Institute for Fiscal Studies

Trustees' Report

Year ended 31 December 2017

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Contents

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Introduction from the Chair of Trustees

I am pleased to present the Trustees' report of the activities of the Institute for Fiscal Studies in 2017. Over the year, the IFS published research findings on a wide range of topics, including its Green Budget and annual review of trends in living standards, poverty and inequality. The IFS also produced a raft of materials relating to the general election, as well as ongoing analysis of the impact of Brexit. This report highlights just a small selection of the research and activities that took place over the year.

It is striking how coverage of the work of the IFS, both in the traditional media as well as online and in social media, continues to rise. Part of the increase in 2017 reflects coverage of the election and its aftermath. Given similar increases in recent years, it is interesting to see that the appetite for more of the Institute's analysis shows no sign of abating. Despite increased publicity and scrutiny from the public and from interest groups of diverse political colours, what is pleasing is that the overwhelming majority of the media coverage of IFS research presents it as objective, careful analysis by an independent but very well-informed group of economists. The Institute's growing impact and influence have not come at the price of a loss, or perceived loss, of impartiality.

The main role of the Trustees is one of oversight and assessment of how well the IFS is achieving its aims. I am pleased to say that in 2017 we judge the IFS has been successful. Careful scrutiny of the finances of the IFS is an important part of the Trustees' work; as ever, this has been helped by clear and timely presentation of the facts to the committee by IFS officials. Whilst we, in common with other organisations who seek funding for academic research, currently face challenges in raising the finances to cover our ambitious programme of work, I am reassured that our financial position is healthy. The Institute's success in attaining 'Institute status' from the Economic and Social Research Council (ESRC) will greatly contribute to future stability.

I would like to thank my fellow Trustees for giving their time and expertise so generously throughout the year.

David K. Miles

David Miles
Chair of Trustees,
Institute for Fiscal Studies

Objectives and activities

The objects of the Institute

The objects of the IFS are the advancement of education, for the benefit of the public, by promotion on a non-political basis of the study and discussion of, and the exchange and dissemination of information and knowledge concerning, the economic and social effects and influences of:

- existing taxes;
- proposed changes in fiscal systems; and
- other aspects of public policy, in each case whether in the United Kingdom (UK) or elsewhere in the world.

So as to advance these objectives, IFS expects to retain the right to publish its reports openly in order to inform public debate and policymaking. The Members of the Executive Committee confirm that they have complied with the duty in Section 17 of the Charities Act 2011 and have taken due regard of the Charity Commission's general guidance on public benefit. Examples of how the Institute has aimed to meet its public benefit are given in the review of 2017, where the Institute's achievements are reported.

Strategic framework

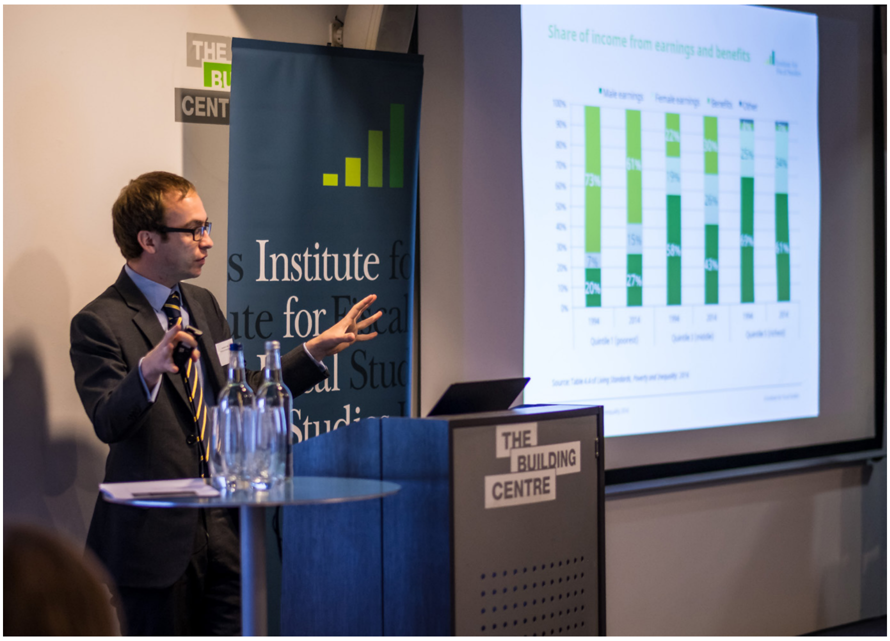
IFS operates within a strategic framework agreed by the Executive Committee in 2005. This covers maintaining excellence in research, preserving independence and impartiality in policy analysis, engaging with a wide range of stakeholders, financial viability and good management, good governance, and supporting Institute members.

How has the Institute tried to further these aims?

During the year, the Institute has carried out a wide range of research and has publicised the resulting findings as widely as possible through publications and conference participation, on its own website and in the media. The Institute does not set out to fulfil specific metrics. Although during the year we have, for example, published a large number of articles in key economic journals and have made numerous appearances in the print and broadcast media, we believe that success lies in the academic quality of our research and the efficacy with which our findings have informed the public debate. The following pages outline how this has been done.

Review of 2017

During 2017, IFS research has spanned a broad spectrum of topics and has been presented to and discussed with audiences from policymakers to undergraduate students. A significant political event was the surprise general election in June, and the IFS contributed to the debate, by explaining basic facts and figures as well as providing in-depth analysis.



Our aim is to carry out the highest quality research and to inform policymaking and the public debate.

Academic excellence

Researchers presented work at key academic conferences, including the annual conferences of the Royal Economic Society, the European Economic Association and the American Economic Association.

The IFS runs a series of academic seminars, featuring a range of academics from across the UK and overseas. In collaboration with the London School of Economics, we also run a series of public economics seminars. Altogether, 66 seminars (2016: 38) were held during the year.

During 2017, we received around 80 (2016: 100) visits from distinguished academics from the UK and overseas, many of whom are affiliated with the IFS as Research Fellows or Associates. One such visitor delivered our 2017 annual lecture: Professor David Autor (MIT) spent several days at the IFS, meeting with UK policymakers and academics. During this time he delivered the lecture 'Lessons from the China shock'. An interview on this topic between IFS's Helen Miller and Professor Autor was recorded and posted online.

The Institute runs its own journal, *Fiscal Studies*, which is published on our behalf by Wiley. During 2017, a special issue was published, showcasing work on the challenges of public financing and organisation of long-term care.

In recognition of the academic excellence of our research in low- and middle-income countries, during 2017, the Jacobs Foundation awarded the IFS one million Swiss francs for work by Research Director, Orazio Attanasio, using economic models and field experiments to assess and shape early child development programmes and policies in-low income countries. With the Klaus J. Jacobs Research Prize money, Professor Attanasio will implement and evaluate an intervention in rural India to provide children with better quality childcare in different settings and for different age groups. This will generate new evidence on the interaction of early interventions at home and centre-based interventions for older children.

During the year, the IFS was notified of the outcome of 55 research proposals, of which 35 were approved for funding (63% success rate). The level of applications was broadly comparable with 2016 (61 research proposals evaluated, 47 approved, a success rate of 77%). A total of 109 funded research projects were active in 2017 (112 in 2016).

Two major ongoing projects, funded through peer-review by the ESRC, are long-run research centres: the Centre for the Microeconomic Analysis of Public Policy (CPP) and the Centre for Microdata Methods and Practice (cemmap). Cemmap received renewed funding in 2017 in the form of a large grant. The new grant will fund research to advance our ability to address questions about the structure of complex economic and social processes using big data and new tools of econometrics and statistics. The research programme is built around five interlocking themes: big data and machine learning, dynamics and complexity, robust models, networks and interactions, and survey design and measurement.

The CPP is currently funded until 2020 for a wide-ranging research programme, the aims of which are:

- to make major scientific progress in understanding how individuals and firms behave and how they react to government policy;
- to have substantial impact on policy in the fields of taxation, labour market, education, welfare, pensions, and public finances;
- to build technical and policy capacity in a new generation of highly skilled researchers.

