defined in the Articles of Association of the company as having corresponding meaning as Directors of the Company; they are also Charity Trustees as defined by the Charities Act 2011. Under the Articles, all Governors automatically become Members of the Company when they are appointed as Governors.

The Objects of the Charity

The Institute for Government's charitable objects are:

- "The advancement of education in the art and science of government in the UK for the benefit of the public on a non-party political basis", and
- "The promotion of efficient public administration of government and public service in the UK by providing programmes of education, training, research and study for the public benefit on a non-party political basis."

Annual Report

The Governors are pleased to present this, their report, together with the audited financial statements for the period ended 31 March 2014. The report and financial statements have been prepared in accordance with the Companies Act 2006 and comply with the requirements of the 2005 Statement of Recommended Practice - Accounting and Reporting by Charities.

**INSTITUTE FOR GOVERNMENT
GOVERNORS' ANNUAL REPORT
FOR THE PERIOD TO 31 MARCH 2014**

Principal Activities of the Charity

The period to 31 March 2014 has been another very successful one for the Institute. The Institute has established itself as a well-respected voice and has developed a well-attended programme of events and seminars alongside its wide-ranging programme of research and learning work covering five core themes:

- **A More Effective Whitehall.** This theme covers the respective roles of ministers and civil servants, the management of the civil service and the roles of the centre and departments.
- **New Models of Governance and Public Services.** This theme covers the functioning of arm's length government, the governance necessary for effective localism and emerging models for managing public services.
- **Better Policy Making.** This theme covers the core work of Whitehall in developing and implementing policy.
- **Leadership for Government.** This theme covers leadership development for ministers, special advisers and potential ministers, and on-going development support for the Senior Civil Service.
- **Parliament and the Political Process.** This theme covers the overall political scrutiny of government and the arena from which the next generation of ministers emerge.

There have been many highlights over the course of the year.

More effective Whitehall

The work on a more effective Whitehall focused on helping to inform and guide the large-scale changes currently occurring which affect the way Whitehall operates. We have conducted projects to develop further insights on how Whitehall could work more effectively as well as provided direct input and commentary on the government's own civil service reform plans.

We continued to support leaders of departmental transformation programmes by providing real-time evaluations of their progress, and sharing information about what works and what doesn't when leading major change in Whitehall. Drawing on these evaluations and other in-depth research, we published three related reports in March 2014:

- *Transforming Whitehall One Year On* shared lessons from successful departmental changes the Institute has supported and updated on overall progress since the publication of our *Transforming Whitehall* report in 2013.
- *Civil Service Reform in the Real World* examined previous attempts to drive changes across a number of departments, identifying the success factors for cross-departmental change. It produced a self-assessment tool to allow those leading cross-departmental change to understand and strengthen their approaches to

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leading change. This tool has been used by those working on delivery of the government's Civil Service Reform Plan.

- *Leading Change in the Civil Service* assessed the prospects for future success and highlighted the need for two major changes in approach, which we have since been promoting actively. First, we highlighted that Whitehall would not be able to sustain further cuts without damaging service levels unless government took a different, more cross-departmental approach to the 2015 spending review. Second, it highlighted the need for stronger and more unified corporate leadership of the service leadership to drive much needed changes.

Alongside this work, we have provided ongoing commentary on the progress of the Civil Service Reform Plan, through evaluative publications including *A Response to the Civil Service Capabilities Plan*, which was informed by an earlier discussion paper on Whitehall capabilities. Here, we agreed with the government's assessment that progress remains limited and promoted the changes outlined above.

Last year we identified the need for better financial management in Whitehall, which we believe will best be achieved by strengthening the strategic role of the finance profession in government. Following this work, we helped to build a broad consensus among government non-executive directors, professional bodies and the professional press that strengthening the strategic role of finance was necessary. In summer 2013, the Treasury announced a review of financial management in government to address many of the issues we raised. This review led to several steps towards a more strategic role for the finance profession in government, including the creation of a new post in the Treasury, a Director General of Public Spending and Finance. This was a step we had recommended.

