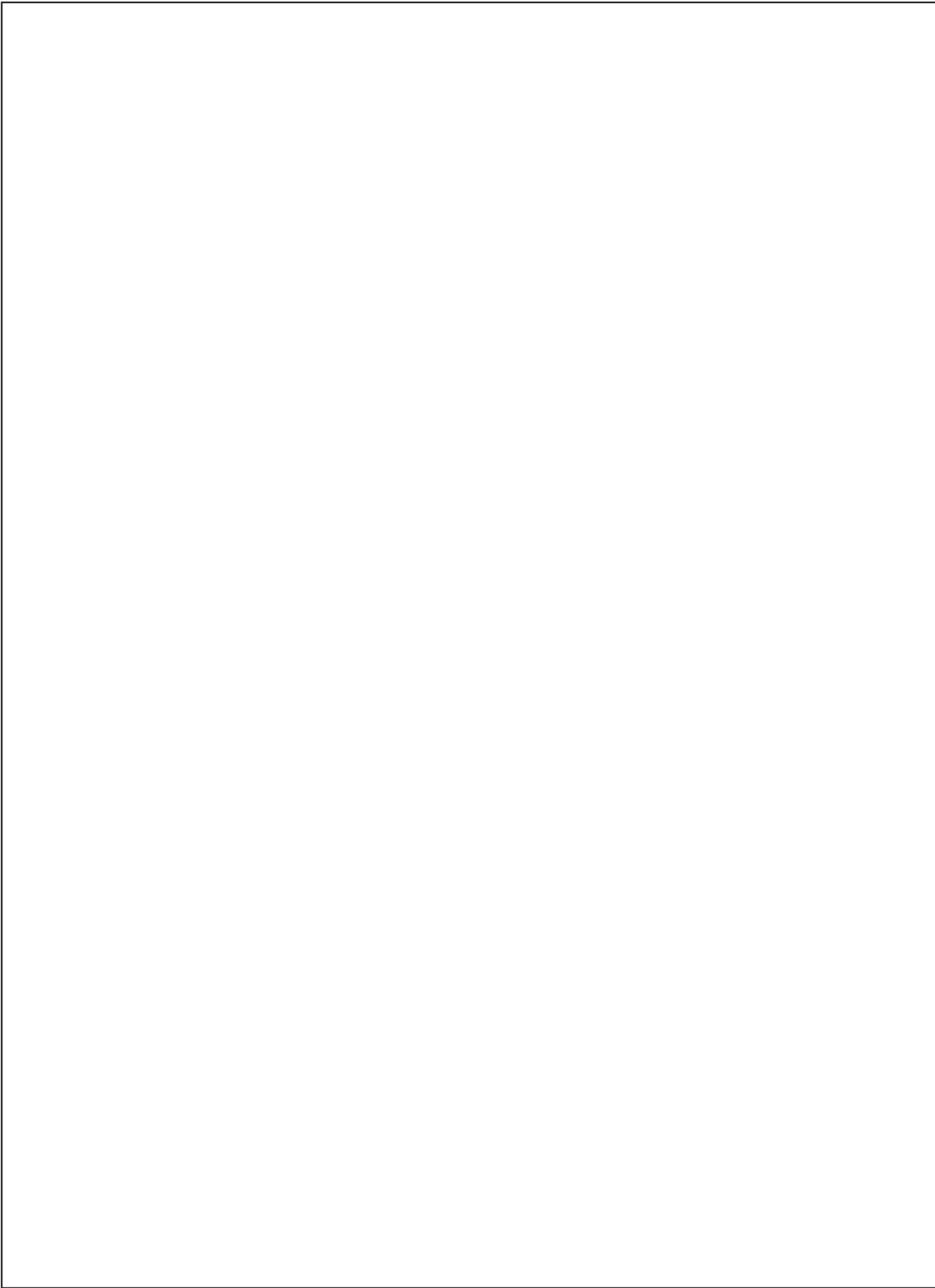




The Royal Academy
of Engineering

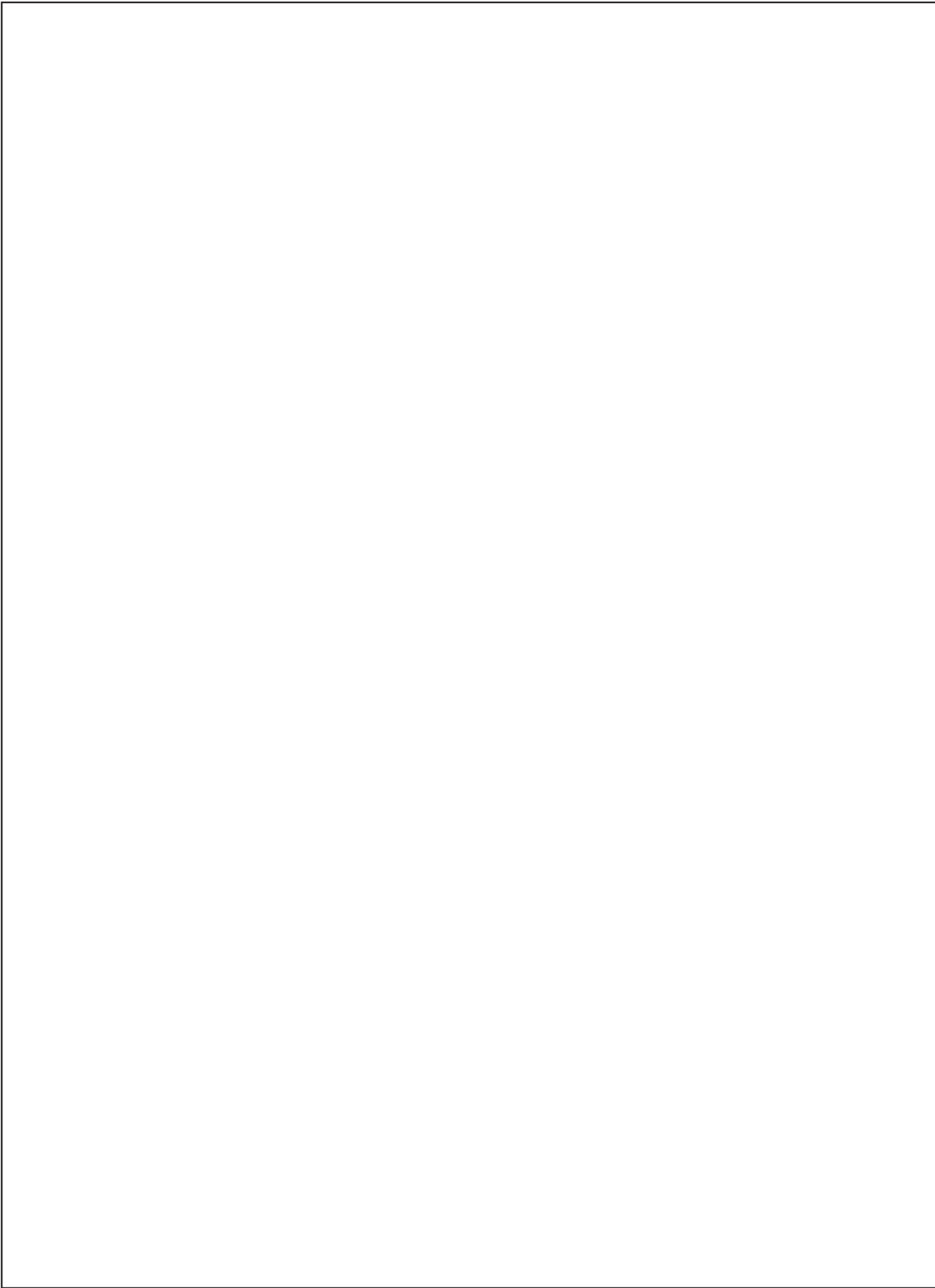
Financial Report and Accounts

For the year ended 31 March 2006



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Honorary Treasurer's Statement



RESULTS FOR THE YEAR

The total income for the year shows a reduction to £10.1 million from £17.6 million in the previous year. However 2004/05 contained an exceptional donation of £8 million. If that is excluded, then the remaining income increased by 5%. The Office of Science and Innovation (formerly the Office of Science and Technology) increased Grant-in-Aid by 4% to £5.9 million. The Gatsby Charitable Foundation provided £1.0 million in support of the Best Programme. EPSRC provided £0.6 million in support of RAEng/EPSRC Research Fellowships. A major new programme, called the London Engineering Project, was started during the year which is funded by HEFCE, funding for this programme totalled £0.2 million during the year and this funding is set to grow considerably over the next two years as the programme expands. The donation of £8 million from the ERA Foundation last year generated additional investment income of about £360,000 in the year which has been applied to a new suite of programmes to further the objects of the Academy in areas broadly in sympathy with the electro-technological roots of the Foundation.

Expenditure on charitable activities increased by 7% to £9.5 million. Under the Charity Commission's revised Statement Of Recommended Practice (SORP 2005) for reporting, this expenditure is analysed into the four strategic objectives which the Academy pursued during the year.

An analysis based upon the principle objective of each activity shows that, of the total charitable expenditure of £9.5 million: 48% was spent on enhancing the contribution of engineering to raising the UK's innovation performance; 22% on attracting more people to a wider range of engineering careers; 18% on engaging more effectively with the public and the public policy process; and 12% on developing the ability of the Academy to make an impact. Staff costs increased by 6% to £2.1 million, this was due to an expansion in staff numbers from 43 to 45, full time equivalents, and salary growth which averaged 4%.

INVESTMENTS

The stock market grew strongly throughout the year, and realised and unrealised gains in the investment portfolios totalled over £3 million. The investments benefited from a full year of the ERA Foundation donation which, together with an improvement in dividend yields, helped to increase investment income above £1 million for the first time. Approximately 25% of both the General Fund and Building Fund portfolios are held in high quality fixed interest stocks. Finance and Audit Committee have decided that new funds generated through the Development Appeal should be invested in such fixed interest stock for the time being in order to maintain a reasonable risk profile.