The CPP has been accorded Institute status by the ESRC: the implications of this for its future plans are discussed in the next section.

Other notable projects that began in 2017 included the following.

- Research funded by the ESRC has been looking at the economic impacts of post-Brexit trade options. The UK's exit from the European Union presents policymakers with an unprecedented set of challenges, risks and opportunities. Perhaps nowhere are these more significant than in the decisions that the UK will have to make with regard to its future trade policy. It appears increasingly likely that the UK will end up leaving both the European single market and the Customs Union. This will give the UK the ability to sign its own trade deals, but it will undoubtedly pose many problems for those industries and regions of the UK for whom trade with the European Union is important.

> "On matters of public finance, it is customary in Westminster/media circles to defer to the judgement of the Institute for Fiscal Studies"
>
> ***Andrew Sparrow, The Guardian***

  Further steps towards liberalisation with third countries will also likely create both winners and losers. The programme of research aims to understand how new trade arrangements for the UK might affect different industries, regions and workers. We also synthesise existing research on how policy can ease the burden of adjustment associated with potential future trade shocks, which is discussed in the context of our empirical findings. Our research team is well placed to do this: drawing together experts on the economics of international trade, labour markets, and the UK's current policy environment.

- Related research, funded by the Office for National Statistics, looks at the impacts of trade on income, employment and inequality in the UK and its regions. The UK is going through turbulent times. Internally, the wish for independence has gained momentum in some of its regions. Externally, the outcome of the Brexit referendum affected the position of the UK with respect to the rest of the world, and the effects on international trade and investment are seen already. Traditional analysis is based on investigation of firms' and industries' performance as if production processes take place in one geographical location. This no longer holds true: production processes of consumer and investment products have become increasingly internationally fragmented, and organised in so-called global value chains. In this project we are investigating how the international competitiveness of the UK and its regions evolves in this turbulent period and in the future, based on novel international databases.
- Under the Industrial Strategy scheme run by the

Department for Business, Innovation and Skills (BEIS) and the ESRC, funding has been secured for research and impact activities relating to skills, productivity and human capital. The programme of research aims to address the following four issues that should be central to an industrial strategy and the design of skills policy.

- Research and development (R&D), innovation and the wages of workers in low-skilled occupations: we are examining the relationship between the wages of workers and the innovativeness of the firms for which they work, for workers of different skill levels and workers doing different kinds of tasks.
- The longer-term gains from productivity: in order to assess more fully how the gains from R&D, innovation and productivity improvements are distributed, we need to know not just how they feed through into pay, but also what impact they have on more complete measures of living standards, such as lifetime incomes and consumption.
- Entrepreneurs, business growth and the tax system: it is increasingly important to understand the characteristics of start-ups, in particular the extent to which they are entrepreneurial (in the sense that they invest) and the effects that the changing structure of the labour market is having on productivity and growth.
- Higher education: understanding what drives the choices that young people make over higher education is important for governments and students. The choice of subject and institution can result in very different lifetime earnings, which has important implications for living standards and social mobility, as well as for the long-run cost of higher education finance.

• Research into obesity in childhood and across the life course has contributed to a research programme as part of a consortium led by University College London (UCL) that was awarded funding from the Department of Health for a Policy Research Unit. The IFS work stream focuses on policy-related research into the impact of fiscal measures to combat obesity. The work exploits detailed individual-level longitudinal data to learn about the factors that influence behaviours, habits and self-control issues across individuals with different socio-economic and ethnic backgrounds. We are also examining the actions of other market participants, such as producers and retailers, in response to fiscal initiatives, and we provide evidence on how their actions might help to bolster or confound the effects of policies.

• Another programme uses funding from the British Academy to look at the effectiveness of regulating product characteristic space in food markets. Tackling diet-related health disease is a priority for many governments. A prominent policy approach in the UK is to target firms with regulations aimed at influencing product nutrients or price. The response of firms is uncertain, but it is crucial to determining policy effectiveness. This research introduces a framework to evaluate the impact of targeting firms with regulations aimed at constraining their choice of product price and characteristics. This framework is applicable to problems in a wide array of markets. The programme of research studies the impact of a recent policy that involved simultaneously introducing targets encouraging firms to reduce the salt in their products and an information campaign warning consumers of the dangers of excess salt consumption. It also considers the impact of imposing a minimum price for alcohol. In each case, the project assesses the effectiveness of the policy, taking account of both consumer and firm response, and explores whether the regulations affect the intensity of competition in the market.

• Funding was raised from the ESRC for research into inequality and the insurance value of transfers across the life cycle. The provision of 'social insurance' (the benefits governments pay to those who are ill, unemployed, disabled, poor or old), accounts for more government expenditure than any other category of public spending. This social insurance is potentially valuable to all households, not just those receiving those benefits at a given point in time. It ensures that, should households find themselves in difficult circumstances, they will be shielded from extremely low living standards. However, the provision of social insurance also brings costs. These costs are both direct (e.g. the financial cost of the transfers) and indirect (e.g. the provision of benefits reduces the incentives to work and save). Balancing these costs and benefits is a challenge for policymakers. As governments seek to manage the rising costs of providing social insurance and to achieve their redistributive objectives in the context of rising inequality, robust evidence is needed on the effects of taxes and transfers on the behaviour and well-being of households. Our work in this area involves developing and testing models of household savings and labour supply to evaluate how reforms to social insurance schemes would affect household behaviour, household well-being, inequality and the public finances.

- A project looking at the intergenerational transmission of human capital and its implications for poverty, inequality and policy has been funded by the ESRC. Family circumstances have changed significantly over the past 50 years on key dimensions such: as mother's education, employment and earnings; father's involvement in raising children; and the prevalence of lone motherhood. These changes have increased inequality in home environments, particularly by maternal education. Less-educated mothers are now more likely to divorce and have children out-of-wedlock; more-educated mothers are now more likely to work continuously, and their wages have increased steadily. These trends raise great concerns about their implications for child development and inequality because child outcomes and parental choices are related. The aim of this project is to fill this gap by investigating the interactions between parental characteristics, investments in children and child outcomes, and by studying the implications of these interactions for poverty, inequality, and the design of childcare, education and welfare policies. It focuses on the intergenerational transmission of human capital, a key determinant of economic well-being.
- Research using the higher education Longitudinal Education Outcomes (LEO) dataset has been funded by the Department for Education. Knowledge of the determinants and benefits of undergraduate and postgraduate study is an important, yet poorly understood policy area. This is due primarily to the challenge in obtaining rich large-scale data capable of providing reliable estimates. The higher education LEO dataset provides an unparalleled opportunity to examine this crucial area in a robust way for the first time. In this research we look at the returns to undergraduate research, including the option value associated with the possibility of subsequent postgraduate study. We then unpack these estimates into components: the return to undergraduate study, the probability of postgraduate study for different students, and the labour market returns to postgraduate qualifications. Although the primary focus is on private returns we are also estimating the implications for the exchequer using TAXBEN, the IFS model of the tax and benefit system.
- Other important empirical analysis, addressing questions currently under debate, will use administrative data to measure new forms of working. It has become commonplace to state that the labour market is fundamentally changing. The perceived truism is that the workforce can no longer be characterised by employed individuals with single, full- or part-time, positions, and instead comprises a significant number of independent workers with flexible, often intermittent, income streams. Yet, despite the growing body of anecdotes and examples and the concerns about what this means for various individuals' jobs and welfare, we know remarkably little about the

changes taking place. In this project we use administrative data from tax records to capture how individuals are moving between legal forms (i.e. between employment, self-employment and small business incorporation), what compositional shifts mean for income growth and how well such activity is captured in current surveys. Further, we are considering what can be learned from administrative data relative to survey data and investigating how UK administrative data can be used address the following questions.

- To what extent have individuals moved out of employment positions over the last decade and what types of positions they have moved into?
- To what extent has subdued wage growth been driven by the changing structure of the workforce?
- Is the value created by unincorporated businesses adequately reflected in current measures of national output?