In December 2013, we concluded a major project into civil service accountability. This project concluded that the current arrangements for the appointment and management of permanent secretaries are unnecessarily opaque, diluting accountability and contributing to tensions between ministers and civil servants. The project's final report *Accountability at the Top* recommended that ministers have a clearer role in appointing permanent secretaries from a shortlist of candidates approved by the Civil Service Commissioner. It also argued that permanent secretaries' objectives should be much improved. We also argued that permanent secretaries should be given more support to carry out their 'stewardship' roles, such as ensuring that the civil service is ready to meet the needs of incoming governments. The work drew on research looking at practice in New Zealand, Australia, Ireland and the Netherlands and we have followed it up. Our recommendation for publication of fewer, clearer and timelier permanent secretary objectives was acted on in 2014, though there remains room for further improvement. We will continue to promote other changes we feel are necessary to improved accountability at the top of Whitehall.

Prime ministers often reorganise the political centre of government immediately after the General Election. In light of the upcoming election, we initiated a research project to examine how governments past and present have organised Number 10 and the Cabinet Office and assess the benefits and disadvantages of different approaches and found that the lack of continuity in prime ministerial support prevented several prime ministers from having as much impact as they had hoped.

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Our Whitehall Monitor project has supported all our work on Whitehall effectiveness. In August 2013, we published our first *Whitehall Monitor: Annual Report*, which provides a data driven view of the activity and effectiveness of Whitehall. We have developed this work further through regular *Whitehall Monitor Bulletins*, which ensure that debates about government effectiveness are informed by the best available evidence, presented in easy-to-digest graphical formats. In light of the positive reception that the annual report received, we are producing a further annual report in autumn 2014.

New Models of Governance and Public Services

The work under the New Models of Governance and Public Services theme has focused on three areas:

- Improving government's ability to decide where outsourcing is appropriate and how to manage outsourced service providers and public service markets
- Supporting all parties to understand how political power can be decentralised, if desired
- Improving the effectiveness of public bodies, which operate at arm's length from government control

This year has seen a continued focus on supporting Whitehall as it adapts to increased use of outsourcing and public service markets. The analysis in our July 2013 publication *Making Public Service Markets Work* was widely cited and there has been a growing recognition of the problems we highlighted, including inadequate transparency, inadequate competition, and weak oversight due to major skills shortages in Whitehall.

We have worked closely with other organisations active in promoting improvements in this area, for example, the National Audit Office, the CBI, the Information Commissioner and the new Competition and Markets Authority. Our focus is on ensuring the implementation of our recommendations around improved transparency, skills development, and a more sensible pace of change. Government has taken several positive steps in response. On transparency, the government has accepted the need for greater transparency in government's contracting arrangements and has committed to creating a good practice standard for reporting details around government contracts. On skills, government is developing its training offer – and the Institute has supported this by delivering training for the government's recently launched Commissioning Academy and Crown Commercial Service skills programme. The Institute is also now regularly consulted by officials embarking on major outsourcing projects and other work reshaping public service markets. Next year we will continue to push for further progress, working closely with government where there is appetite for changes, or informing the public of the risks of not acting where there is less willingness to act. For example, we will continue to recommend that government should slow down the outsourcing of probation via broadcast and print media.

Alongside this work, we have continued to develop the research base on what works and doesn't when working through public service markets. In January 2014, we published *Beyond Big Contracts* the product of a collaborative research project carried out in partnership with The Calouste Gulbenkian Foundation and Collaborate, a social enterprise.

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This focused on the role of the social sector in government contracting and the difficulties of commissioning services for users with complex and multiple needs.

Given continued cross-party interest in political decentralisation, we conducted an evaluation of the main decentralisation initiatives over the past 30 years and identified the main barriers and enablers of decentralisation. The work has been widely cited by reviews linked to the political parties and our work in 2014-2015 will focus on ensuring that any party manifesto commitments in this area reflect our findings on what works.

This year also saw continued focus on promoting more effective relationships between government departments and public sector organisations operating at arm's length from direct political control. The framework and relationship assessment tool launched alongside the *It Takes Two* report has been taken up and used more widely across Whitehall. This year also saw New Zealand adopt a version of our framework which they are applying across the entire landscape of national arm's length bodies. The Institute conducted a piece of evaluative research looking at the lessons that should be learned from the abolition of the Audit Commission, the National Policing Improvement Agency, and various health agencies. This work identified the need to reinstate independent audit of local authority finances, highlighted the risks surrounding overly hasty restructuring, and provided practical advice to those involved in the close down of arm's length bodies. In the run-up to the 2015 general election, the focus will be on ensuring that the next government implements past recommendations in this area. We also produced a report highlighting the specific accountability issues with non-ministerial departments (a category we had identified as in urgent need of reform in our earlier work) which we subsequently discussed with Cabinet Office and Treasury.