FINANCE AND AUDIT COMMITTEE

The Committee met four times during the year plus a special year-end review meeting with the auditors. In addition to its regular financial work, the Committee conducts annual reviews of major areas of Academy activity from the standpoint of financial governance. During the year reviews were conducted on external events, engineering policy, communications,

and the Best Programme. The Committee also considered the project to install a customer relationship management system and also the implementation of the new Charity Commission SORP 2005.

PENSION FUND

These accounts have been prepared in compliance with the rules of Financial Reporting Standard - Retirement Benefits (FRS17). FRS17 requires an actuarial valuation (in compliance with the requirements therein) to be made of the Academy's pension fund and for this to be included in the financial statements for the first time this year. The accounts show the effects of including the Pension Fund in the current year and the necessary prior year adjustments to the 2004/05 numbers. The FRS17 valuation as at 31 March 2006 shows that there is a deficit of £1.3 million on the fund. The estimate of the values of the assets and liabilities of the scheme (closed to new members since 1 January 2000) is given in Note 9(b) to these accounts. The Academy is examining a number of options for dealing with the deficit and will enter into negotiations on the future of the pension scheme with the scheme Trustees.

Signed on behalf of the Finance and Audit Committee 15 May 2006
F C Price FREng, Honorary Treasurer

Report of Council

Reference and Administrative Detail

NAME AND REGISTERED OFFICE

The Royal Academy of Engineering is a registered charity No. 293074.
It is a corporate body governed by Royal Charter.
The registered office is 29 Great Peter Street, London SW1P 3LW.

PROFESSIONAL ADVISERS

Bankers

National Westminster Bank plc
Charing Cross, London Branch
P O Box 113, Cavell House
2a Charing Cross Road
London WC2H 0NN

Solicitors

Bristows
3 Lincoln's Inn Fields
London WC2A 3BP

Auditors

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Investment Advisers

OLIM Limited
Pollen House
10/12 Cork Street
London W1X 1PD

Structure, Governance and Management

COUNCIL MEMBERS

Council members are the trustees of the Academy as defined under its status as a registered charity. Council meets four times per year and is responsible for the governance of the Academy. At these meetings Council discusses policy issues and matters referred to it by the Standing Committees for Finance and Audit, Research and Secondment Schemes, Engineering Policy, Education & Training, International, Membership and Awards, most of which also meet four times per year. The majority of Academy activities are controlled by committees composed of Fellows. The members of Council during the year were:

OFFICERS

President Lord Broers FREng HonFMedSci FRS
Immediate Past President (*ex officio*) Sir David Davies CBE FREng FRS
Senior Vice President Sir Duncan Michael FREng (until 6.7.05)
Professor W Hall CBE FREng (from 6.7.05)

Vice Presidents

Lord Browne of Madingley FREng (from 6.7.05)
Professor W R Eatock Taylor FREng
Dr S E Ion OBE FREng
Mr P C Ruffles CBE RDI FREng FRS (until 6.7.05)
Mr P Saraga OBE FREng
Dr R S Steedman FREng
Sir Peter Williams CBE FREng FRS (until 6.7.05)
Professor R A Williams FREng (from 6.7.05)

Honorary Treasurer Mr F C Price FREng
Hon Secretary for International Activities Mr P Saraga OBE FREng
Hon Secretary for Education & Training Dr J E King CBE FREng

ORDINARY COUNCIL MEMBERS

Mr R Benaim FREng
Mr M J Earwicker FREng (until 6.7.05)
Professor D Fisk CB FREng
Sir Peter Gershon CBE FREng
Professor P J Gregson FREng (from 6.7.05)
Professor W Hall CBE FREng (until 6.7.05)
Mr N D Haste OBE FREng
Mr C G Hodge FREng (from 6.7.05)
Professor R Holdaway FREng (from 6.7.05)
Dr I D Nussey OBE FREng (from 6.7.05)
Professor J D Perkins FREng
Professor D I A Poll OBE FREng
Sir Martin Sweeting OBE FREng FRS
Dr M Shears CBE FREng (from 6.7.05)
Professor C M Taylor FREng (until 6.7.05)
Sir John Taylor OBE FREng FRS
Mr J P Weston CBE FREng
Professor R A Williams FREng (until 6.7.05)

EX OFFICIO COUNCIL MEMBER

Chairman, Membership Committee Dr J R Forrest CBE FREng (until 6.7.05)
Professor M J H Sterling FREng (from 6.7.05)

Report of Council

Elections to Council

Council members are elected for a term of three years. Five ordinary members of Council are elected by a postal ballot of Fellows each year. The candidates for election are divided into five engineering discipline groups, namely civil, electrical, IT, mechanical and process. One candidate from each discipline group is elected. The Council Nominations Committee meets annually to draw up a list of candidates to serve as Council Officers for the forthcoming year. This list is put to the Fellowship for approval at the annual general meeting. The President is elected for a term of five years and the other officers for a term of three years. The immediate Past President also serves on Council for five years. On election, new Council members are required to confirm that they are eligible to be trustees of a charity.

Induction and Training of Council Members

Following election, Council members are sent an information pack comprising the Charter and Statutes of the Academy, a Charity Commission publication on the responsibilities of charity trustees and the strategic plan. Immediately prior to their first Council meeting Council members are given a lecture on charity trusteeship by a recognised expert in the field. Council members are also encouraged to attend recommended external training courses for charity trustees.

Internal Control

Finance and Audit Committee is mandated by and reports to Council on the following issues:

- Setting a budget prior to each financial year;
- Appointing and monitoring the performance of independent investment advisers;
- Approving authorised signatories and setting limits on delegated financial authorities;
- Monitoring actual financial performance against budget;
- Reviewing the Academy's risk assessment twice per year;
- Reviewing the reserves policy annually;
- Conducting such internal reviews as it shall see fit;
- Ensuring that accounting rules are followed and that an independent audit is conducted.

Detailed management accounts are prepared monthly within five working days of the month end. Full sets of accounts are submitted quarterly to Finance and Audit Committee and summarised accounts are submitted quarterly to Council.

**MEMBERS OF FINANCE
AND AUDIT COMMITTEE**

Mr F C Price FREng* (Chairman and Honorary Treasurer)
Mr C V Betts CB FREng
Mr M J Earwicker FREng*
Professor R W E Shannon CBE FREng*

Dr I D Nussey OBE FREng* (from 6.7.05)
Professor P N T Wells FREng FMedSci FRS*

* Denotes current or former members of Council. During the year Council decided that the Finance and Audit Committee should comprise only current Council members as current members come to the end of their 3 year terms.

INVESTMENT POWERS

The Royal Charter gives the Academy unrestricted powers of investment of its reserve funds.

RISK ASSESSMENT

The major risks to which the Academy is perceived to be exposed have been identified and mechanisms are in place to mitigate and monitor those risks. As part of this process, the Chief Executive reports to Finance and Audit Committee twice per year on the status of perceived risks and the actions taken or about to be taken to reduce the risks of greatest concern.

PRINCIPAL EXECUTIVES

Day to day management of the Academy is the responsibility of the Chief Executive assisted by the Directors' Committee which meets weekly. The directors are as follows:

Chief Executive	Mr P D Greenish CBE
Director, Finance and Administration	Mr A Thomas
Director, Engineering Affairs	Mr K Davis
Director, Education Affairs	Dr R W Ditchfield
Director, Best Programme	Professor M Harrison
Director, Communications	Mr T McLaughlan
Director, Development	Ms S Philbrick

Report of Council

Objectives and Activities

Strategic Objectives

In its Strategic Plan which Council approved in July 2005, it was decided to focus the efforts of the Academy on the achievement of four strategic objectives for the period 2005-2010, which are:

- To engage more effectively with the public and the public policy process
- To attract more people to a wider range of engineering careers
- To enhance the contribution of engineering to raising the UK's innovation performance
- To strengthen the Academy and its ability to make an impact

Activities

The strategic objectives were supported by the following activities during the year:

“To engage more effectively with the public and the public policy process”

- Conduct a programme of events on topics of strategic importance to the UK
- Develop *Shape the Future* – a campaign aimed at young people and those who influence them. Supported by strategic partners. Launched Autumn 2005
- Bestow medals and awards on people of distinction who have advanced the cause of engineering and who will serve as role models for aspiring young people
- Publish *Ingenia* with thought provoking articles on engineering issues to influence a wide audience of decision makers
- Increase the appeal and usage of the Academy's websites by target audiences
- Respond to requests for information on engineering topics from parliamentary, government and other national bodies
- Conduct policy studies on subjects of topical public interest and relevance to the Academy's strategic priorities

“To attract more people to a wider range of engineering careers”

- Develop the Best Programme to be the pre-eminent national scheme for engineering education curriculum enrichment

- Operate the Best Programme as a true continuum where participants remain engaged year after year, graduating from one scheme to the next
- Widen the Best Programme to include more girls and women, and engage more young people from parts of society that are under-represented in engineering
- Support undergraduates with financial support, mentoring and extra-curricular training. Also develop new offerings that are attractive and complement the teaching they receive from their universities
- Support teachers to improve the teaching of science and engineering by introducing teaching programmes that help teachers convey the excitement and relevance of engineering to their students

“To enhance the contribution of engineering to raising the UK's innovation performance”

- Promote two-way knowledge transfer between different organisations in the UK
- Stimulate awareness and demand for technology and engineering in business and industry
- Establish linkages with other countries identified as key strategic partners for the UK
- Promote the development and delivery of technologies of benefit to society
- Support the maintenance of technological capability in strategic areas
- Work internationally to develop new strategies with the European and world bodies of engineering academies

“To develop the ability of the Academy to make an impact”