• A wide-ranging research programme at the IFS examines policies aimed at improving people's lives in low- and middle-income countries. An example of a new piece of work started in 2017 was research to improve Vietnam's education system, funded by the Department for International Development (DFID). Vietnam's development in the last two decades has attracted substantial international attention. Rapid economic growth has led to broad-based improvements in living standards. Vietnam's achievements in primary and secondary education over the last two decades have attracted particular attention. These successes in education have raised questions as to how and why Vietnam 'got it right', and how Vietnam's experiences to date could inform future education sector reforms, both in Vietnam and in other developing countries. As impressive as Vietnam's education performance has been, there are areas in which its education system is deemed to be underperforming, including disparities of access and learning across different socio-economic groups, and the content of the curriculum and subsequent skills learned. This research generates a systematic evaluation of Vietnam's education system by analysing the status and impacts of past, current and upcoming system reforms.

• Another programme, funded by the Bill and Melinda Gates Foundation, is evaluating programmes to improve sanitation in Nigeria. The project aims to assess two main interventions in two states in Nigeria. The first is a community-led total sanitation programme, and the second is a sanitation marketing programme. Both aim at increasing the uptake of toilet ownership and its sustained usage, especially by households of the most vulnerable rural communities, with the final goal of eliminating open defecation.

• Early childhood care and education is critical to a child's development and their success in adult life. Lively Minds has been running a programme in rural Ghana training kindergarten teachers and mothers in highly deprived communities to set up and run educational play schemes using local materials. Working in partnership with Lively Minds and with funding from the Global Innovation Fund, the IFS collected detailed data, allowing us to investigate to what extent the intervention causes change in a set of factors that are considered potential inputs to child development, including maternal knowledge of child development, parental stimulation and hygiene practices, parental investment in children within the household (e.g. schooling and health), quality of teaching practices and environment in kindergarten, parental involvement in children's schooling and maternal well-being and power relations within the household. We used these data to estimate a structural model of human capital production, building on previous work, allowing us to interpret the findings within a theoretical framework.

Communication and stakeholders

The audiences we target in particular are national, local and international policymakers, business people, groups in civil society, academics, students and the general public. These last are reached via the media, as well as directly on our website and through partnerships with other organisations.

One of our aims is to bridge the gap between policy and academic research. The majority of events organised during the year involved mixed audiences of policymakers,

> "the hugely respected Institute for Fiscal Studies (IFS), who perform research into the impact of fiscal policies on families and individuals."
>
> ***Mikey Smith, The Mirror***

academics, journalists and practitioners, and provided an opportunity for knowledge exchange and discussion. Throughout the year IFS researchers presented at a range of events aimed at non-academics and met with small and large groups of policymakers in Westminster, the UK regions and overseas to advise on and discuss the policy implications of our research.

Funding from the ESRC, from their Impact Acceleration Account (IAA), has contributed to our ability to increase the impact of our research with a wider audience. The IAA is a scheme run by the UK research councils to increase the impact on society of academic research. Part of this funding has been used to make improvements to our website to increase its accessibility to a wider audience. We have also used videos, data visualisation and social media to increase the reach and accessibility of our research findings. We have been able to hire a paid intern to work in the communications office, helping to increase the quality and frequency of our social media output.

This funding has also allowed us to expand our links and opportunities for collaboration with local councils in the UK. This has included work with Peterborough Council to design, implement and evaluate a programme of home visits to enrich children's environments and improve parenting practices in disadvantaged areas of Peterborough. The core of intervention we propose to develop is the Reach Up Early Childhood Parenting Programme. The programme provides structured training for home visitors to help parents support their child's development. Engagement with stakeholders is important for a project like this. Part of the plan includes reaching out to local organisations that could form part of the delivery model, such as health visitors, GPs, and Peterborough's 'community connectors', to determine their interest in the programme and their capacity to participate.

Another example of work to improve our engagement with stakeholders has been planning and implementing a series of activities designed to increase the awareness of and the impact of our work in health and social care, combined with building relationships with key stakeholders working in the health and social care policy sectors. This has resulted in a marked step-change in terms of reach and engagement. It has generated positive culture change and helped to improve capacity: the researchers involved are now much more confident in dealing with media enquiries, have improved their writing skills (now producing simpler and more accessible material) and feel positive about building even more impact and engagement activities into their projects going forward.

Capacity building

Another key aim for the Institute is to contribute to the capacity in the UK, as well as overseas where possible, for excellent research in social science and understanding of data for empirical analysis.

Through training events, organised under the auspices of the Centre for Microdata Methods and Practice, we teach methods for analysing, understanding and manipluating microdata to practitioners, as well as to graduate students and others academics. In particular, the courses are always well attended by civil servants who need to work with large datasets. Feedback from the courses over the year suggests that attendees find the courses directly useful in their work.

A contribution to the public pool of excellent social scientists is also made through training of IFS staff, many of whom go on to play influential roles in the civil service, media or the private sector. During 2017, Dr Cormac O'Dea left to become a professor at Yale, and Stuart Adam worked on a secondment at HM Treasury.

During the year, IFS staff have served in a number of advisory positions. Examples include Carl Emmerson, who serves on the Social Security Advisory Committee, and Paul Johnson's appointment to the Board of Tax Simplification.

Membership

Its individual and corporate members provide the IFS with a way to access a broad audience, ranging from business people, through academics, to tax practitioners and members of the public. At the end of November 2017, we had 390 individual members and 41 corporate members.

Priorities for 2018 and beyond

An outline of some of the Institute's plans for 2018 is given below.

Academic excellence

Whilst planned research projects are in place year on year, it is also essential that there is flexibility to respond to policy proposals and events. The ESRC Centre for the Microeconomic Analysis of Public Policy receives funding for five year periods and covers a broad research and dissemination progamme: this makes possible a flexible response to policy. The CPP has been accorded Institute status. According to the ESRC, this status is 'to recognise its global centres of excellence with official ESRC Research Institute status. The move acknowledges those centres which have demonstrated sustained strategic value to the Council, as well as to the broader social science research landscape, with long-term, five-year funding.'

The current Centre is funded until 2020; after this, the new status means that this funding stream will be more reliable and will have the potential to cover a wider research programme. Over the past years of the Centre, research has spanned multiple subject areas, and has been unified by a desire to develop a rigorous empirical foundation for improving public policy in a changing economic and social environment. Our future agenda will both continue to focus on the interrelated research areas above and address new challenges. We will exploit new data, including administrative data linkages, in the UK, the US, European countries and developing countries. We will continue to interact with researchers worldwide, exploiting our unique research environment for capacity building in empirical policy research. We will continue to be at the frontier in the use of new methods and new data, deriving new insights into public policy.

We will carry out research in the areas of public finances and public spending, education and skills, health and social care, employment, pay and welfare, firm taxation and productivity, the tax and benefit system, consumer behaviour and indirect taxation, pensions and saving, devolution, the regions and local government, and policies and interventions in developing countries and in the UK.

Some examples of planned programmes for IFS research in 2018 are listed below.

- We will continue our analysis of the potential effects of Brexit on aspects of the UK economy. In particular, we have funding from the ESRC for a detailed programme of research with the aim of understanding how new trade arrangements for the UK might affect different industries, regions and workers. We also plan to synthesise existing research on how policy can ease the burden of adjustment associated with potential future trade shocks, which we will discuss in the context of our empirical findings.
- The IFS will be working with the Health Foundation, with funding from the NHS Confederation, to research, write and publish a report with the objective of providing an easily accessible summary of the challenges faced by the NHS over the medium term for both the public and policymakers. A report 'Securing the future – funding health and social care to the 2030s' is planned to coincide with the 70th anniversary of the foundation of the NHS, and it will provide an analytical summary of past trends and future projections, and a discussion about how future pressures could be addressed.
- With funding from a consortium of businesses and governmental organisations, researchers will continue to look at aspects of pensions and saving policy and their impact on individuals, firms and government finances.
- We will carry out our annual analysis of the government's figures on living standards, inequality and poverty, with funding from the Department of Work and Pensions. Other research in this area will include the investigation of inheritances and inequality within generations. There is growing evidence that inherited wealth will be far more important for younger generations than for older generations – both in absolute terms and relative to their other economic

resources. Within each generation, the receipt of inheritances is very unequally distributed, and the largest inheritances tend to go to those who are already well off. This research, funded by the Nuffield Foundation, will provide a major and high-impact advance in our understanding of the potential effects of the rise of inheritance on economic inequality within younger generations. Using rich sources of large-scale, representative data on households’ wealth, incomes, and expectations of giving and receiving inheritances, and combining these with cutting-edge models of household decision-making, we will examine: how inheritance receipts within younger generations are likely to be distributed across income and wealth groups, across those with different education levels, and across the country; how this is likely to be affecting, and to affect in future, choices about how much to work, spend and save; the resulting effects on inequality in wealth and consumption over the life cycle for these generations; and how all this differs from the patterns seen for older generations.