Better Policy Making

In October 2013 we hosted the launch of the civil service policy profession's "12 Actions to Professionalise Policy Making" which took up many of the recommendations in our 2011 report, *Making Policy Better*. The Institute had been closely involved in the development of the action plan as the only outside body represented on the working group which drew it up. We have also continued to pursue the better use of evidence in policy making, working with the National Audit Office and other interested groups to promote thinking in Whitehall about ways of institutionalising more systematic use of both evaluation but also expert advice. We have also worked with the Centre for Science and Policy in Cambridge, the Science Policy Research Unit at the University of Sussex, Sciencewise and the Alliance for Useful Evidence to help promote debate and thinking about the use of science advice and science expertise in government.

We also followed up our survey in *Policy Making in the Real World* (2011) on how policy making was organised in departments with some roundtables with heads of policy to share developments on policy making structures and produced a summary report, *Organising Policy* (2013).

The major focus of our new research during the year was an in-depth study of policy implementation conducted with the support of the Joseph Rowntree Foundation. This looked at the way in which governments had implemented four social policy changes and was designed to bring out positive learning on how to implement well as a supplement (and antidote) to the extensive literature on implementation failure. Again our method, adopted

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from our earlier *The "S" Factors* (2012) approach, were "policy reunions" with those responsible for both developing the policy in Whitehall but also making it happen. It also built on our study of the way the government had approached managing the Olympic Games.

This research strand neatly complemented our Connecting Policy with Practice programme which we ran in conjunction with the Big Lottery Fund. This innovative programme brought together 15 mid-level civil servants and 15 voluntary sector managers to explore why policies so often fail to achieve the desired results when translated into action on the ground. Participants shared their experience through blogs and training in their home departments; results were presented to senior decision-makers and the emerging findings were summarised as a series of policy disconnects in the report on the first year of the course *Connecting Policy with Practice: People Powered Change*.

The partnership was renewed and the second cohort will take forward examination of some of the most critical disconnects, with a view to identifying ways to improve policy and practice.

We have continued the work begun with our support for the LSE Growth Commission with a new Economic & Social Research Council funded project looking at the political economy of growth. This will draw on academic literature, international case studies and original research to identify ways in which the UK might be able to make better decisions in the critical areas of infrastructure, housing and education.

We have also sought to bring in high profile speakers and give them a platform to inform the policy debate through our Big Thinkers and policy series. We had sessions with Professor Robert Unger from Brazil, Professors Jacob Hacker and Dean Karlan from Yale, Professor David Runciman, Professor Linda Colley, Professor Nancy Cartwright and Jeremy Hardie. We have aimed to make their thinking relevant to current concerns among policy makers.

Parliament and the Political Process

Under the Parliament and the Political Process theme, the Institute continued its interest in the functioning of coalition government. We conducted research examining international experience of the final year of coalition or minority government. This informed the coalition parties' thinking and media commentary, which restated the Institute's research findings that early government break-up, would likely harm the electoral prospects of both coalition parties.

Linked to this research, we examined the support that is provided to opposition parties in the run-up to general elections internationally. Our spring 2014 report *Year Five: Whitehall and the Parties in the Final Year of Coalition* concluded that arrangements should be put in place to ensure that opposition manifesto commitments are costed by an independent organisation, although it also found that it would not be practical to implement a new approach until after 2015. It also confirmed the need for the civil service to take proportionate steps to ensure that it is ready to serve future governments, whatever their political composition, and urged that conversations between civil servants and the Opposition begin sooner than is currently planned. We also published *Pre-election Contact between the Civil Service and the Parties: Lessons from 2010* and we will continue to promote more effective preparation for the possibility of political transitions in 2015.

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In the run-up to the referendum on Scottish independence, we embarked on a major research project to examine the practical issues of decentralising power to the devolved nations, whatever the outcome of the referendum. This project has involved a series of public events and private roundtables allowing interested parties from all governments and nations to reflect on the practical challenges of devolution. This project will produce outputs informing debate and planning throughout the autumn of 2014.

The Institute has also continued to look at the functioning of select committees. It is now undertaking a significant research project looking at the role and effectiveness of select committee scrutiny, which will report in 2015 in time to inform the formation of new select committees and the approach of their chairs.