- Seek more Fellows from SME's and a younger age group
- Strengthen the Fellowship by developing better means for communicating with the Fellowship and thereby maximising ways in which Fellows can participate in Academy activities
- Encourage diversity by ensuring that objectives are in place for widening participation in the programmes, and by setting up schemes aimed specifically at target groups. Also participate fully with national bodies seeking to promote diversity
- Re-engineer and improve as many activities as possible using IT
- Enhance skills levels throughout the staff team to meet evolving demands and obtain and retain Investors in People status
- Broaden the Academy's funding base by seeking new strategic partners

Achievement and Performance

"To engage more effectively with the public and the public policy process"

- 35 events were held during the year comprising public lectures, major conferences, technical briefings and other events. The new ERA Foundation International Lecture was inaugurated in March 2006 with a lecture given by Mr Craig Barrett, Chairman of the Intel Corporation
- The Royal Academy of Engineering Prince Philip Medal was awarded to Professor James Dooge FREng, retired Chair in Civil Engineering, University College Dublin
- The President's Medal was awarded to Mr Jonathan Ive; The Sir Frank Whittle Medal was awarded to Professor P J Lawrenson FREng FRS; 4 Silver Medals were awarded – to Mr Simon Brueckheimer, Mr Nigel Schofield, Mr Barry Trimmer and Mr Peter Price; The Medal for the Public Promotion of Engineering was awarded to Dr Lindsay Sharp; The Lifetime Achievement Award was awarded to Dr Philip Woodward; The International Medal was awarded to Professor Cham Tao Soon FREng; and The Special Achievement Award was awarded to Mr Stephen Payne OBE
- The MacRobert Award for Engineering Innovation for 2005 was won by CSR plc for its single chip BlueCore™ family
- The ERA Foundation Award for academic engineering researchers was launched in September 2005
- The Academy provided written responses and advice on 10 issues to Parliamentary, Government and other national bodies on a range of engineering topics
- The *Shape the Future* campaign was launched in November 2005 with funding from BP, Airbus, Tyco Electronics and ERA Foundation. The ERA Foundation Prize for Photography was launched as an element of the campaign
- Studies and initiatives completed or underway include or relate to:
 - Risk in engineering
 - Ethics and engineering
 - Educating Engineers for the 21st Century
 - Philosophy of engineering
 - Energy
 - Privacy and surveillance
 - Accidents
 - Systems Biology (with the Academy of Medical Sciences)

"To attract more people to a wider range of engineering careers"

- Achievements in the Best Engineering Education Programme were as follows:
 - Engineering Education Scheme – 1,858 school students participated
 - Headstart – 1,300 sixth form students participated at 26 universities
 - Undergraduate Programme – 1,707 students participated
 - Engineering Leadership Awards – 21 awards
 - The Year in Industry – 572 students participated
 - Young Engineers Clubs – 1,347 active clubs in operation
 - Smallpeice Trust Schemes – 3,400 students attended courses
 - Sainsbury Management Fellowships in Engineering – 10 awards
 - Sainsbury Management Fellowships in the Life Sciences – 5 awards
 - ExxonMobil Engineering Education Scheme – 4 awards
 - Panasonic Trust Awards for study on masters' courses related to the environment - 55 awards
 - Panasonic Trust Fellowships in environmental technology – 7 awards.
 - Sir Angus Paton Bursary – 1 award
 - Executive Engineers Programme – 37 graduate engineers participated
 - ERA Foundation Engineering Teaching Prize – 6 prizes awarded
 - BNFL/RAEng Engineering Education Innovation Prize – 1 awarded
- The London Engineering Project was launched to encourage participation in engineering higher education from under-represented social and ethnic groups.
- Part of the income from the ERA Foundation donation enabled three new education programmes to be launched:
 - Support for Engineering PhD Students – 5 awards made
 - Engineering Teaching Fellowships – 6 awards made
 - Workshops for Schoolteachers – 97 teachers participated

Report of Council

“To enhance the contribution of engineering to raising the UK’s innovation performance”

- The Academy continued to work and liaise closely with a number of related bodies including:
 - The Royal Society
 - The Academy of Medical Sciences
 - The Royal Society of Edinburgh
 - The Research Councils (particularly the Engineering and Physical Sciences Research Council)
 - Council of Academies of Engineering and Technological Sciences (CAETS) and the European Council of Applied Sciences and Engineering (Euro-CASE)
 - The Engineering and Technology Board (ETB) and the Engineering Council UK
- Part of the income from the ERA Foundation donation enabled a new programme, Industry into Academia Fellowships to be launched on a trial basis – 2 Fellowships were awarded.
- Achievements in programmes funded by Parliamentary Grant-in-Aid were as follows:
 - Personal Research Chairs – 22 in post plus 2 posts with appointments pending
 - Senior Research Fellowships – 12 in post (including 7 funded by the Leverhulme Trust)
 - Global Research Awards – 23 current award holders
 - Postdoctoral Research Fellowships – 37 in post
 - Industrial Secondment Scheme – 9 awards
 - Visiting Professorships in the Principles of Engineering Design – 119 in post
 - Visiting Professorships in Engineering Design for Sustainable Development – 28 in post
 - Visiting Professorships in Integrated System Design – 15 in post
 - International Travel Grants – 804 awards
 - Engineering Professional Development Awards – 57 awards involving 1,144 engineers

“To develop the ability of the Academy to make an impact”

- At the AGM on 6 July 2005, 44 new Fellows, 4 Honorary Fellows and 3 International Fellows were elected
- The fundraising campaign proceeded during the year with the aims of raising funds for the Best Programme and also to provide a new headquarters building for the Academy. Council set up a Steering Group to oversee the search for a new property. The Steering Group appointed property agents to handle the search and a number of possible options are being considered.

Financial Review

Review of Transactions for the Year

The financial statements are presented in the format required by the Charity Commission's revised Statement of Recommended Practice published in March 2005 (SORP 2005). The Statement of Financial Activities shows the gross income from all sources and the split of activity between restricted and unrestricted funds. Total incoming resources for the year were £10.1 million. Total income increased by 5% over the previous year once the ERA Foundation donation of £8 million in 2004/05 is excluded.

GRANT-IN-AID

The Academy is grateful to the Office of Science and Innovation for providing Parliamentary Grant-in-Aid to support activities aimed at promoting engineering research in the UK. Grant-in-Aid at £5.9 million was the largest contribution to funds and represented 58% of total incoming resources.

ENGINEERING EDUCATION PROGRAMMES

The Academy's Best Engineering Education Programme aims to improve engineering education from school through to postgraduate professional development. The programme is set for major expansion with a number of new partner organisations joining the Best Programme structure. The Academy has also been awarded a contract by the Higher Education Funding Council for England (HEFCE) to run a programme aimed at stimulating interest in engineering higher education in inner city areas which presently have only small representation. The programme was launched in London and will be rolled out to other major English cities. The Gatsby Charitable Foundation supported the Best Programme with funds totalling £984,000 during the year, and HEFCE donated £174,000 to support the London Engineering Project.

OTHER GRANTS AND CONTRACTS

Income from other grants and contracts totalled £1.1 million of which the Engineering and Physical Sciences Research Council donated £577,000 for the Research Fellowship programme and the Leverhulme Trust donated £137,000 for the Leverhulme Fellowship programme.

DONATIONS

During the year The Academy received donations of £161,000 earmarked for specific programmes, plus £106,000 as a result of the Development Appeal which was added to the Building Fund.

OTHER INCOME

Other major sources of income during the year were: investment, rental, subscription and facilities hire income at a total of £1.7 million (16% of total incoming resources).

CHARITABLE ACTIVITIES

Expenditure on charitable activities was £9.5 million during the year or 97% of total resources expended. Of this total, £6.5 million represented charitable activities and grants paid under various programmes and £3 million represented the costs of operating those programmes.

COST OF GENERATING FUNDS

The cost of generating funds consists of fees paid to investment managers and the staff costs and expenses associated with fundraising and the promotional costs of the Best Programme. These costs totalled £223,000 or 2% of total resources expended. The Academy is continuing with major fundraising activity aimed, primarily, at obtaining funds for the Best Programme and also for a new building which would be better suited to long term development plans.

GOVERNANCE COSTS

Governance costs comprising audit fees, legal fees and associated support costs amounted to £61,000 or 0.6% of total resources expended.

INVESTMENTS

Investment assets are divided into two portfolios. The benchmark indices for comparing against the performance of the portfolios are composites made up of 75% equities and 25% fixed interest. The General Fund Portfolio has the objective of generating income to spend on activities in support of the Academy's strategic objectives whilst preserving the capital value of the fund in real terms. During the year the General Fund generated £762,000 of income with realised losses of £(2,000) and unrealised gains of £2,672,000. Over the year the General Fund performed in line with its benchmark.

The Building Fund Portfolio, founded on the individual donations of Fellows, has the objective of providing a source of finance for the provision and enhancement of a headquarters building for the Academy. All income to this fund is reinvested. During the year the portfolio generated £104,000 of income for reinvestment; there were realised gains of £6,000 and unrealised gains of £345,000. Over the year the Building Fund performed in line with its benchmark.

Report of Council

FIXED ASSETS

Capital expenditure during the year amounted to £60,000, of which 46% was spent on the IT network and 54% on other equipment and furniture. The cabling and hub switches of the IT network were replaced during the year.

Reserves Policy

Finance and Audit Committee has considered the level of reserves as part of the twice yearly risk assessment review procedure. The Committee has concluded that the required level of reserves is such as would enable The Academy to continue as a going concern in the event of a major reduction in income from existing sources. The Committee also took into account the level of deficit in the final salary pension fund. Council, taking into account the recommendation of the Committee, has agreed the following reserves policy:

The Academy should maintain a minimum level of free reserves of £8 million and should achieve a maximum level of reserves of £20 million at 2005 prices by 2015.