- A number of related projects funded by the New Opportunities for Research Funding Agency Cooperation in Europe (NORFACE) will look at inequalities over the life cycle. Over the last decades, economic and social inequalities in Europe have risen sharply along many dimensions. We will work on a four-strand research programme aimed at understanding these phenomena by focusing on the origins, dynamics and consequences of early inequalities in human capital accumulation in France, Norway and the UK. First, we will examine the impacts of early shocks on inequalities in human capital and socio-economic outcomes at different stages of the life cycle. Second, we will assess the performance of targeted versus universal policies at reducing inequalities by socio-economic status and gender across the three countries. Third, we will analyse the role of parents in compensating and/or reinforcing children’s human capital endowments, and the implications for the intergenerational transmission of inequalities. Fourth, we will study the role of peers and we will assess the potential of simple interventions influencing social interactions between students in reducing inequalities.

  Two related areas of work will look at human capital and inequality during adolescence and working life, (and at the causes of trends in inequality) and at the impact on inequality of fiscal and monetary policies and of policies aimed at improving welfare. This research will benefit policymakers and European citizens by informing the design of early-life policies that can reduce social, economic and health inequalities. Additionally, it will contribute to the academic literature on the process of human capital formation and its role in shaping inequalities. Research teams forming this bid will take a multidisciplinary, cross-country comparative perspective, and they will use state-of-the-art econometric methods and rich administrative, longitudinal survey and experimental data from all three countries.

- Working with governments in developing countries to advise on tax policy, the Centre for Tax Analysis in Developing Countries at the IFS was started in 2016, with funding ending in 2018. We will apply for a further five years of funding from the UK’s DFID, which aims to contribute to more effective tax policymaking in low- and middle-income countries through applied research and policy analysis and a focus on improving the analytical capacity of governments. The Centre was designed in response to the relative paucity of theoretical and empirical evidence in relation to tax policy in low- and middle-income countries. If successful in securing funding, a range of particular projects will take place with the governments of Ghana and Ethiopia, as well as cross-cutting analysis applicable to a range of other countries.

- Other work in developing countries will include the evaluation of programmes to improve early childhood development in India. The research team is currently testing in a randomised control trial a stimulation and nutritional education intervention in 192 villages in rural Odisha for children who at baseline were 7–16 months old. The current intervention ended in December 2017. The research team now has the unique opportunity to test the value of continuing the intervention in pre-schools until the school start age of 6 (December 2019) and to test whether starting early makes such pre-school programmes more effective. The research team will randomly allocate half the study villages of the current experiment into a specially enhanced pre-school educational programme starting in January 2018.

Communication and stakeholders

We plan to build on our successful engagement with policymakers, academics and the media, to develop deeper and more timely engagement. This will help to raise the effectiveness of communications with these groups.

For example, our annual Green Budget, again funded by and in collaboration with the Institute for Chartered Accountants of England and Wales, takes place in autumn 2018. Analysis of the 2018 Budget will be carried out and presented to a mixed audience of policymakers, journalists and others. The analysis will also be made available online.

Historically, we have had less communication with the business community, local policymakers and policymakers outside the UK. Our ESRC-funded IAA already targets improvements here. Engaging with the general public is another area where the Institute has been less active in the past, but has been gradually extending its impact in recent years.

The Institute's current priorities for communications and stakeholder engagement are the following.

- To continue to evaluate and redesign our website so it is easier to navigate. This will include re-size capability for the web pages, better searchability, clearer links between different, related outputs and a more easily navigable display for IFS events.
- To improve the recording of and reporting on the effectiveness of our communications. We will do this through the use of short narratives about the impact of our research: more regular, biannual printed bulletins and quarterly e-newsletters for members and others interested in our work.
- To deepen relationships with key policymakers and stakeholders. To achieve this we will, for example, hold round-table meetings with representatives from the relevant government departments, and we will look for opportunities for outward or inward secondments.
- To find effective ways to engage with students in schools and universities and with young people in general. This could be through lectures, videos, interactive online resources and teaching materials, as well as through providing content for external sites and developing the social media presence of the Institute.
- To be more responsive to events and media needs to inform debate (e.g. image bank of graphs when particular topics come up, short quotes on Twitter); offer more data on the website from projects/outputs; more observations/summaries of academic papers that we publish.
- To promote our more academic research and activities more widely. This will include publicising high-profile visitors and highlighting talks and other events in which research staff are involved.
- To develop stronger relationships with business, local government and overseas and international policymakers. We will build on existing networks.

Capacity building

In the autumn of 2018 two new graduates will start work at the IFS and will be trained in research and communication skills, working alongside more experienced researchers and Research Fellows and Associates, who are leaders in their fields from universities in the UK and overseas.

For the first time in 2017 we took on two postdoctoral researchers for two-year contracts and we plan to take on a further two from September 2018. The specific expertise of these individuals will feed into related research programmes and will enrich the knowledge of colleagues through frequent seminars and interchange of views. The researchers themselves will also benefit from the stimulating intellectual environment at the IFS and they are likely to go on to research or teaching posts in the future, where they will be able to apply what they have learned.

As in previous years, our ESRC Centre for the Microeconomic Analysis of Public Policy will host a number of PhD scholars, whose work is related to our overall research programmes. Three new students will join in the autumn of 2018, in addition to the existing students currently hosted.

Under the auspices of the Centre for Microdata Methods and Practice, we will continue to run training courses, master classes and workshops until the end of the academic year 2020–21.

Over the summer, we will host eight economics students in paid internships. They will work on projects with IFS researchers to give them a flavour of what policy-relevant research is like. We will also host work experience students in collaboration with the Higher Education Access Network.

In addition to research staff, we plan to take on additional staff to support research activities. New posts will include a press and social media officer, to help us respond more effectively to current events, both via the traditional media and directly on social media. We will also take on additional support in our research services team to improve our grants administration and capacity to broaden our funding portfolio.