Leadership for Government

Work in this area has followed the Institute's strategy of supporting the development of key decision makers and their immediate teams. We have continued to provide 360 degree evaluations for senior government ministers. Next year we will refresh our offer in preparation for a new parliament in light of the likely changeover of ministerial teams, irrespective of the outcome of the general election.

We have continued our work on the role and effectiveness of Opposition and its relationship to effective government. The main focus has been on how effective policy making can be undertaken in opposition, and on how potential ministers can prepare for office. Our work has involved working closely with members of the shadow front bench and individual shadow ministers' teams. We also published *Policy That Sticks: Preparing to Govern for Lasting Change* in September 2013.

We have provided some support to special advisers who want to be more effective in government, in particular by providing a platform for former advisers to share their experiences and lessons learned in office. For example, in March 2014, Nick Hillman, former adviser to David Willetts, published *In Defence of Special Advisers – Lessons from personal experience*.

Future Plans

To achieve our mission to promote government efficiency and effectiveness, we need to be authoritative and professional and be seen to be indispensable and to be a well-respected centre of knowledge and expertise.

We will continue to focus towards the longer term and develop our distinctive public profile whilst continuing close engagement with decision-makers in Westminster and Whitehall. We will develop knowledge and experience exchanges with other bodies.

The next few years for government will be particularly challenging including continued austerity in public spending alongside a growth priority, transformation of Whitehall, challenges within the relationship with the European Union all within a more pluralist and diversified national political system. The major focus for our work in 2014-2015 will naturally focus on the opportunities and challenges provided by the 2015 general election. Whatever the electoral

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outcome we will aim to ensure that the next government is as informed as possible about the main changes that will improve government effectiveness and thus help them to achieve their policy goals.

Our work will continue to be organised around our five programmes of work but we will increasingly bring our messages from different areas together, including through a Programme for Effective Government, published in September 2014, with a view to influencing party planning and political manifestos. The 2014-2015 period is therefore likely to see less focus on new research and still more focus on knowledge transfer and influencing decision-makers.

Public Benefit

The Governors confirm that they have complied with the duty in the Charities Act 2011 to have due regard to the guidance by the Charity Commission on public benefit.

The Governors confirm that, in carrying out its principal activities, the Institute provided public benefit during the period to 31 March 2014.

Achievement of Public Benefit

The Institute has produced high-quality research reports and analysis that are independent of government, political parties, individual clients or companies. These are made available widely and free of charge to individuals, organisations, practitioners and others with an active interest in the government of the UK.

Together, these reports and the events arising out of the reports provide a robust evidence base on the governance of the UK, thereby equipping the public with knowledge and information on the issues affecting the governing of the UK and the training of its current and future ministers.

Financial Review

The consolidated surplus before transfers on the general fund for the period was £79,224. After transfers to designated funds, equivalent to fixed asset additions, the consolidated deficit was £57,199.

A designated fixed asset fund representing the net book value of the underlying fixed assets.

During 2013-14 the designated funds of £150,000 set aside towards capital and maintenance costs of 2 Carlton Gardens were fully utilised undertaking roof works on the building. The intention is to replenish these designated funds during 2014-15 towards future capital and maintenance costs.

A designated fund of £150,000 was created towards future investment in project activity in 2012-13. This fund enables the Institute to develop new streams of work proactively. It is anticipated that in the lead-up to and after the next general election this fund will be utilised on supplementing existing and developing new project activity.

Total unrestricted funds decreased to £2,186,671 at 31 March 2014 (2013: £2,657,023) largely reflecting the reduction in the net book value of fixed assets. Restricted funds remained at £nil (2013: £nil).

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The deficit on total funds of £470,352 is after charging depreciation charges of £399,576 against fixed assets, the net book value of which is held in a designated fund. It is also after utilising £150,000 of the Capital and Maintenance Fund against roof costs.

The Institute's consolidated income from general funds amounted to £3,549,827 (2013: £3,461,005) whilst consolidated general fund expenditure amounted to £3,470,603 (2013: £2,971,245) as shown in the Statement of Financial Activities.

Structure, Governance and Management

The Institute is run by a Board of Governors, who are also Members and Directors of the Company and Trustees of the Charity. The Board met every three months during the period covered by the Annual Report to manage and control the affairs of the Institute and delegates day-to-day management issues to the Director, Peter Riddell and management.

The Executive Committee of the board continued to meet on a monthly basis, chaired by Lord Sainsbury.

The Finance and Audit Committee, chaired by Sir Andrew Likierman, also meets on a quarterly basis.