The reserves policy will continue to be monitored and reviewed by Finance and Audit Committee who would forward recommendations to Council for their consideration should any amendments be required to the policy. The free reserves of The Academy are made up as follows:

	2006	2005
Year ended 31 March	£000	£000
Total funds per Balance Sheet	19,216	16,327
Deduct:		
Tangible Fixed Assets	Note 10 108	98
Restricted Funds	Note 16 117	122
Designated Special Funds	Note 16 299	263
Designated Building Fund	Note 16 2,526	2,023
Designated RAEng MacRobert Award Fund	Note 16 1,332	1,316
Free Reserves	14,834	12,505

The specific uses and needs of the Restricted and Designated Funds are detailed separately in the notes to the accounts referred to above. The Academy's reserves are available and adequate to fulfil the current obligations of the Academy.

Recipients of Academy Grants

The Academy made over 1,300 grants and awards to organisations and individuals in 2005/06 totalling £6.5 million. The first 50 organisations, in order of the total amount of cash paid to recipients, are listed below.

Amounts in £		Research ¹	Visiting Profs ²	Industrial Sec'mnts	Travel Grants	Educ'n ³	EPDA ⁴	Total
1	Imperial College London	305,088	1,000	-	28,100	-	-	334,188
2	Cambridge University	183,635	1,000	-	38,100	-	-	222,735
3	Sheffield University	119,941	21,000	-	19,300	-	-	160,241
4	Engineering Development Trust	-	-	-	-	151,750	-	151,750
5	Southampton University	118,798	1,000	-	16,400	-	-	136,198
6	Queen's University Belfast	70,560	36,500	10,416	10,900	-	-	128,376
7	INSEAD (France)	-	-	-	-	120,833	-	120,833
8	University College London	56,442	20,000	28,200	13,900	-	-	118,542
9	Loughborough University	78,113	21,000	-	18,900	-	-	118,013
10	Smallpeice Trust	-	-	-	-	91,000	-	91,000
11	Young Engineers	-	-	-	-	79,463	-	79,463
12	Cranfield University	53,531	14,500	-	9,000	-	-	77,031
13	Strathclyde University	40,052	21,000	-	9,400	-	-	70,452
14	Oxford University	44,907	1,000	16,350	6,200	-	-	68,457
15	Newcastle University	42,089	1,000	16,100	7,300	-	-	66,489
16	Leeds University	22,184	21,000	-	14,100	-	-	57,284
17	UMIST	34,338	20,000	-	-	-	-	54,338
18	Surrey University	19,792	21,000	-	11,800	-	-	52,592
19	Bath University	-	41,000	-	11,500	-	-	52,500
20	Birmingham University	-	21,000	18,000	8,200	-	-	47,200
21	Harvard University (USA)	-	-	-	-	46,236	-	46,236
22	Heriot-Watt University	24,635	1,000	15,600	3,800	-	-	45,035
23	Manchester University	35,000	1,000	-	7,200	-	-	43,200
24	London Business School	-	-	-	-	42,000	-	42,000
25	Bradford University	-	21,000	13,500	7,100	-	-	41,600
26	York University	27,232	-	8,068	4,300	-	-	39,600
27	Dundee University	30,287	1,000	-	4,000	-	-	35,287
28	City University	-	21,000	10,692	2,700	-	-	34,392
29	Liverpool University	23,787	1,000	-	6,300	-	-	31,087
30	Brunel University	-	21,000	-	5,100	-	-	26,100
31	Edinburgh University	-	20,000	-	5,000	-	-	25,000
32	Plymouth University	-	21,000	-	4,000	-	-	25,000
33	Glasgow University	-	16,000	-	8,500	-	-	24,500
34	IMD (Switzerland)	-	-	-	-	24,229	-	24,229
35	MIT (USA)	-	-	-	-	23,261	-	23,261
36	Essex University	18,224	-	-	3,100	-	-	21,324
37	Sheffield Hallam University	-	20,000	-	800	-	-	20,800
38	Napier University	-	-	15,000	5,100	-	-	20,100
39	Cardiff University	-	11,000	-	7,200	-	-	18,200
40	Aston University	-	1,000	7,600	4,600	-	-	13,200
41	Swansea University	5,619	-	-	6,400	-	-	12,019
42	Icore International Ltd	-	-	-	-	-	11,000	11,000
43	Bangor University	7,875	-	-	2,200	-	-	10,075
44	REACT Engineering Ltd	-	-	-	-	-	10,000	10,000
45	Bristol University	-	1,000	-	8,500	-	-	9,500

Report of Council

Amounts in £	Research ¹	Visiting Profs ²	Industrial Sec'mnts	Travel Grants	Educ'n ³	EPDA ⁴	Total
	46 Crawford NBS Division	-	-	-	-	-	9,000
47 Abraham Consulting Engineers	-	-	-	-	-	8,000	8,000
48 Airbus UK Ltd	-	-	-	-	-	8,000	8,000
49 Central Lancs University	-	1,000	-	-	-	7,000	8,000
50 Grimley Smith Associates Ltd	-	-	-	-	-	8,000	8,000
	1,362,129	421,000	159,526	319,000	578,772	61,000	2,901,427

Notes:

1. Research comprises Personal Research Chairs, Senior Research Fellowships, Research Fellowships and Global Research Awards.
2. Visiting Professorships are awarded in the Principles of Engineering Design; Design for Sustainable Development; and Integrated System Design.
3. Education comprises funding for the Engineering Education Scheme, the Year in Industry Scheme, the Headstart Scheme and the Sainsbury Management Fellowship Scheme.
4. EPDA stands for the Engineering Professional Development Award Scheme.

Grant Making Policy

The grant and award programmes are run by committees or steering groups of Fellows of the Academy. There is a policy of strict impartiality and no Fellow may participate in a grant/award decision if there is a conflict of interest. The role of Academy staff is solely one of administration of the programmes.

Ethnic and Gender Monitoring

The Academy's policy of ethnic and gender monitoring is aimed at ensuring that, as far as possible, equality of opportunity is achieved in: the election of Fellows; the allocation of funds for research grants and other awards; and in the appointment of staff. The following table is a summary of more detailed data which has been collected by the Academy for this purpose.

	Fellowship %	Recipients of Grants/Awards %	Staff %
Gender			
Male	98	77	49
Female	2	23	51
Ethnicity¹			
White	98	73	92
Mixed ²	*	2	-
Asian/Asian British	1	7	4
Black/Black British	-	2	4
Chinese/Other Ethnic Group	1	16	-

Note:

1. The ethnic groups used are those used in the 2001 Census of the UK population and are groupings approved by the Commission for Racial Equality
2. * indicates that the figure is less than 0.5%

Plans for Future Periods

"To engage more effectively with the public and the public policy process"

- Create an overarching public engagement programme
- Develop our communications activity
- Launch the ERA Foundation Research Prize
- Enhance the impact of our publications
- Strengthen further our policy work and the impact it makes.

"To attract more people to a wider range of engineering careers"

- Build on the success of the Best Programme
- Widen the Best Programme
- Support our undergraduates
- Support our teachers.

"To enhance the contribution of engineering to raising the UK's innovation performance"

- Develop programmes to stimulate two-way knowledge transfer between organisations in the UK
- Engage at a regional level in the UK through such bodies as Regional Development Agencies
- Promote the development and delivery of technologies of benefit to society
- Establish a programme of distinguished Visiting Fellowships in key disciplines to invigorate UK staff and students and share international best practices
- Establish a programme of fully-funded ten-year Research Chairs in Emerging Technologies
- Establish a pilot programme of Industry into Academia Fellowships
- Establish a scheme to support research exchanges with China and India as a first step in enhancing links and knowledge transfer with these growing world powers

- Continue to expand and develop current programmes, namely: RAEng/EPSRC Research Fellowships; Research Chairs and Senior Research Fellowships; Visiting Professors Schemes; Global Research Awards; International Travel Awards; Industrial Secondments for university lecturers; Engineering Professional Development Awards.

“To develop the ability of the Academy to make an impact”

- Enhance the Academy’s leadership role and reputation
- Strengthen the Fellowship
- Increase partnerships and networking with stakeholders
- Encourage diversity in all that we do
- Develop the Academy infrastructure
- Ensure sufficient and balanced funding
- Widen our reach
- Consider engineering capacity building opportunities
- Improve the Academy’s performance and processes.

Statement of Council's Responsibilities

The Council, as Trustees of The Royal Academy of Engineering, are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The law applicable to charities in England & Wales requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of The Royal Academy of Engineering and of its incoming resources and application of resources of the year. In preparing financial statements giving a true and fair view the trustees should follow best practice and:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that The Royal Academy of Engineering will continue in operation.

The trustees are responsible for keeping accounting records that disclose with reasonable accuracy the financial position of the charity and enable them to ensure that the financial statements comply with applicable law and the trust deed. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed under delegated authority on behalf of Council on 15 May 2006

Lord Broers, President
F C Price, Honorary Treasurer

Auditors Report

Independent Auditors' Report to the Members of The Royal Academy of Engineering

We have audited the financial statements of The Royal Academy of Engineering for the year ended 31 March 2006 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the trustees (Council of the Academy), as a body, in accordance with Regulation 7 of the Charities Accounts and Report Regulations 2005. Our audit work has been undertaken so that we might state to the trustees 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 trustees as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF TRUSTEES AND AUDITORS

The trustees' responsibilities for preparing the trustees' report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of trustees' responsibilities.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the trustees' report is not consistent with the financial statements, if the charity has not kept proper accounting records or if we have not received all the information and explanations we require for our audit. We read the trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

The relationship between The Royal Academy of Engineering and the Office of Science and Innovation and the terms upon which the Office of Science and Innovation provides funds to the Academy are governed by a Financial Memorandum. Our responsibility includes a requirement to report our opinion on whether the funds provided by the Office of Science and Innovation have been applied in accordance with this Financial Memorandum.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 March 2006 and of its incoming resources and application of resources in the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

In our opinion, in all material aspects the income from the Office of Science and Innovation has been applied to the purposes intended by Parliament as set out in the Financial Memorandum and the financial transactions conform to the authorities which govern them.