Strategic report

Financial review

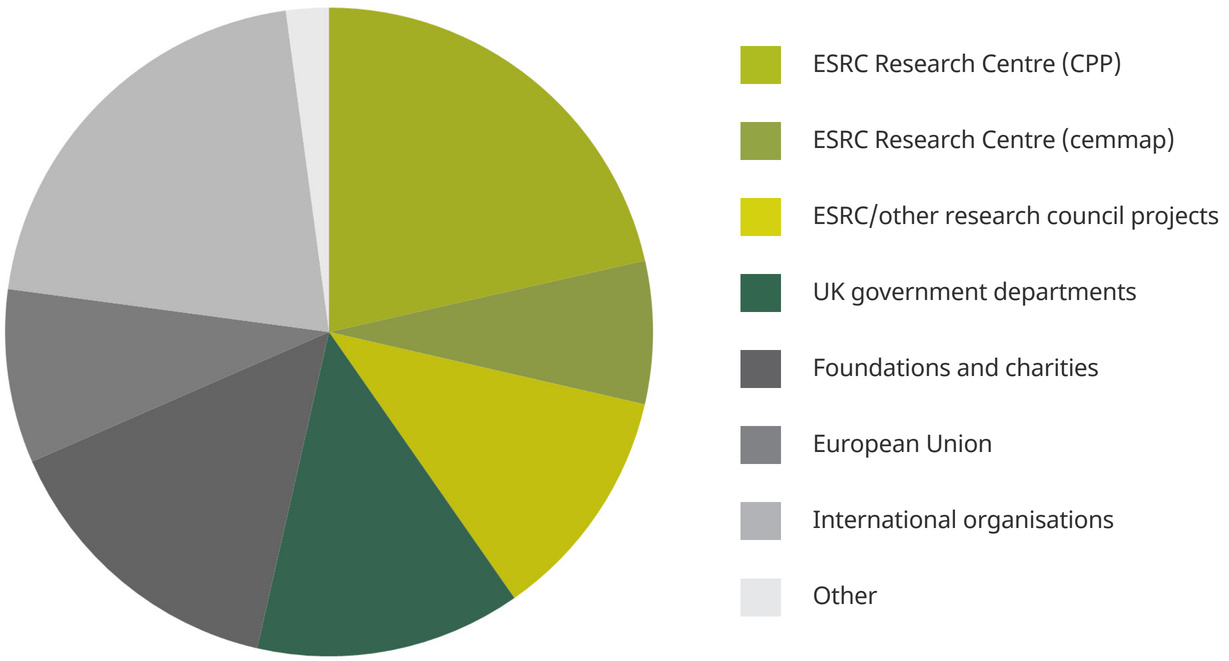
The results for the year ended 31 December 2017 are presented in the statement of financial activities on page 23. Total income was £8,834,706 (2016: £7,617,608) and total expenditure was £8,580,811 (2016: £7,412,413). The increases in income and expenditure are primarily due to an increase in direct project costs, including payments to outside bodies that work together with the IFS on particular research projects.

The statement of financial activities shows an overall surplus for the year ended 31 December 2017 of £253,895 (2016: £205,195), representing investment income of £8,892 (2016: £14,980) and a surplus on charitable activities of £245,003 (2016: £190,215).

The Institute attempts to raise its research funds from a range of organisations so that it is not dependent upon a single source of funding. Although 40% was provided by the ESRC (44% in 2016), this funding covers a wide range of projects.

With regard to its conference and publication activities, the Institute aims to keep prices as low as possible to maximise public access to its findings.

The investment policy of the Executive Committee has been to invest cash reserves in interest-bearing accounts and not to risk any of the principal. At the end of the year, £1,227,143 was held in a COIF Charities Deposit Fund (2016: £1,224,288) and £510,050 in a CAF Bond held with Principality Building Society (2016: £505,000).



Reserves policy

The reserves policy is twofold: one, to hold funds for working capital purposes and as a contingency, should sufficient new funding not emerge or should existing contracts be cancelled; and two, to reflect the net book value of fixed assets.

As at 31 December 2017, the Institute's total reserves were £2,566,526 (2016: £2,313,631), comprising the General Fund of £2,432,971 (2016: £2,243,487) and the Fixed Asset Reserve of £133,555 (2016: £69,144).

The General Fund reflects the Institute's net current assets and is considered to be an amount of reserves that could be easily converted to cash, should the need arise. The target is for the General Fund to be maintained at a level to cover six months' expenditure (excluding direct project costs). The Trustees wish to continue to raise modest surpluses so that the General Fund meets this target.

A Fixed Asset Reserve was established in 2010 such that this Reserve would be equivalent in value to the net book value of the Institute's fixed asset. The value of our fixed assets was higher at year-end than at the beginning of the year and so the Reserve has been increased accordingly following a transfer to the IFS General Fund. The reserves policy is subject to active review in the light of prevailing circumstances.

As at 31 December, the General Fund comprised:

	2017	**2016**
	£	**£**
Investments	1,737,193	1,729,288
Bank accounts	2,651,400	3,295,281
Less net grants received in advance	(2,249,235)	(2,741,930)
Cash holdings (excluding net project grants received in advance)	**2,139,358**	**2,282,639**
Other working capital	293,613	(39,152)
General Fund	**2,432,971**	**2,243,487**
Number of months of forecast expenditure (excluding direct project costs)	4.7 months	4.6 months
Target level for the General Fund: (six months' forecast expenditure, excluding direct project costs)	£3.09m	£2.95m

Principal risks and uncertainties

The Executive Committee has overall responsibility for ensuring that the Institute has appropriate systems of control, both financial and operational. These systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

During the year, the Executive Committee continued to review the major financial and operational risks facing the Institute. It continues to monitor, on an annual basis, the implementation of any changes necessary to ensure that, as far as is reasonable, controls are in place to protect the Institute, its members, its staff, the general public and other stakeholders.

The primary risks relate to financial issues and in particular to the reliance on the ESRC for a large proportion of the Institute's research funds (see the financial review section on page 14). However, this funding represents a mix of long-term and short-term funding, which reduces the immediate risk. Additionally, a significant proportion of our staffing costs relates to staff from UK universities whose funding is explicitly aligned with ESRC funding, meaning that these costs can be reduced or terminated in line with the funding stream. Around 10% of our funding currently comes from European Research Council grants, which represents a risk, in that continued funding from this source may not be forthcoming in the wake of Brexit. The Institute continues to seek to diversify its funding sources in order to spread the risk.

Another key risk is in relation to our people and the risk of losing key staff. We attach a high priority to supporting our staff in developing their skills, whether through further study or by giving them opportunities to become involved with all aspects of research and communication throughout their careers. New Research Economists are provided with mentors and are given the opportunity to take on managerial responsibility as and when they are ready. Staff representatives, elected by peers, include in their remit, the discussion of staffing issues with senior management. Regular review of selection procedures and conditions of service take place, together with periodic monitoring of salaries offered elsewhere. Staffing requirements are planned as far in advance as possible, and good relationships are maintained with top universities and institutions, both in the UK and overseas.

The IFS is a leading academic institute, and it is imperative to maintain the quality of our research. Quality assurance procedures are in place that require the involvement of senior staff for all projects. Staff adhere to the IFS code of good practice in research and Social Research Assocation (SRA) ethical guidelines, and rulings of the UCL Research Ethics Committee. Any interactions with research participants are governed by this code and by established ethics principles and obligations. There is regular discussion of ongoing research at senior management meetings and, in addition, the Advisory Boards for the ESRC Centres have oversight of the Centres' research programmes.

Safeguarding is an issue that has been widely discussed over the last year. For the IFS, we are concerned both with safeguarding our own staff and those with whom we come into contact, in particular vulnerable people who may be the subject of research. The organisational culture of the IFS prioritises safeguarding, so that it is safe for those affected to come forward and to report incidents and concerns, with the assurance that they will be handled sensitively and properly.

The IFS is a research institution and we do not deliver development or aid programmes directly to beneficiaries. However, in recent years we have increased the number of research projects that we undertake in low- and middle-income countries. We now work with a number of institutional collaborators and individual sub-contractors that implement international development programmes and collect research data from potentially vulnerable beneficiaries on our behalf. Our staff members travel regularly to monitor these implementation and research activities. Also, we are putting in place more stringent policies to govern how we work with our partners to ensure that they meet the standards we expect, as laid out in our policies.

Governance and management

Constitution

The Institute for Fiscal Studies (IFS) was incorporated by guarantee on 21 May 1969. It has no share capital and is a registered charity. The guarantee of each member is limited to £1. The governing document is the Memorandum and Articles of Association of the company and Members of the Executive Committee are the Directors of the company. At the end of November 2017, the number of guarantors was 431 (417 at the end of November 2016).