The Governors concern themselves mainly with issues of a strategic nature, deciding broad policy for the Institute and ensuring good governance and compliance. The Management Team undertakes the day-to-day management of the Institute's activities within the framework set out by the Governors. The Articles of Association provide for the appointment and retirement of the Governors.

Risk Management

The key risk identified by the Governors is a cessation of core annual funding:

The Institute has established a system for managing specific risks, which is an integral part of the organisational procedures at the Institute

Reserves Policy

The Gatsby Charitable Foundation supports the Institute financially through core funding on an annual basis.

The Governors' have reviewed their reserves policy and the financial risks faced by the organisation. The Governors' policy is that the level of reserves, defined as free and undesignated reserves measured by the amount of retained general funds (previously measured as unrestricted net current assets), should be at least £250,000. Current reserves levels are well above this target at £379,077. Given the size of the organisation and the size and nature of the risks faced the current policy and reserves level is regarded as satisfactory.

Total unrestricted reserves stand at £2,186,671. Fixed assets represent £1,657,594 of this, principally our leasehold interest in 2 Carlton Gardens, reflecting the extent of investment in the fixed assets of the business and the importance of building up a more significant pool of liquid reserves.

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With further investment in projects and reinstatement of the Capital and Maintenance designated funds planned in 2014-15 the Institute's financial budgeting programme for the 2014-15 financial year aims to maintain a similar level of free general fund reserves. Reserves are required to:

- smooth out surpluses and deficits year on year;
- replace capital expenditure or restructure the organisation;
- deal with the effect of any risks that materialise;
- allow the organisation to take on opportunities that may arise in a timely manner;
- deal with the unexpected.

The policy is reviewed at least once a year as part of the annual reporting process and as necessary by the Governors.

Auditors

A resolution proposing the appointment of Crowe Clark Whitehill LLP as auditors of the Charity for the year to 31 March 2015 will be put to the Annual General Meeting.

Statement of Governors' responsibilities

The Governors (who are also directors of the Institute for Government for the purposes of company law) are responsible for preparing the Governors' Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards).

Company law requires the Governors to prepare financial statements for each financial year. Under company law the Governors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the Governors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The Governors are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions, disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006 and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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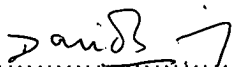
Disclosure of information to auditors

Each of the Governors who were directors of the company at the date when this report was approved has confirmed that:

- So far as they are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditors are unaware;
- They have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information (as defined) and to establish that the Charity's auditors are aware of that information.
- This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Crowe Clark Whitehill LLP has expressed its willingness to continue as auditor for the next financial year.

Approved by the Board and signed on behalf of the governors by:


.....
Lord Sainsbury of Turville
Chair of the Governors
Date: 7/10/14

Independent Auditor's Report to the Governors of the Institute for Government

We have audited the financial statements of the Institute for Government for the year ended 31 March 2014 which comprise the Group Statement of Financial Activities, the Group and Company Balance Sheets and the related notes numbered 1 to 15.

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 and the charitable company's trustees as a body in accordance with section 154 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charitable company's members and trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company, the charitable company's members as a body and the charitable company's trustees as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Governors and auditor

As explained more fully in the Statement of Governors' Responsibilities, the Governors (who are also the directors of the charitable company for the purpose 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 auditor under section 151 of the Charities Act 2011 and under the Companies Act 2006 and report in accordance with regulations made under 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 charitable 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 Governors' Annual 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 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 Governors' Annual 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 requires us to report to you if, in our opinion:

- the parent charitable company has not kept adequate accounting records; 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 prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from the requirement to prepare a strategic report or in preparing the Trustees Annual Report.



Mike Hicks

Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP

Statutory Auditor

St Bride's House

London EC4Y 8EH

Date: 14.10.14

Crowe Clark Whitehill LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

INSTITUTE FOR GOVERNMENT
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
(INCORPORATING INCOME AND EXPENDITURE ACCOUNTS)
YEAR ENDED 31 MARCH 2014