London 15 May 2006
PKF (UK) LLP Registered Auditors

Statement of Financial Activities

YEAR ENDED 31 MARCH 2006

	Notes	Unrestricted Funds	Restricted Funds	Totals 31 March 2006	Restated Totals 31 March 2005
		£	£	£	£
Incoming Resources					
Incoming Resources from Charitable Activities					
Grants	2	-	6,834,154	6,834,154	6,918,229
Contracts	4	8,554	1,324,655	1,333,209	1,185,116
Incoming Resources from Generated Funds					
Gifts and Donations	5	149,564	117,390	266,954	8,382,436
Activities for Generating Funds					
Investment Income	6	1,043,696	-	1,043,696	620,584
Other Income	6a	614,325	-	614,325	523,557
Total Incoming Resources		1,816,139	8,276,199	10,092,338	17,629,922
Resources Expended					
Costs of Generating Funds					
Fundraising Costs		116,274	-	116,274	188,487
Investment Management Fees		106,597	-	106,597	71,041
		222,871	-	222,871	259,528
Charitable Activities					
Engaging Effectively with the Public	7	560,291	1,122,299	1,682,590	1,498,530
Attracting More People into Engineering	7	39,778	2,076,977	2,116,755	2,361,419
Enhancing the Contribution of Engineering	7	-	4,495,792	4,495,792	4,307,564
Developing the Academy	7	611,989	580,000	1,191,989	739,714
		1,212,058	8,275,068	9,487,126	8,907,227
Governance Costs	8	61,403	-	61,403	66,734
Total Resources Expended		1,496,332	8,275,068	9,771,400	9,233,489
Net Incoming Resources		319,807	1,131	320,938	8,396,433
Net Investment Gains					
Realised Gains on Investments		4,195	-	4,195	204,240
Unrealised Investment Gains	11	3,017,678	-	3,017,678	1,820,091
Total Investment Gains		3,021,873	-	3,021,873	2,024,331
Actuarial Losses on Defined Benefit Pension Scheme		(454,000)	-	(454,000)	(24,000)
Net Movement in Funds		2,887,680	1,131	2,888,811	10,396,764
Fund Balances Brought Forward 1 April					
As Reported		16,205,149	121,558	16,326,707	6,784,943
Prior Year Adjustment	18	-	-	-	(855,000)
Fund Balances Carried Forward 31 March	16,17	19,092,829	122,689	19,215,518	16,326,707

All the above results are derived from continuing activities. There are no gains and losses other than those stated above.

Balance Sheet

AT 31 MARCH 2006

	Notes	Year ended 31 March 2006		Restated Year ended 31 March 2005	
		£	£	£	£
Tangible Fixed Assets	10		107,680		97,785
Investments	11		21,039,499		17,564,923
Current Assets					
Debtors	12	502,699		603,714	
Stock	13	8,865		11,369	
Cash at Bank		3,539,052		2,732,643	
Short Term Deposits		247,247		427,527	
		4,297,863		3,775,253	
Current Liabilities					
Creditors (amounts falling due within one year)	14	(4,946,524)		(4,276,254)	
Net Current Liabilities			(648,661)		(501,001)
Defined Benefit Pension Scheme Liability	9b		(1,283,000)		(835,000)
Net Assets			19,215,518		16,326,707
Charitable Funds:					
Restricted Funds	16		122,689		121,558
Unrestricted Funds					
Special Funds	16		298,988		262,930
Building Fund	16		2,569,688		2,022,999
RAEng MacRobert Award Fund	16		1,332,119		1,315,907
General Fund	16	16,175,034		13,438,313	
Pension Fund Deficit	16	(1,283,000)		(835,000)	
			14,892,034		12,603,313
Total Charitable Funds			19,215,518		16,326,707

These financial statements were approved by the President and Hon Treasurer under delegated authority from the Council.

Signed on behalf of the Council on 15 May 2006

Lord Broers, President
F C Price, Hon Treasurer

Cash Flow Statement

YEAR ENDED 31 MARCH 2006

	2006 £	Restated 2005 £
Reconciliation of Changes in Resources to Net Cash Inflow from Operations		
Net Incoming Resources (as reported)	320,938	8,396,433
Less: FRS17 Operating Pension Adjustment	(6,000)	(44,000)
Less Income from Interest and Dividends	(858,241)	(620,584)
Depreciation Net of Disposals	50,062	49,704
Decrease/(Increase) in Debtors	101,015	(63,431)
Increase in Creditors	670,270	690,519
Decrease in stock	2,504	7,965
Net Cash Inflow/(Outflow) from Operating Activities	280,548	8,416,606

Cash Flow Statement

Net Cash Inflow/(Outflow) from Operating Activities	280,548	8,416,606
Returns on Investments (Note 1)	858,241	620,584
Capital Expenditure and Financial Investment (Note 1)	(512,660)	(7,904,478)
Increase in Cash	626,129	1,132,712

Reconciliation of Net Cash Flow to Movement in Net Cash (note 2)

Increase in Cash in the Period	626,129	1,132,712
Net Cash at 1 April 2005	3,160,171	2,027,459
Net cash at 31 March 2006	3,786,300	3,160,171

NOTES TO THE CASH FLOW STATEMENT

Note 1 - GROSS CASH FLOWS

Returns on investments

Dividends Received	656,871	433,483
Interest Received	201,370	187,101
	858,241	620,584

Capital expenditure and financial investment

Purchase of Tangible Fixed Assets	(59,957)	(72,387)
Purchase of Investments	(2,377,707)	(9,759,467)
Proceeds from Sale of Investments	1,925,004	1,927,376
	(512,660)	(7,904,478)

Note 2 - ANALYSIS OF CHANGES IN NET CASH

Cash in hand plus bank deposits		
As at 1 April 2005	3,160,171	2,027,459
Cash Flows	626,129	1,132,712
As at 31 March 2006	3,786,300	3,160,171

Notes to the Accounts

For the Year Ended 31 March 2006

NOTE 1 - ACCOUNTING POLICIES

(a) Basis of Preparation of the Accounts

The annual report, incorporating the financial statements for the year ended 31 March 2006, has been prepared in accordance with the Academy's Royal Charter, and in compliance with the Charities Act 1993, the Statement of Recommended Practice 'Accounting and Reporting by Charities' (revised 2005) ('SORP'), and with applicable accounting standards. Where applicable, comparatives have been restated to comply with SORP 2005.

(b) Historical Cost Convention

The financial statements have been prepared under the historical cost convention, as modified for the inclusion of investment assets at market value.

(c) Incoming Resources

The specific bases for accounting for income are described below. In general terms, income is accounted for on a receivable basis, gross of related expenditure. Income is only recognised where there is evidence of entitlement, where it is virtually certain that income will be received, and there is reasonable certainty of the amount.

- Investment income is included in the Statement of Financial Activities in the year in which it is receivable.
- Grants receivable are recognised when entitlement to the grant is confirmed, and also include returned grants which are accounted for on receipt.
- Other incoming resources consist of subscriptions, including income tax recoverable.

(d) Resources Expended

Expenditure is recognised on an accruals basis, gross of any related income. Costs are allocated to activities as described below. Indirect costs are apportioned to activities on a basis consistent with the use of the resources.

- Costs of generating funds comprise direct costs and expense of staff involved with fundraising, and fees paid to investment fund managers.
- Charitable activities – Grants. Grants payable are charged in the year in which the commitments to pay the grants are made.
- Charitable activities – Other. Other charitable expenditure includes all direct expenditure, including staff costs, which is directly attributable to activities. Indirect costs are allocated to each charitable activity based on the number of staff directly supporting the activity.
- Governance costs include those associated with the management of the Academy's assets and with constitutional and statutory requirements.

(e) Operating Leases

Rental costs under operating leases are charged to the Statement of Financial Activities, as the charges are incurred, over the lease periods.

(f) Tangible Fixed Assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Furniture

– over 5 years

Computer equipment

– over 3 years

Leasehold improvements

– over 5 years

(g) Investments

Listed investments are included in the financial statements at market value at the balance sheet date. Gains/losses on disposal of investments and revaluation of investments are recognised in the year of gain or loss and are allocated to the funds to which the investments relate

(h) Pensions

The Academy participates in a defined benefit scheme. Pension costs are assessed in accordance with the advice of an actuary based on the most recent actuarial valuation of the scheme and are accounted for on the basis of charging the cost of providing pensions over the period during which the Academy benefits from the employees' services. There is also a defined contribution scheme for staff who joined after 1 January 2000.

(i) Funds

General Funds are those which are available for use at the Council's discretion in the furtherance of the Academy's objectives.

Designated Funds are unrestricted funds set aside for unrestricted purposes and which would otherwise form part of General Funds. Details of the nature and purpose of each designated fund are set out in note 16.

Restricted Funds are funds that are subject to restrictions imposed by donors and are applied in accordance with these restrictions. Details of the nature and purpose of each restricted fund are set out in note 16.