Members of the Executive Committee

The Executive Committee, which is made up of the Trustees of the Institute, is established by the IFS Council. The Members of the Council are elected by members of the Institute in a General Meeting. The Executive Committee met five times during the year. Committee membership during 2017 was:

- Jonathan Athow
- James Bell
- John F. Chown
- Margaret Cole
- Chris Davidson
- Professor Denise Lievesley
- Ian Menzies-Conacher (Honorary Company Secretary)
- David Miles (Chair)
- The Rt Hon the Lord Gus O'Donnell (President, IFS Council)
- Michael Ridge
- Nicholas Timmins

> "the Institute for Fiscal Studies, an independent economic research organisation that occupies a unique position in British political life. Though other outfits attempt similar work, the IFS stands apart: when it comes to economic policy, its assessments have, for many, become the closest approximation to revealed truth."
>
> ***The Guardian***

Induction and training of Trustees

A programme of training and induction of Trustees was developed during 2004 and approved by the Executive Committee. Trustees are kept up to date with IFS research by a rolling programme of research presentations made at each meeting of the Executive Committee.

Organisational structure of the Institute and the decision-making process

The overall management of the IFS is carried out by the Director, Paul Johnson, who reports to the Trustees on a quarterly basis. The Director is part of the Senior Management Team of the Institute, which in 2017 comprised the Director, Paul Johnson, the Deputy Director, Carl Emmerson, and the Research Directors, Professor Orazio Attanasio and Professor Rachel Griffith.

The operational responsibilities of the Institute are delegated via a 'Scheme of Delegation' to the Director of the Institute, who in turn delegates various duties to senior staff.

The Institute employed directly an average of 87 (2016: 84) full- and part-time staff based at its offices in London. Research staff are divided into sectors, and a small core of administrative and secretarial staff provide support facilities.

The Institute also employed indirectly 24 (2016: 25) senior academic staff based at UK universities on a part-time basis. In addition, a number of other academics from both UK and overseas institutions work with the staff as Research Fellows and Research Associates on an ad hoc collaborative basis.

Remuneration policy

The salary of the Director is determined by the Executive Committee when renewing his contract and this is normally adjusted each year for a cost-of-living adjustment, in line with salaries across the Institute. The pay of all other staff, including the Deputy Director, is reviewed by the Director and other members of senior management annually and this is also usually increased by a cost-of-living adjustment. From time to time, the salary scales of the Institute are benchmarked against comparable organisations. In 2017, the services of the Research Directors, Professor Orazio Attanasio and Professor Rachel Griffith, were provided by UCL and the University of Manchester, respectively, under contracts that reimburse the universities for an agreed percentage of the individual's salary, National Insurance and pension costs. Further details on these amounts are included in note 6 to the accounts.

Statement of policy on fundraising

Section 162a of the Charities Act 2011 requires us to make a statement regarding fundraising activities. We do not undertake widespread fundraising activities with members of the public, although we do accept donations or offers from partners to contribute to work that we undertake. The legislation defines fundraising as 'soliciting or otherwise procuring money or other property for charitable purposes'. Such amounts receivable are presented in our accounts as 'donations and legacies'. We do not use professional fundraisers or 'commercial participators' or indeed any third parties to solicit donations. We are therefore not subject to any regulatory scheme or relevant codes of practice, nor have we received any complaints in relation to fundraising activities.

Charity Governance Code

In July 2017, the new Charity Governance Code was published. The Code sets out recommended practice, under seven principles, as follows.

Organisational purpose

The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.

Leadership

Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.

Integrity

The board acts with integrity, adopting values and creating a culture that helps achieve the organisation's charitable purposes. The board is aware of the importance of the public's confidence and trust in charities, and trustees undertake their duties accordingly.

Decision-making, risk and control

The board makes sure that its decision-making processes are informed, rigorous and timely, and that effective delegation, control and risk assessment, and management systems are set up and monitored.

Board effectiveness

The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.

Diversity

The board's approach to diversity supports its effectiveness, leadership and decision-making.

Openness and accountability

The board leads the organisation in being transparent and accountable. The charity is open in its work, unless there is good reason for it not to be.

The Executive Committee supports the principles set out in the Code, and IFS governance arrangements are regularly considered at committee meetings. A more detailed review of the Code is planned for 2018.

Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*).

Company law requires the Trustees to prepare financial statements for each financial year. Under company law, the Trustees 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 charity and of the incoming resources and application of resources, including income and expenditure, of the charity for the year. In preparing those financial statements, the Trustees are required:

- to select suitable accounting policies and then apply them consistently;
- to observe the methods and principles in the Charities SORP;
- to make judgements and accounting estimates that are reasonable and prudent; and
- to prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions, to disclose with reasonable accuracy at any time the financial position of the charity and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. 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.

So far as each of the Trustees at the time the report is approved are aware:

- there is no relevant audit information of which the auditor is unaware; and
- they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the UK governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

David Miles, Chair of the Executive Committee

Company registered number: 954616
Registered Charity: 258815
Approved and authorised for issue by the Executive Committee 1 May 2018

Auditor's report

Independent auditor's report to the Members of the Institute for Fiscal Studies

We have audited the financial statements of the Institute for Fiscal Studies for the year ended 31 December 2017, which comprise the statement of financial activities, the balance sheet, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Charitable Company's affairs as at 31 December 2017 and of its incoming resources and application of resources 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Charitable Company in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going-concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Charitable Company's ability to continue to adopt the going-concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report, other than the financial statements and our auditor's report thereon. The Trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' Report, which includes the Directors' Report and the Strategic report prepared for the purposes of Company Law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and the Directors' Report, which are included in the Trustees' report, have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Charitable Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic report or the Trustees' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, the Trustees (who are also the Directors of the Charitable Company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Charitable Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the Trustees intend to liquidate the Charitable Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Fiona Condron (Senior Statutory Auditor) Date
For and on behalf of BDO LLP, statutory
auditor, London

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial reports

Statement of financial activities
Year ended 31 December 2017

	Notes	2017	2016
		£	£
Income			
Donations and legacies		50,125	-
Income from charitable activities:			
Research activities		8,450,800	7,260,037
Membership subscriptions	2	135,845	182,940
Publications		47,279	43,601
Conference income		77,327	111,000
Miscellaneous income		64,438	5,050
Investment income		8,892	14,980
Total income		8,834,706	7,617,608
Expenditure			
Charitable activities	5	8,580,811	7,412,413
Total expenditure		8,580,811	7,412,413
Net income		253,895	205,195
Net movement in funds		253,895	205,195
Reconciliation of funds			
Total funds brought forward		2,312,631	2,107,436
Total funds carried forward		2,566,526	2,312,631

There were no other recognised gains or losses other than the net income for the year. All amounts relate to continuing operations.

Financial reports

Balance sheet
Year ended 31 December 2017

	Notes	2017	2016
		£	£
Fixed assets			
Tangible assets	8	133,555	69,144
Total fixed assets		133,555	69,144
Current assets			
Debtors	9	2,311,567	1,567,834
Short-term deposits	10	1,737,193	1,729,288
Cash at bank and in hand		2,651,400	3,295,281
Total current assets		6,700,160	6,592,403
Liabilities			
Creditors: amounts falling due within one year	11	(4,267,189)	(4,348,916)
Net current assets		2,432,971	2,243,487
Creditors: amounts falling due after more than one year		–	–
Net assets		2,566,526	2,312,631
Total funds of the charity:			
Unrestricted funds			
General Fund	12	2,432,971	2,243,487
Fixed Asset Fund	12	133,555	69,144
Total		2,566,526	2,312,631

David Miles, Chair of the
Executive Committee

Company registered number: 954616
Registered Charity: 258815
Approved and authorised for issue by the Executive Committee 1 May 2018

Financial reports

Statement of cash flows
Year ended 31 December 2017

	Notes	2017	2016
		£	£
Reconciliation of net income to net cash flow from operating activities			
Net income for the reporting period (as per the statement of financial activities)		253,895	205,195
Adjustments for:			
Depreciation charges		42,987	27,818
Interest on investments		(8,892)	(14,980)
(Increase)/decrease in debtors and accrued income		(743,733)	146,949
(Decrease) in creditors and accrued expenses		(169,206)	(276,706)
Increase in grant income received in advance of expenditure		87,479	1,464,142
Net cash (expended on)/generated from operating activities		**(537,470)**	1,552,418
Interest on investments	15	8,892	14,980
Purchase of tangible fixed assets		(107,398)	(48,216)
Cash flows from investing activities		**(98,506)**	(33,236)
Change in cash and cash equivalents in the reporting period		**(635,976)**	1,519,182
Cash and cash equivalents at the beginning of the reporting period		5,024,569	3,505,387
Cash and cash equivalents at the end of the reporting period		**4,388,593**	5,024,569

Analysis of cash and cash equivalents	2017	2016
	£	£
Cash in hand	2,651,400	3,295,281
Short-term deposits	1,737,193	1,729,288
Total cash and cash equivalents	**4,388,593**	5,024,569

Notes to the accounts

1. Accounting policies

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

a) Basis of preparation

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with UK Accounting Standards, including Financial Reporting Standard 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and the Companies Act 2006.