INCOMING RESOURCES	Notes	Unrestricted			2014 Total Funds	2013 Total Funds
		General Fund	Designated Funds	Restricted Funds		
From Charitable Activities		£	£	£	£	£
Grants receivable from trusts and other bodies	2	3,342,350	-	-	3,342,350	3,244,500
Other income		108,748	-	380,170	488,918	569,562
From Generated Funds						
Other income		91,720	-	-	91,720	94,855
Investment income		7,009	-	-	7,009	4,258
Total incoming resources		3,549,827	-	380,170	3,929,997	3,913,175
RESOURCES EXPENDED						
Charitable Activities	3	3,359,325	549,576	380,170	4,289,071	3,716,175
Costs of Generating Funds – Trading Costs		42,524	-	-	42,524	51,226
Governance Costs	4	68,754	-	-	68,754	51,506
Total resources expended		3,470,603	549,576	380,170	4,400,349	3,818,907
Net incoming(outgoing) resources		79,224	(549,576)	-	(470,352)	94,268
Transfers between funds	12	(136,423)	136,423	-	-	-
Funds brought forward at 1 April 2013		436,276	2,220,747	-	2,657,023	2,562,755
Funds carried forward at 31 March 2014		379,077	1,807,594	-	2,186,671	2,657,023

All of the above results are derived from continuing activities.

There are no recognised gains and losses other than those shown above.

The notes numbered 1 to 15 form part of these financial statements

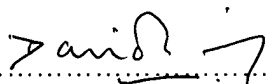
**INSTITUTE FOR GOVERNMENT
CHARITY AND GROUP BALANCE SHEETS
AS AT 31 MARCH 2014**

	Notes	Group 2014	2013	Company 2014	2013
		£	£	£	£
FIXED ASSETS					
Tangible fixed assets	7	1,657,594	1,920,747	1,657,594	1,920,747
Investments	8	-	-	100	100
		1,657,594	1,920,747	1,657,694	1,920,847
CURRENT ASSETS					
Debtors	9	229,691	153,219	477,281	319,656
Cash at bank		1,188,372	1,071,063	937,282	897,090
		1,418,063	1,224,282	1,414,563	1,216,746
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	10	811,010	375,291	807,610	367,855
NET CURRENT ASSETS		607,053	848,991	606,953	848,891
Total assets less current liabilities		2,264,647	2,769,738	2,264,647	2,769,738
Creditors: amounts falling due after more than one year	11	77,976	112,715	77,976	112,715
NET ASSETS		2,186,671	2,657,023	2,186,671	2,657,023
FUNDS	12				
Unrestricted Funds					
General Fund		379,077	436,276	379,077	436,276
Designated Funds		1,807,594	2,220,747	1,807,594	2,220,747
		2,186,671	2,657,023	2,186,671	2,657,023

These financial statements have been prepared in accordance with the special provisions of the Companies Act 2006 relating to small entities.

Institute for Government is a company limited by guarantee registered in England & Wales.
Company number: 6480524

These financial statements were approved by the Governors and authorised for issue on the date below and signed on their behalf by:


.....

Lord Sainsbury of Turville
Governor

Date: 7/10/14

The notes numbered 1 to 15 form part of these financial statements.

**INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 2014**

1. ACCOUNTING POLICIES

a) Accounting Convention and Basis of Accounting

The accounts have been prepared under the historical cost convention. They have been prepared in accordance with the Companies Act 2006, with applicable accounting standards and they also comply with Statement of Recommended Practice on Accounting and Reporting by Charities (SORP 2005). After making enquires, the governors have a reasonable expectation that the charity has adequate resources to continue its activities for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements as outlined in the statement of governors' responsibilities on page 15. As a small company under the Companies Act 2006, the company has applied the exemption under FRS 1 – Cash Flow Statements from preparing a cash flow statement.

b) Group Accounts

Group accounts have been prepared for Institute for Government and its wholly owned subsidiary IFG Enterprises Limited in accordance with the requirements of SORP 2005. The accounts have been consolidated on a line-by-line basis to include the result of IFG Enterprises Limited. The results of IFG Enterprises Limited are shown in Note 15. In accordance with the Companies Act 2006, no individual statement has been prepared for the parent company, Institute for Government.

c) Income

Income represents grants receivable in the period from outside granting bodies, investment income and other miscellaneous income. Income is recognised in the period in which it arises except where it specifically relates to a future period.

d) Restricted Funds

The original capital grant given by the Gatsby Charitable Foundation could only be expended on the renovations of the property, 2 Carlton Gardens. This was fully spent on the renovation in 2011-12 and all funds were transferred to general funds in 2011-12. All other restricted funds were fully spent during the year.