	Unrestricted Funds	Restricted Funds	Totals 31 March 2006	Restated Totals 31 March 2005
	£	£	£	£
Note 2 – Grants				
Parliamentary Grant-in-Aid ³	-	5,850,000	5,850,000	5,600,000
Engineering Education Programme	-	984,154	984,154	1,318,229
	-	6,834,154	6,834,154	6,918,229
Note 3 – Parliamentary Grant-in-Aid				
Grant in Aid was expended on:				
External Projects	-	3,622,000	3,622,000	3,466,000
Cost of Managing External Projects	-	2,228,000	2,228,000	2,134,000
	-	5,850,000	5,850,000	5,600,000
Note 4 – Contracts				
Shape the Future	-	90,000	90,000	2,040
Gatsby to Smallpeice & Young Engineers	-	170,463	170,463	215,610
ExxonMobil	-	-	-	100,000
Engineering Leadership Awards	-	52,000	52,000	117,673
Forum for the Future	-	-	-	40,000
Engineering Education Innovation Awards	-	-	-	25,000
BEST Support	-	75,000	75,000	-
EPSRC	-	577,486	577,486	481,866
Leverhulme	-	137,475	137,475	13,927
Technology & Engineering in Schools Strategy	-	8,119	8,119	-
Vodafone	-	-	-	185,000
London Engineering Project	-	214,112	214,112	-
Other Contracts	8,554	-	8,554	4,000
	8,554	1,324,655	1,333,209	1,185,116
Note 5 – Gifts and Donations				
ERA Foundation Donation	-	-	-	8,000,000
Development Appeal	106,179	-	106,179	250,404
Other Donations	43,385	117,390	160,775	132,032
	149,564	117,390	266,954	8,382,436
Note 6 - Investment Income				
Dividends from Equity Investments	656,871	-	656,871	364,711
Income from Fixed Interest Bonds	185,455	-	185,455	68,772
Interest on Bank Deposits	201,370	-	201,370	187,101
	1,043,696	-	1,043,696	620,584
Note 6a - Other Income				
Conferences and Events	96,789	-	96,789	77,040
Academy Internal Events	1,826	-	1,826	1,701
Subscription Income	166,451	-	166,451	146,809
Advertising Income & Sale of Ties	42,210	-	42,210	1,241
Facilities Income	119,549	-	119,549	109,266
Rental Income	187,500	-	187,500	187,500
	614,325	-	614,325	523,557

Notes to the Accounts

	Engaging effectively with the public £	Attracting more people into engineering £	Enhancing the contribution of engineering £	Developing the Academy £	Total 31 March 2006 £	Restated Total 31 March 2005 £
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Note 7 – Charitable Activities

Unrestricted

Charitable Activities	252,332	25,052	-	76,477	353,861	361,863
Charitable Grants	-	14,726	-	359,465	374,191	22,293
Staff Costs	199,783	-	-	113,414	313,197	264,656
Accommodation Costs	84,414	-	-	48,875	133,289	112,010
Other Support Costs	23,762	-	-	13,758	37,520	29,863
	560,291	39,778	-	611,989	1,212,058	790,685

Restricted

Charitable Activities	354,000	356,694	-	-	710,694	329,647
Charitable Grants	-	1,056,386	3,972,644	-	5,029,030	5,424,069
Staff Costs	645,869	558,199	439,782	-	1,643,850	1,532,574
Accommodation Costs	45,430	39,221	30,935	580,000	695,586	661,139
Other Support Costs	77,000	66,477	52,431	-	195,908	169,113
	1,122,299	2,076,977	4,495,792	580,000	8,275,068	8,116,542
Total Charitable Activities	1,682,590	2,116,755	4,495,792	1,191,989	9,487,126	8,907,227

Note 8 - Governance Costs

Auditors fees:

- Audit					15,957	15,786
- Taxation and Other Services					1,692	3,930
Legal and Professional Fees					10,321	28,225
Support Costs					33,433	18,793
					61,403	66,734

Restated
2006 **2005**
£ **£**

Note 9 – Staff and Pensions Costs

(a) Staff Costs Analysis (incl. Staff Costs in Note 8)

Gross Salaries	1,538,894	1,434,457
Employers National Insurance	155,442	141,212
Benefits in Kind	12,014	13,210
Pension Charge	249,025	187,913
Other Staff Costs (including Recruitment, Temporary staff)	145,233	159,838
	2,100,608	1,936,630

	Number	Number
Average number of staff in the year by activity:		
- Education Affairs	11	10
- Engineering Affairs	10	11
- Communications and External Affairs	8	7
- Executive and Administration	16	15
	45	43

No remuneration is paid to the President or members of the Council of the Academy. Travelling expenses to attend Council meetings were reimbursed to 7 Council members in 2005/06 amounting to £2,379 (2004/05 £1,777). Travelling expenses to attend other meetings on behalf of the Academy in the UK and overseas were reimbursed to 9 Council members in 2005/06 amounting to £7,214 (2004/05 £7,817). One of the Academy's trustees, Professor David Fisk CB, was appointed to the BP/Royal Academy of Engineering Chair of Sustainable Development at Imperial College on 1 March 2002, prior to his appointment as a trustee of the Academy on 8 July 2003. In the year to 31 March 2006 The Royal Academy of Engineering contributed £13,407 (year to 31 March 2005 £33,521) to Imperial College in respect of its one third share of the cost of the Chair.

The emoluments of higher paid staff within the following scales were:

£50,001 - £60,000	1	2
£60,001 - £70,000	4	2
£70,001 - £80,000	1	2
£90,001 - £100,000	1	1

Emoluments include salary, bonuses and benefits in kind but exclude pension scheme contributions.

Notes to the Accounts

Note 9(b) - Pensions

The Academy operates a defined benefits pension scheme - The Royal Academy of Engineering Pension and Assurance Scheme - which has been closed to new entrants (except for those covered solely for death in service benefit) since January 2000. The assets of the Scheme are held separately from those of the Academy, being invested in a managed fund operated by Insight Investment Management Limited.

The most recent formal valuation was undertaken as at 1 January 2006 by a qualified actuary. This valuation showed that the market value of the Scheme's assets was £2,880,000 which represented 57% of the benefits that had accrued to members. This valuation yielded a deficit of £2.1 million. In place of the final salary scheme, a Group Personal Pension Scheme has been set up for new members of staff which is based on a fixed contribution from the employer.

For the purpose of providing the valuation required by Financial Reporting Standard 17, the Scheme actuary has updated the valuation of the Scheme as at 1 January 2006 in order to assess the liabilities of the Scheme at 31 March 2006. The FRS17 valuation is on a different basis to the formal valuation referred to above and shows a deficit of £1.3 million. The major assumptions used by the Actuary as at 31 March 2006 were as follows:

	At 31 March 2006	At 31 March 2005	At 31 March 2004	At 31 March 2003
Rate of Increase in Salaries	4.25% p.a.	4.25% p.a.	4.5% p.a.	4% p.a.
Limited Price Indexation Pension Increases	2.75% p.a.	2.75% p.a.	3% p.a.	2.5% p.a.
Discount Rate	5% p.a.	5.4% p.a.	5.5% p.a.	5.5% p.a.
Inflation Assumption	2.75% p.a.	2.75% p.a.	3% p.a.	2.5% p.a.

The assets of the Scheme are held in a Managed Fund operated by Insight Investments. The fair value of the assets held and the expected rates of return assumed are as follows:

	Year Ending 31 March							
	2006		2005		2004		2003	
	Expected Rate of Return	Value £000s	Expected Rate of Return	Value £000s	Expected Rate of Return	Value £000s	Expected Rate of Return	Value £000s
Equities & Property	6.8%	2,526	7.2%	1,981	7.3%	1,682	7%	995
Bonds	4.5%	331	4.9%	249	5%	245	4.75%	152
Cash	4.5%	268	4.75%	186	4%	86	4%	477
Total		3,125		2,416		2,013		1,624

In addition, the Scheme holds assets in respect of members' Additional Voluntary Contributions. Such assets are applied on a money purchase basis to provide additional benefits on retirement or earlier death.

	Year Ending 31 March			
	2006	2005	2004	2003
	£000s	£000s	£000s	£000s
The funding position of the Scheme was as follows:				
Total market value of assets	3,125	2,416	2,013	1,624
Present value of Scheme liabilities	(4,408)	(3,251)	(2,868)	(2,578)
Deficit in the Scheme	(1,283)	(835)	(855)	(954)
Analysis of actuarial loss:				
Actual return less expected return on pension scheme assets	436	92	192	(483)
Experience gains and losses arising on scheme liabilities	(105)	(53)	29	64
Changes in assumptions underlying present value of scheme liabilities	(785)	(56)	(68)	(109)
Actuarial (loss)/gain	(454)	(24)	153	(528)
Movement in deficit during the year:				
Deficit in Scheme at beginning of year	(835)	(855)	(954)	(732)
Current service cost	(148)	(164)	(158)	(142)
Contributions	165	227	151	476
Past service costs	Nil	Nil	Nil	Nil
Other finance income	(11)	(19)	(47)	(28)
Actuarial (loss)/gain	(454)	(24)	153	(528)
Deficit in Scheme at end of year	(1,283)	(835)	(855)	(954)
Analysis of the amount to be credited to other finance income:				
Expected return on pension scheme assets	167	144	98	122
Interest on pension scheme liabilities	(178)	(163)	(145)	(150)
Net return	(11)	(19)	(47)	(28)
History of experience gains and losses:				
Difference between expected and actual return on Scheme assets:				
Amount	436	92	192	(483)
Percentage of Scheme assets	14.0%	3.8%	9.5%	29.7%
Experience gains and losses on Scheme liabilities:				
Amount	(105)	(53)	29	64
Percentage of present value of Scheme liabilities	2.4%	1.6%	1.0%	2.5%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(454)	(17)	153	(528)
Percentage of present value of Scheme liabilities	10.3%	0.5%	5.3%	20.5%

During the year the Academy contributed to the Scheme at the rate of 21.0% of Members' Annual Salaries (less Member Contributions) plus £88,000 per annum. The current service cost will increase as active members of the Scheme approach retirement.

Notes to the Accounts

	Computer Equipment	Office Fixtures & Fittings	Leasehold Improvements	Totals 31 March
	£	£	£	£

Note 10 – Tangible Fixed Assets

Cost

At 1 April 2005	109,609	125,253	509,790	744,652
Assets Disposed	(20,025)	(42,742)	-	(62,767)
Additions	27,488	32,469	-	59,957
At 31 March 2006	117,072	114,980	509,790	741,842

Depreciation

At 1 April 2005	63,781	73,296	509,790	646,867
Assets Disposed	(20,025)	(42,742)	-	(62,767)
Charge for Year	27,621	22,441	-	50,062
At 31 March 2006	71,377	52,995	509,790	634,162

Net Book Value

At 31 March 2006	45,695	61,985	-	107,680
At 31 March 2005	45,828	51,957	-	97,785

All assets are used for charitable purposes

Note 11 – Investments

Investments consist of two portfolios, the objectives of the General Fund Portfolio are to generate income whilst preserving the capital value of the portfolio, the objective of the Building Fund Portfolio is to generate capital growth solely with all income reinvested.