The Institute for Fiscal Studies meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note(s).

b) Tangible fixed assets and depreciation

All tangible fixed assets costing more than £1,000 are capitalised and depreciated. Depreciation of fixed assets is calculated to write off the cost of each asset over the term of its estimated useful life.

The Executive Committee had determined that all costs relating to the refurbishment of the premises and any furniture be depreciated over five years and all other assets depreciated over three years. Assets are written off on a straight-line basis commencing from the quarter after the date of purchase. Where the length of any remaining lease is less than five years then any refurbishment costs are depreciated up to the end of the year in which the lease comes to an end.

c) Income – membership subscriptions and donations

Membership income is deferred to the extent that it relates to services to be provided in future periods. Donations are credited to the statement of financial activities at the date of receipt.

d) Income - publications

Income for publications is credited to the statement of financial activities in the period in which the publications are provided or made available. No value is placed on book stocks.

e) Income – research activities

Income is recognised when the Institute has entitlement to the funds, and performance conditions attached to the grant have been met, and when it is probable that the income will be received and the amount can be measured reliably. The Institute is usually legally entitled to income from research contracts in stages over the course of each project, which approximates to when related expenditure is expected to be incurred. Accordingly, all research income is credited to the statement of financial activities when it falls due to be received to the extent that it is matched by relevant expenditure. Any income received in advance of expenditure is treated as deferred income.

f) Interest receivable

Interest on funds held on deposit is included when receivable and the amount can be measured reliably.

g) Allocation of expenses

Direct and indirect expenses are included when incurred. The majority of expenses are directly attributable to specific activities. Indirect overhead costs (e.g. premises and administration) are allocated on a basis consistent with the use of the resource. Irrecoverable VAT is charged as a cost against the activity for which the expenditure was incurred.

h) Pension costs

The pension cost charge represents contributions payable by the Institute to employees' personal pension plans in respect of the year.

i) Operating leases

Notes to the accounts

Leasing charges in respect of operating leases are charged to the statement of financial activities as they are incurred.

j) Current asset investments

Current asset investments include cash on deposit and cash equivalents held for investment purposes rather than to meet short-term cash commitments as they fall due.

k) Foreign currency

The value of the balances in the Institute's Euro and US Dollar accounts at the end of the year was based on the exchange rate as at 31 December 2017. Transactions in foreign currencies are calculated at the exchange rate ruling at the date of the transaction and the Institute-wide foreign exchange gains or losses made during the year are taken into account in arriving at the net income for the year.

l) Financial instruments

The IFS only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value.

Notes to the accounts

2. Membership subscriptions

	2017	2016
	£	£
Corporate	121,228	164,677
Individual*	14,617	18,263
	135,845	182,940

*In the 2016 accounts, £5,000 was incorrectly classified between Corporate and Individual membership. For consistency, the amounts have been corrected (increasing individual subscriptions and decreasing corporate subscriptions).

3. Expenditure on research activities

	2017	2016
	£	£
Staff costs	4,954,840	4,911,659
Direct project costs	2,466,720	1,414,699
Premises	506,125	499,696
IT and office costs	138,006	142,439
Insurance and professional fees	87,132	75,919
Publications, events and public relations	28,175	3,996
Other	91,144	15,206
	8,272,142	7,063,614

Direct project costs include payments to outside bodies that work together with the IFS on particular projects. Where the Institute is the lead organisation, it receives funding from the grant-giving body for all participating organisations for onward transmission. Gross receipts are reflected in the Institute's revenues and, depending on the types of project undertaken, may vary significantly from year to year.

Notes to the accounts

4. Analysis of governance and support costs

	Support costs	Governance	Total	Support costs	Governance	Total
	2017	2017	2017	2016	2016	2016
	£	£	£	£	£	£
Staff costs	808,199	16,306	824,505	700,805	14,133	714,938
Premises costs	523,978	–	523,978	519,834	–	519,834
IT and office costs	150,258	–	150,258	155,856	–	155,856
Insurance and professional fees	75,067	19,800	94,867	69,558	15,450	85,008
Other	93,158	6,077	99,235	65,010	3,557	68,567
	1,650,660	42,183	1,692,843	1,511,063	33,140	1,544,203

Direct costs attributable to a single activity are allocated directly to that activity. Costs in relation to the Institute's support functions and governance costs are apportioned between the four areas of activity undertaken, on a basis consistent with the use of the resource, which for premises costs is based on floor space and for other costs is based on a per capita allocation. This analysis is not used for management purposes.

Governance costs include the costs of external audit. Other governance costs in 2017 relate primarily to costs associated with the Annual General Meeting and Annual Lecture and dinner, and also include travel expenses for one trustee of £34 for attendance at meetings of the Executive Committee.

Notes to the accounts

5. Total resources expended

2017	Research activities	Publications	Conferences	Membership	2017 Total
	£	£	£	£	£
Staff costs	4,954,840	54,445	77,913	71,303	5,158,501
Direct project costs	2,466,720	–	–	–	2,466,720
Premises	506,125	9,656	4,379	3,818	523,978
IT and office costs	138,006	6,627	3,005	2,620	150,258
Insurance and professional fees	87,132	4,184	1,897	1,654	94,867
Publications, events and public relations	28,175	5,311	50,052	3,714	87,252
Miscellaneous	91,144	4,376	1,985	1,730	99,235
	8,272,142	**84,599**	**139,231**	**84,839**	**8,580,811**

2016	Research activities	Publications	Conferences	Membership	2016 Total
	£	£	£	£	£
Staff costs	4,911,659	65,456	67,343	52,366	5,096,824
Direct project costs	1,414,699	–	–	–	1,414,699
Premises	499,696	5,289	9,967	4,882	519,834
IT and office costs	142,439	3,524	6,641	3,252	155,856
Insurance and professional fees	75,919	2,387	4,499	2,204	85,008
Publications, events and public relations	3,996	10,451	93,458	11,177	119,082
Miscellaneous	15,206	1,550	2,923	1,430	21,109
	7,063,614	**88,657**	**184,831**	**75,311**	**7,412,413**

Notes to the accounts

6. Staff costs

	2017	2016
	£	£
Wages and salaries	3,479,598	3,261,339
Social security costs	327,072	328,287
Pension costs	177,073	197,003
	3,983,743	3,786,629
Staff from universities	934,848	1,127,506
Research Fellows and Research Associates	152,928	98,550
	5,071,519	5,012,685
Other staff costs	86,982	84,139
	5,158,501	5,096,824

The IFS has contracts in place with several universities/institutions for the provision of an agreed proportion of the working time (typically 10–50%) of 24 (2016: 25) named, highly skilled individuals to carry out specific research duties at the IFS in their areas of academic excellence.

Staff costs have been allocated to expenditure headings where they can be specifically identified as in note 5. The average number of employees (full-time equivalent) including short-term research assistants, analysed by function, is shown below.

	2017 FTE	2016 FTE
Research activities	65.1	56.5
Publications	0.8	1.2
Conferences	1.9	1.8
Membership	1.4	1.0
Total	69.2	60.5

The numbers of employees whose emoluments (excluding pension contributions) were in excess of £60,000 are shown in the ranges below. In addition, pension contributions were paid by the Institute on behalf of these 14 employees. The total sum of these contributions was £78,102 (2016: £93,792 for 17 employees).