e) General Funds

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

f) Designated Funds

Designated funds are unrestricted funds that have been set aside by the Governors' for a specific purpose. The governors' have designated funds as follows: i) representing the net book value of the Institute's leasehold improvements and other fixed assets. This fund is designated in recognition that the fixed assets are used in the Institute's day to day activities and the fund would not be easily realisable if needed to meet future liabilities; ii) a provision for future building maintenance and improvements costs for 2 Carlton Gardens. £150,000 was designated for this purpose in 2011-12. This fund was fully utilised during 2013-14 undertaking roof replacement at 2 Carlton Gardens and iii) a fund of £150,000 for investment in future project activity. It is expected that utilisation on project investment will occur in 2014-15.

g) Resources Expended

Expenditure is recognised when a liability is incurred. Charitable expenditure represents the full cost of research and training performed. It includes the cost of direct staff, consumable materials and other indirect costs. Where expenditure is attributable to more than one category of expenditure it is included on the basis of use.

Governance costs represent the necessary compliance with statutory and constitutional requirements.

h) Fixed Assets

Depreciation is provided to write off the cost less estimated residual value of the tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Office equipment 33% straight line

Furniture & fittings 20% straight line

The leasehold of the premises is depreciated over the term of the lease.

**INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS
YEAR ENDED 31 MARCH 2014**

i) Pension Costs

The Charity has a money purchase scheme for qualifying employees. Pension costs charged to the Statement of Financial Activities represent the contributions payable by the Charity in the period.

j) Taxation

No taxation is payable due to the charitable status of the organisation. No deferred tax needs to be provided as there are no tax timing differences.

2. ANALYSIS OF GRANTS RECEIVED

	2014	2013
	£	£
Gatsby Core Grant	<u>3,342,350</u>	<u>3,244,500</u>

3. ANALYSIS OF RESOURCES EXPENDED

a) ANALYSIS OF CHARITABLE ACTIVITIES

	Staff Costs	Other direct costs	Support Costs	2014	2013
	£	£	£	Total	Total
				£	£
Charitable Activities	2,554,310	114,996	1,619,765	4,289,071	3,716,175
Cost of Generating Funds	-	-	42,524	42,524	51,226

During 2013-14 the Institute continued to work on its five core strategic themes of work which includes aspects of Research, Training and Development. As a result any distinction between Research and Learning & Development is not relevant.

b) ANALYSIS OF SUPPORT COSTS

	2014	2013
	£	£
Finance	137,130	89,993
IT	95,719	71,452
Premises	718,753	494,083
Administration	621,436	619,800
Other	89,251	70,231
	<u>1,662,289</u>	<u>1,345,559</u>

Where allocation of support costs is not clear, the basis of allocation is that of headcount and percentage of time spent in each support department.

4. GOVERNANCE COSTS

	2014	2013
	£	£
Legal fees	40,214	13,260
Auditors remuneration	14,500	14,000
Other accountancy fees	-	8,017
Board Expenses	14,040	16,229
	<u>68,754</u>	<u>51,506</u>

INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS (Continued)
YEAR ENDED 31 MARCH 2014

5. REMUNERATION OF THE GOVERNORS

No Governors received remuneration from the Institute during the period. The only expenses reimbursed was for Jocelyne Bourgon's travel costs amounting to £14,040 (2013: £16,229) to the board meetings held during the year.

6. STAFF NUMBERS AND COSTS

The average number of persons employed by Institute of Government during the period, analysed by category, was as follows:

	2014 No.	2013 No.
Research, Learning and Development	23	21
Office, management and services	13	12
	<u>36</u>	<u>33</u>

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	2,103,995	1,911,899
Social security costs	235,207	212,588
Other pension costs	149,548	130,438
Other costs	10,094	6,890
	<u>2,498,844</u>	<u>2,261,815</u>

The average number of employees during the period, calculated on a full time basis, was 33. The number of staff with emoluments greater than £60,000 was:

	2014	2013
£60,000 - £69,999	1	1
£70,000 - £79,999	1	1
£80,000 - £89,999	3	2
£90,000 - £99,999	2	1
£100,000 - £109,999	-	2
£120,000 - £129,999	1	1
£190,000 - £199,999	-	1
£210,000 - £219,999	1	-

INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS (Continued)
YEAR ENDED 31 MARCH 2014