	General Fund	Building Fund	2006 Total Portfolios	2005 Total Portfolios
	£	£	£	£
Market Value at 1 April	15,701,432	1,863,491	17,564,923	7,708,501
Add Acquisitions at Cost	1,689,964	687,743	2,377,707	9,759,467
Less: Disposals at Book Value	(1,456,676)	(464,133)	(1,920,809)	(1,723,136)
Net Unrealised Gain on Revaluation at 31 March	2,672,205	345,473	3,017,678	1,820,091
Market Value at 31 March	18,606,925	2,432,574	21,039,499	17,564,923

All investments consist of securities listed on the London Stock Exchange of which fixed interest bonds amounts to approximately £4.2 million in value. An individual investment represented more than 5% of the portfolio, this was Treasury Stock 4% 2009 and its value at 31 March 2006 was £1,500,240.

	UK Equities	UK Bonds	2006 Total	2005 Total
	£	£	£	£
Market Value at 1 April	15,701,432	1,863,491	17,564,923	7,708,501
Market Value at 31 March	16,819,481	4,220,018	21,039,499	17,564,923
Cost at 31 March	14,110,923	1,753,049	15,863,972	14,646,023

	2006 Total £	2005 Total £
Note 12 – Debtors		
Grants and Sponsorship Receivable	92,175	109,811
Prepayments	140,150	250,932
Other Debtors	270,374	242,971
	502,699	603,714

Note 13 – Stocks

Publications, Academy ties, presentation plates and medals	8,865	11,369
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Note 14 – Creditors (Amounts falling due within one year)

Payments in Advance	86,467	98,849
Committed Grants	4,569,863	3,847,481
Subscriptions in Advance	129,564	108,700
Other Creditors	160,630	221,224
	4,946,524	4,276,254

Note 15 – Future Commitments

Annual Commitments under Operating Leases

Maturing in less than one year (Property)	182,500	1,220
Maturing between one and five years (Equipment)	24,766	202,318
Maturing after more than five years (Property)	385,000	381,000
	592,266	584,538

Note 16 – Movements in Reserves

(a) Restricted Funds

The Academy's restricted funds consist of the monies received under grants and contracts to support specific schemes as follows:

- **Office of Science and Innovation** provides Grant-in-Aid to fund programmes in the areas of engineering research and promoting the public understanding of engineering.
- **Gatsby Charitable Foundation** provides funds to support the Best Engineering Education Programme.
- **Higher Education Funding Council for England** provides funds to support the London Engineering Project
- **ExxonMobil** provides funds for Engineering Teaching Fellowships which support able young university engineering lecturers.
- **Engineering Leadership Awards** which support promising engineering undergraduates on leadership development programmes are funded by several companies and charitable organisations.
- **RAEng/EPSRC Research Fellowships** are administered by the Academy and funded jointly by the Academy and the Engineering and Physical Sciences Research Council.
- **Smallpeice Trust** supports science, technology, engineering and mathematics curriculum enrichment activities as part of the Best Programme
- **Young Engineers** supports young engineers clubs as part of the Best Programme
- **Shape the Future** is an engineering promotional campaign aimed at young people and supported by a number of companies and organisations.
- **Leverhulme Trust** supports senior research fellowships of one year duration.
- **Ad Hoc Contracts** are awarded by a number of companies for specific programmes each year.

Notes to the Accounts

(b) Designated Funds

Special Funds

The Academy has created a number of Special Funds over the years in order to provide funding for certain designated activities as described below:

- **The President's Fund** is used to enable the President to make grants at his discretion.
- **The Sir Angus Paton Bequest Fund** is used to provide a bursary for a postgraduate student to undertake a full time MSc course in a subject related to Environmental Engineering.
- **The Hinton Bequest Fund** is used to contribute towards the cost of the annual Hinton Lecture.
- **The Lloyds Register Fund** is used to establish an annual Royal Academy of Engineering prestige lecture.
- **The UK Focus Fund** is used to support the activities of the UK Focus for Biomedical Engineering.
- **The Building Maintenance Fund** is used for major items of building repair and redecoration.
- **The Additional Presidential Activities Fund** is used to support the President in carrying out the duties of the office.

Building Fund

The Building Fund is used to provide and enhance the Academy's national headquarters building.

RAEng MacRobert Award Fund

The RAEng MacRobert Award Fund is used to support the UK's most prestigious award for innovation in engineering.

Note 16 (Continued)

	Restated Balance at 1 April 2005 £	Incoming Resources £	Resources Expended £	Transfers Between Funds £	Net Gains/ (Losses) £	Balance at 31 March 2006 £
Restricted Funds						
Grant-in-Aid	-	5,850,000	(5,850,000)	-	-	-
Gatsby Charitable Foundation	-	984,154	(984,154)	-	-	-
London Engineering Project	-	214,112	(214,112)	-	-	-
ExxonMobil Fellowships	75,495	100,000	(100,000)	-	-	75,495
Engineering Leadership Awards	41,326	-	-	-	-	41,326
RAEng/EPSRC Research Fellowships	-	577,486	(577,486)	-	-	-
Smallpeice Trust	-	91,000	(91,000)	-	-	-
Young Engineers	-	79,463	(79,463)	-	-	-
Shape the Future	-	90,000	(90,000)	-	-	-
Leverhulme Senior Research Fellowships	-	137,475	(137,475)	-	-	-
Ad Hoc Awards	4,737	152,509	(151,378)	-	-	5,868
Total Restricted Funds	121,558	8,276,199	(8,275,068)	-	-	122,689
Designated Funds						
<i>Special Funds</i>						
The President's Fund	6,167	-	-	-	-	6,167
Sir Angus Paton Bequest	107,748	-	(7,000)	7,500	-	108,248
Hinton Bequest	27,322	-	(8,852)	7,500	-	25,970
Lloyds Register Fund	-	16,910	-	-	-	16,910
UK Focus Fund	84,289	-	-	-	-	84,289
Building Maintenance Fund	27,311	-	-	20,000	-	47,311
Additional Presidential Activities Fund	10,093	-	-	-	-	10,093
<i>Total Special Funds</i>	262,930	16,910	(15,852)	35,000	-	298,988
<i>Building Fund</i>	2,022,999	209,747	(14,474)	-	351,416	2,569,688
<i>RAEng MacRobert Award</i>	1,315,907	-	(54,034)	70,246	-	1,332,119
Total Designated Funds	3,601,836	226,657	(84,360)	105,246	351,416	4,200,795
General Fund	13,438,313	1,589,482	(1,411,972)	(111,246)	2,670,457	16,175,034
Pension Fund Deficit	(835,000)	-	-	6,000	(454,000)	(1,283,000)
Total Funds	16,326,707	10,092,338	(9,771,400)	-	2,567,873	19,215,518