Notes to the accounts

The numbers of employees whose emoluments (excluding pension contributions) were in excess of £60,000 are shown in the ranges in the table. In addition, pension contributions were paid by the Institute on behalf of these 14 employees. The total sum of these contributions was £78,102 (2016: £93,792 for 17 employees).

	2017	2016
	Number	Number
£60,001–£70,000	8	12
£70,001–£80,000	4	2
£80,001–£90,000	1	2
£160,001–£170,000	–	1
£170,001–£180,000	1	–

The Trustees received no remuneration for their services during the year (2016: nil).

During 2017, the Institute's senior management team comprised: the Director, Paul Johnson, the Deputy Director, Carl Emmerson, and the Research Directors, Professor Orazio Attanasio and Professor Rachel Griffith.

In 2017, the total compensation for these key management personnel, including amounts due to universities under contractual arrangement for the provision of an agreed amount of the Research Directors' time, was £511,634 (2.9 FTE) (2016: £556,529 (3.0 FTE)).

7. Net income for the year

This is stated after charging:

	2017	2016
	£	£
Depreciation	42,987	27,818
Auditor's remuneration		
- audit	16,500	15,450
Operating lease rentals: property	375,000	375,000

Amounts payable to the auditor are stated excluding VAT.

Notes to the accounts

8. Tangible fixed assets

	Fixtures and improvements to short leasehold premises	Office equipment	Total
	£	£	£
Cost			
At 1 January 2017	767,804	523,201	1,291,005
Additions	–	107,398	107,398
Disposals and assets no longer in use	–	(279,715)	(279,715)
At 31 December 2017	767,804	350,884	1,118,688
Depreciation			
At 1 January 2017	726,493	495,368	1,221,861
Charge for the year (1)	9,660	33,327	42,987
Disposals and assets no longer in use	–	(279,715)	(279,715)
At 31 December 2017	736,153	248,980	985,133
Net book value			
As at 31 December 2017	**31,651**	**101,904**	**133,555**
As at 31 December 2016	41,311	27,833	69,144

(1) The depreciation charge for the year includes £4,232 of depreciation on assets used on specific projects and reimbursed under the grant as direct project costs.

All fixed assets are held for use on a continuing basis for the purpose of charitable activities.

9. Debtors

	2017	2016
	£	£
Accrued income	1,280,690	700,516
Trade debtors	704,131	651,900
Other debtors	13,085	11,960
Prepayments	313,661	203,458
	2,311,567	1,567,834

Notes to the accounts

10. Investments

At the end of the year, £1,227,143 was held in a COIF Charities Deposit Fund (2016: £1,224,288) and £510,050 (2016: £505,000) in a CAF Bond held with the Principality Building Society, which matures on 28 July 2018.

11. Creditors

	2017	2016
	£	£
Amounts falling due within one year		
Trade payables	133,965	139,208
Taxation and social security	109,281	99,017
VAT	24,379	27,091
Accruals	469,639	641,154
	737,264	906,470
Deferred income		
Balance at 1 January 2017	3,442,446	1,978,304
Amount released to income	(2,245,459)	(1,680,377)
Amount deferred in the year	2,332,938	3,144,519
Balance at 31 December 2017	3,529,925	3,442,446
Creditors: amounts falling due within one year	4,267,189	4,348,916

As at 31 December 2017, deferred income was £3,529,925 (2016: £3,442,446). This includes amounts received on multi-year grants, where the timing of the related expenditure may be more than 12 months from the balance sheet date. A proportion of this deferred income will therefore not be released to income until 2019 or 2020.

12. Funds

	Designated project funds	Designated: Fixed Asset Fund	General Fund	Total unrestricted
	£	£	£	£
Reserves at 1 January 2017	–	69,144	2,243,487	2,312,631
Incoming resources	881,494	–	7,953,212	8,834,706
Resources expended	(881,494)	–	(7,699,317)	(8,580,811)
Transfers	–	64,411	(64,411)	–
Reserves at 31 December 2017	–	133,555	2,432,971	2,566,526

Notes to the accounts

The General Fund comprises unrestricted funds, available for use at the discretion of the Executive Committee in furtherance of the general objects of the charity and which have not been designated for other purposes.

The designated Fixed Asset Fund represents the net book value of the tangible fixed assets as at the balance sheet date.

Designated project funds represent projects where the IFS's grant agreement with the funder requests that the project funding is clearly disclosed in the financial statements. During 2017, the income and expenditure on these grants was £881,494, as set out below.

Project name	Funder	Start date	End date	2017 Income and expenditure	Accrued/ (Deferred) income as at 31 December 2017
2017				£	£
Improving tax and benefit policy analysis and development in partner countries with the Institute for Fiscal Studies	DFID	1/2/2016	31/3/2018	502,537	68,347
Evaluation of Lively Minds educational play schemes in Ghana	Global Innovation Fund	1/1/2017	30/4/2019	322,939	(8,076)
Easing constraints for small firm expansion in Uganda: measuring indirect spillovers through inter-firm networks	Private Enterprise Development in Low-Income Countries ("PEDL")	1/4/2013	30/6/2017	56,018	–

Project name	Funder	Start date	End date	2016 Income and expenditure	Accrued/ (Deferred) income as at 31 December 2016
2016				£	£
Improving tax and benefit policy analysis and development in partner countries with the Institute for Fiscal Studies	DFID	1/2/2016	31/3/2018	356,973	9,023
Evaluation of Lively Minds educational play schemes in Ghana	Global Innovation Fund	1/1/2017	30/4/2019	–	(120,370)
Easing constraints for small firm expansion in Uganda: measuring indirect spillovers through inter-firm networks	Private Enterprise Development in Low-Income Countries ("PEDL")	1/4/2013	30/6/2017	136,303	(22,601)

The aim and use of each fund is set out in the Reserves Policy Section on page 15 of the Report of the Executive Committee.

Notes to the accounts

13. Operating lease commitments

The total of future minimum lease payments under non-cancellable operating leases are set out below for each of the following periods.

	2017	2016
	£	£
One year	375,000	375,000
Two to five years	553,767	928,767
Over five years	–	–

14. Pension scheme

The total pension cost to the IFS for contributions to employees' pension schemes under the IFS's group personal pension plans with Scottish Widows was £154,778 (2016: £166,138). In addition, four members of staff (2016: four) participate in other personal pension schemes of their own choice, to which the Institute contributed £21,352 (2016: £30,865).

	2017	2016
	£	£
Scottish Widows	154,778	166,138
Other	21,352	30,865
Total	176,130	197,003

15. Notes to the cash flow statement

	2017	2016
	£	£
Interest from investments	8,892	14,980

Notes to the accounts

16. Analysis of net assets between funds

2017	Designated project funds	Designated: Fixed Asset Fund	General Fund	Total unrestricted
	£	£	£	£
Tangible fixed assets	–	133,555	–	133,555
Current assets	60,271	–	6,689,446	6,749,717
Current liabilities	(60,271)	–	(4,256,475)	(4,316,746)
Net assets at 31 December 2017	–	**133,555**	**2,432,971**	**2,566,526**

2016	Designated project funds	Designated: Fixed Asset Fund	General Fund	Total unrestricted
	£	£	£	£
Tangible fixed assets	–	69,144	–	69,144
Current assets	133,948	–	6,458,455	6,592,403
Current liabilities	(133,948)	–	(4,214,968)	(4,348,916)
Net assets at 31 December 2016	–	**69,144**	**2,243,487**	**2,312,631**

17. Related party transactions

Lorraine Dearden, a member of Paul Johnson's close family, is paid as an IFS Research Fellow at the standard rate of £5,000 per annum (2016: £5,000). Her initial appointment pre-dates his term as Director and is reviewed annually by the Research Directors. In addition, the IFS has an agreement with Lorraine Dearden's employer, the Institute of Education, for a buyout of 20% of her full employment costs amounting to £28,130 for the year ended 31 December 2017. The buyout from the Institute of Education pre-dates Paul Johnson's appointment as Director and was agreed by his predecessor.

As disclosed in Note 4, travel expenses of £34 were paid to one of the trustees for attendance at meetings of the Executive Committee.

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