7. TANGIBLE FIXED ASSETS

Cost	Group and Charity			£ Total
	£ Leasehold Improvements	£ Office Equipment	£ Furniture & Fittings	
Balance brought forward 1 April 2013	2,852,523	700,170	250,753	3,803,446
Additions	-	30,130	106,293	136,423
Balance carried forward at 31 March 2014	2,852,523	730,300	357,046	3,939,869
Depreciation				
Balance brought forward at 1 April 2013	1,081,840	622,619	178,240	1,882,699
Charge for the period	292,250	45,680	61,646	399,576
Balance carried forward 31 March 2014	1,374,090	668,299	239,886	2,282,275
Net book value at 31 March 2014	1,478,433	62,001	117,160	1,657,594
Net book value at 1 April 2013	1,770,683	77,551	72,513	1,920,747

8. INVESTMENTS

	Charity	
	2014	2013
	£	£
Investment in subsidiaries	100	100

9. DEBTORS

	Group		Charity	
	2014	2013	2014	2013
	£	£	£	£
Trade debtors	120,543	69,059	119,481	57,042
Other debtors	11,245	7,218	259,897	185,672
Prepayments and accrued income	97,903	76,942	97,903	76,942
	229,691	153,219	477,281	319,656

Included within Other debtors of the Charity is an amount due from IFG Enterprises Limited of £248,652 (2013: £178,556).

INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS (Continued)
YEAR ENDED 31 MARCH 2014

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2014	2013	Charity 2014	2013
	£	£	£	£
Trade creditors	331,316	77,664	331,316	77,664
Other taxation and social security	189,950	144,445	189,950	140,610
Accruals and deferred income	287,351	151,311	283,851	147,811
Other creditors	2,393	1,871	2,493	1,770
	811,010	375,291	807,610	367,855

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2014	2013	Charity 2014	2013
	£	£	£	£
Other taxation and social security	77,976	112,715	77,976	112,715

12. TRANSFERS BETWEEN FUNDS AND FUNDS STATEMENT

The Funds Statement below incorporates transfers between funds representing the expenditure of restricted funds granted for fixed assets on their specific purpose and the separation of unrestricted funds between general funds and those represented by fixed assets held for charitable purposes.

	Balance 1 Apr 2013	Incoming resources	Resources used	Transfers	Balance 31 Mar 2014
	£	£	£	£	£
Unrestricted Income Funds					
General funds	436,276	3,549,827	(3,470,603)	(136,423)	379,077
Designated Funds					
Property and fixed asset fund	1,920,747	-	(399,576)	136,423	1,657,594
Capital and maintenance fund	150,000	-	(150,000)	-	-
Project Investment fund	150,000	-	-	-	150,000
Restricted Income Funds					
Restricted income funds	-	380,170	(380,170)	-	-
TOTAL FUNDS	2,657,023	3,929,997	(4,400,349)	-	2,186,671

INSTITUTE FOR GOVERNMENT
NOTES TO THE ACCOUNTS (Continued)
YEAR ENDED 31 MARCH 2014

13. ANALYSIS OF NET ASSETS BETWEEN FUNDS - GROUP

	Unrestricted funds		Restricted funds	Group total funds
	General	Designated		
	£	£	£	£
Fund balances at 31 March 2014				
are represented by:				
Tangible fixed assets	-	1,657,594	-	1,657,594
Current assets	1,268,063	150,000	-	1,418,063
Current liabilities	(811,010)	-	-	(811,010)
Long-term liabilities	(77,976)	-	-	(77,976)
	379,077	1,807,594	-	2,186,671

14. LEASE COMMITMENTS

Operating Leases

At 31 March 2014 the institute had annual commitments under non-cancellable operating leases as follows:

Land & buildings	2014	2013
	£	£
Greater than 5 years	224,900	224,900

15. TRADING SUBSIDIARY

IFG Enterprises Limited continues to manage the commercial activities of the Institute for Government, principally room hire and other event management. Financial statements for the company's financial year to 31 March 2014 have been prepared. All taxable profit is gifted to the Institute for Government.

IFG Enterprises Limited	2014	2013
	£	£
Total income	56,084	64,173
Cost of sales	(42,524)	(51,226)
Administrative costs	(4,433)	(4,323)
Net profit to be gifted to Institute for Government	9,127	8,624

Included in the results above is a management fee payable to the parent company of £ 42,524 (2013: £51,266) relating to the cost of sales of events held by IFG Enterprises Limited.

As at 31 March 2014, IFG Enterprises Limited had total assets of £252,252 and total liabilities of £ 252,152.