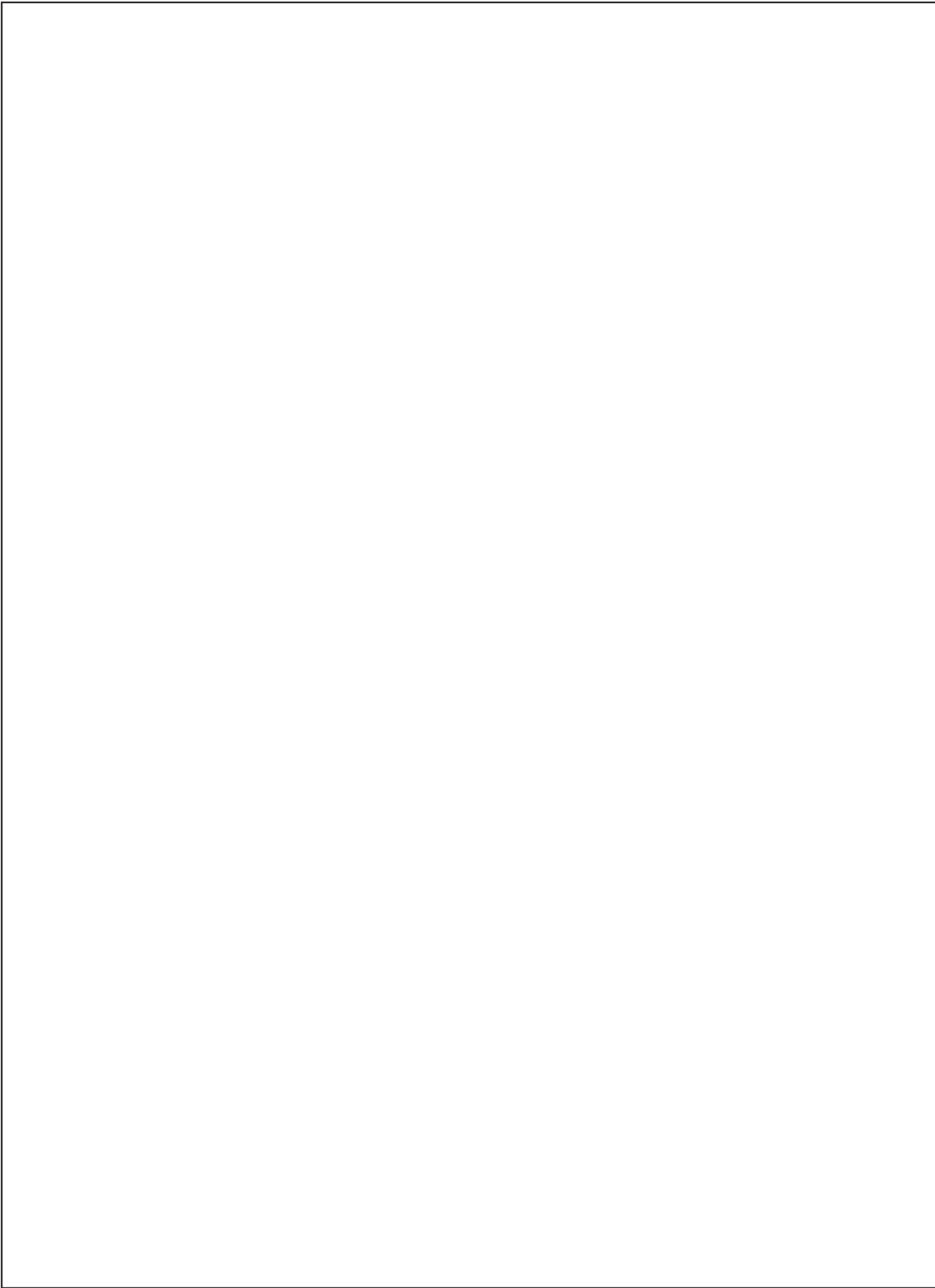
Notes to the Accounts

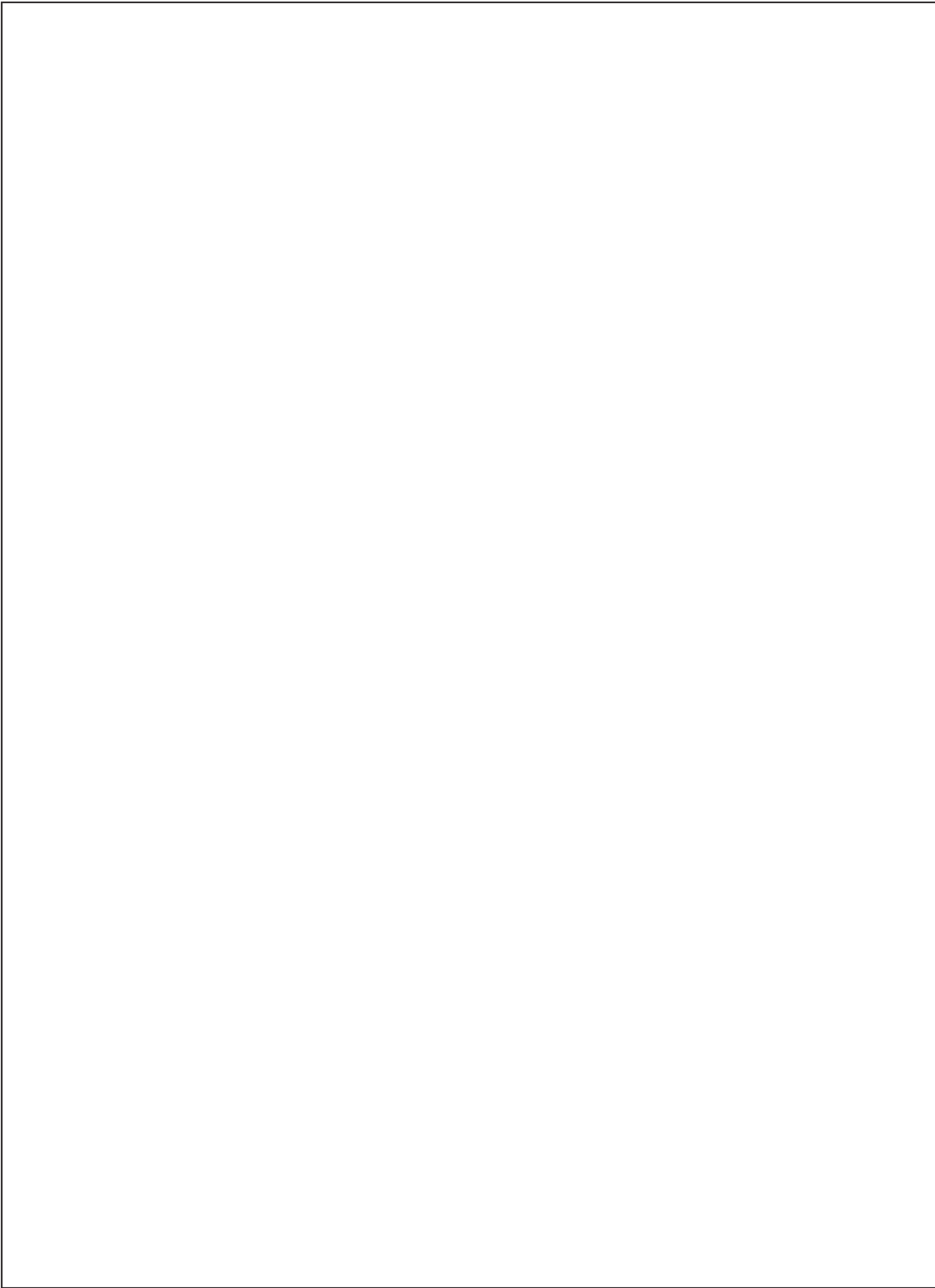
Note 17 – Analysis of Net Assets between Funds

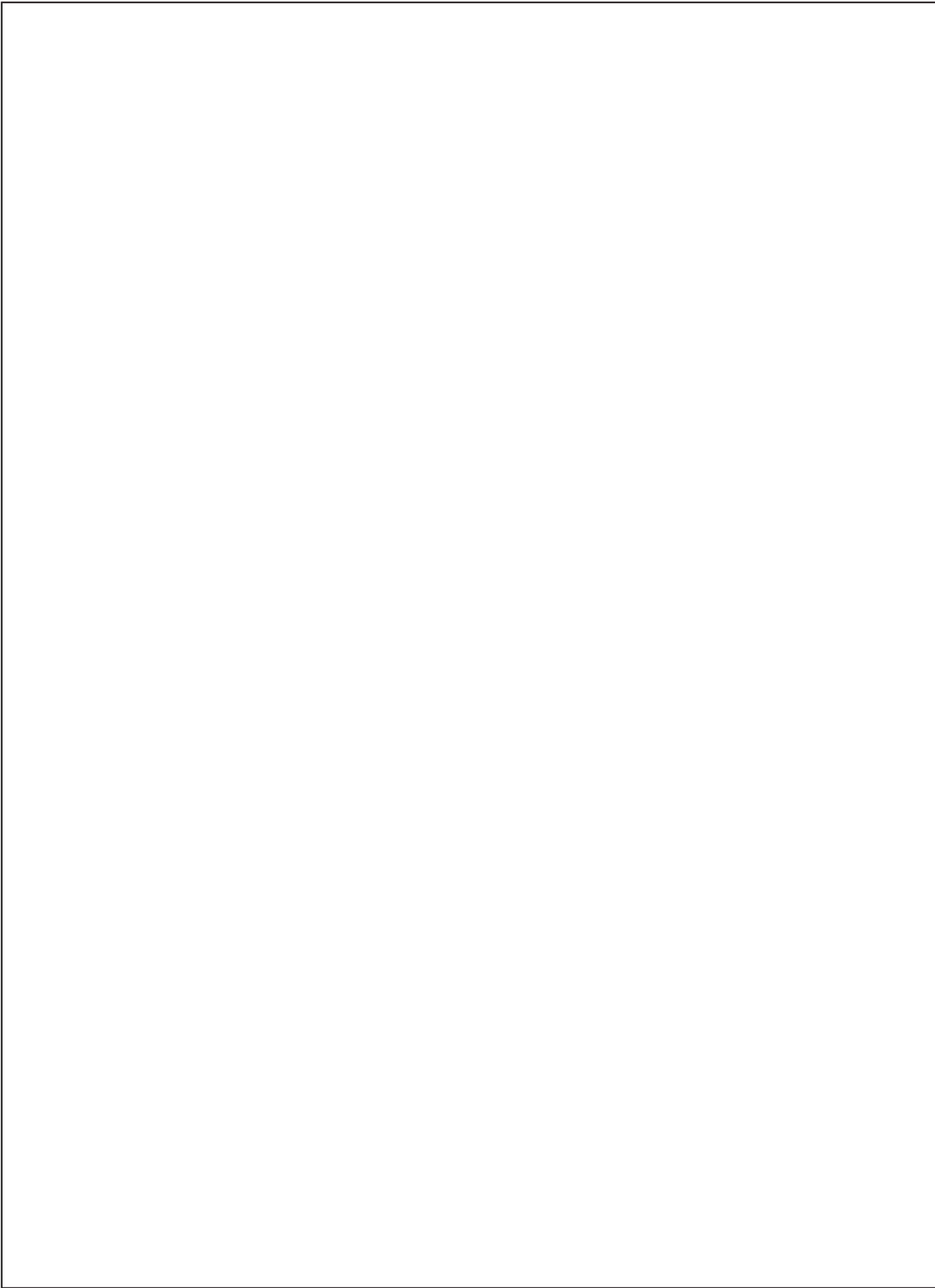
	Tangible Fixed Assets	Investments	Current Assets	Liabilities	Total Net Assets
	£	£	£	£	£
Restricted Funds:	-	-	4,183,594	(4,060,905)	122,689
Reserves					
Special Funds	-	298,988	-	-	298,988
Building Fund	-	2,432,574	137,114	-	2,569,688
RAEng MacRobert Award Fund	-	1,332,119	-	-	1,332,119
General Fund	107,680	16,975,818	(22,845)	(885,619)	16,175,034
Pension Fund Deficit	-	-	-	(1,283,000)	(1,283,000)
Total Funds	107,680	21,039,499	4,297,863	(6,229,524)	19,215,518

Note 18 – Prior Year Adjustment

The comparative figures for 2004/05 have been adjusted in order to (a) bring into the balance sheet the deficit on the defined benefits pension scheme carried forward from 2003/04, and (b) account for the costs and actuarial losses of the scheme.









The Royal Academy of Engineering promotes
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