

TRUSTEE BOARD'S REPORT AND ANNUAL ACCOUNTS.

Institution of
**MECHANICAL
ENGINEERS**

Year Ended 31 December 2020



Improving the world through engineering

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I am very grateful to the many Institution members who have actively contributed to the fight against COVID in so many ways.



PRESIDENT'S STATEMENT

2020 has been a challenging but successful year for the Institution. As well as navigating our way through the COVID-19 pandemic and learning to operate effectively in a virtual world, we have also been very busy transforming our governance structures through the implementation of the recommendations of the Governance Review undertaken in 2019. I am very grateful to the many Institution members who have actively contributed to the fight against COVID in so many ways; identifying engineering solutions to save lives and mitigate the impact of the virus. This has brought together member expertise from across the globe, in a manner we haven't really seen before and resulted in the creation of a COVID Task Force within the Institution.

Despite COVID, great progress has been made on many fronts and I am especially pleased to report that we are now approaching the end of our governance transformation. The changes made have been extensive and have involved our Council, Boards and Committees and many of our members and staff to engage and work together to determine optimum solutions. Under the leadership of Dr Kerry Mashford OBE, the Implementation Group, charged with delivery of the changes, has contributed massively to this and has now successfully completed its task. My sincere appreciation to all involved in this vitally important activity.

Many members express a desire to take an active role in the Institution but have previously found it very difficult to do so. One of our governance changes has focused on addressing this through a more open approach. Under the leadership of Isobel Pollock-Hulf OBE, the new Nomination Committee now actively promote opportunities for members to get involved and they actively manage the selection process. It has already stimulated great interest from members and successfully recruited many appropriately skilled and experienced members into active volunteer roles – many of whom have never previously been involved. This success sits well alongside our underlying commitment to wider engagement with the launch of a new Diversity and Inclusion strategy early in 2021.

We are now adopting a much more transparent approach to how the Institution is run and feedback received indicates this has been well received by our members. The Trustee Board regularly reports on key issues through the new 'Inside Track' digital blog and through other articles in our existing publications like Professional Engineering magazine, One Birdcage Walk blog and Institution News. Better communications is an ongoing process and we have more to do but I hope you feel that good progress is being made. One theme of our communications this year has concerned our HQ building. It is over 120 years old and does require some very extensive refurbishment works, which we can no longer defer. Feedback from members indicates a very strong attachment to the building and a desire to retain it as our iconic HQ for future generations of engineers. We have therefore focused on possible solutions that will allow us to achieve that. This summer, we will be balloting members to gain their consent to proceed with one of those solutions.

On a final note, as I sign off from what has been a challenging and rewarding year, I must recognise the terrific work done by our CEO, Dr Colin Brown, in so competently leading the Institution through the last two years. I would also like to express my sincere appreciation to my Trustee Board colleagues. Trusteeship requires commitment, resilience and fair mindedness and I have been fortunate in having a Board that excelled in all those characteristics. The Institution is in good shape and, when President Elect Peter Flinn takes the helm, is in good hands. I wish Peter and his Board every success.

Terry Spall

BSc (Hons) MSc CEng FIMechE

“““

It has been a privilege for me to support the staff and the membership during what has been a significant period of change since 2018.



CHIEF EXECUTIVE'S STATEMENT

It would be difficult to believe that 2020 was not a unique year in our Institution's history. It is certainly the year when we have made the most changes to the way we operate over the shortest time. Indeed, we have been forced to close our offices in Birdcage Walk for a number of weeks to be in line with UK COVID-19 government restrictions.

Not surprisingly therefore we have had to work hard to achieve our objectives and have ended up with a result of exactly 50% success with nine out of the eighteen complete. You can see a few of the headlines selected as a summary on the next page. The shortfalls however have been the ones you could predict that were hampered by a lack of physical events and face to face interactions. The year-end membership of 115,635 is the one where we are now focussing our efforts in 2021 as it was significantly short of our target of 120,056. This decline has undoubtedly been influenced by the poor employment situation that many of our members find themselves in, but it is a valuable reminder of the perpetual need to ensure 'relevance' in what we do in a rapidly changing world.

More positively, we have been able to engage much more regularly and constructively with a wider range of members around the world due to the move online. As employees we are fortunate that we sit at the time zone which allows us to interact around the middle of our day with North America over their breakfast and the Far East over their supper. It has broadened our understanding of global challenges and enabled groupings like our Council to meet and develop ideas much more frequently than before. These interactions remain the lifeblood of a Learned Society that exists as our Charter says, 'to promote the development of Mechanical Engineering, and to facilitate the exchange of information and ideas thereon'.

We are therefore in a good position as we embark on 2021. Our free reserves have risen for the second year running as they inch towards our long-term target. Our member engagement is at a record high level due to much greater and more rewarding use of the internet. We have a new governance department and an internal audit programme that is on schedule to be certain we deliver on our ambitions for best-in-class operations. Our education outreach picked up widely due to new 'STEM-at-home' projects on our website. And perhaps most importantly, we remain committed to values and behaviours that will ensure we are seen as professionals enhancing the reputation of engineering. Under the banner 'I4' they remind us of our core needs to be Inclusive, to act with Integrity and to be Innovative, so that we can make the Impact we desire.

On a very personal note, this was my second, but last, full year as your Chief Executive before I step down in the summer. It has been a privilege for me to support the staff and the membership during what has been a significant period of change since 2018. I genuinely believe that our Institution makes a positive difference to the society we serve. I know my successor, Dr Alice Bunn, can look forward to the full support of a fine employee team and our ever-enthusiastic volunteers as they ensure we will play our part to 'improve the world through engineering'.

Dr Colin Brown
CEng FIMechE FIMMM

COVID-19 STATEMENT

Most of the period covered by this Report has been significantly affected by the coronavirus pandemic (COVID-19). This has caused disruption to many of our charitable and supporting commercial activities, especially where they relied previously on face-to-face meetings to be effective. To be in line with the UK Governmental requirements for working from home, social distancing, and sanitising, the Institution and its subsidiaries have restricted access and operations at all its sites to a greater or lesser extent. This has included a ban on all non-essential travel for employees and volunteers.

We plan to continue to offer a predominantly online programme as an alternative to physical events. It is expected that this balance will change, but only marginally so, when lockdown measures are eased. The increased engagement by being virtual will remain a benefit to many of our communication and professional objectives.

Whilst it is difficult to predict the extent of the longer term financial and operational implications of the pandemic, we believe that the current operations are sustainable in the medium term. We continue to proactively adopt mitigation measures, including benefitting from Government support schemes, to minimise any negative impact on our operations.



**TRANSMISSION
OF COVID-19
AND THE ROLE
OF ENGINEERING.**

**Institution of
MECHANICAL
ENGINEERS**

Professor Cath Noakes
School of Civil Engineering
University of Leeds

Watch the webinar >

HEADLINES

CULTURE

- Workshops with 170 members and staff to create and commit to I4 values and behaviours for all (Inclusion, Integrity, Innovation, Impact)
- Environmental and Gender Pay Gap reporting expanded in the Annual Report



Workshops with 170 members and staff to create and commit to I4 values and behaviours.

FOUNDATIONS

- Microsoft 365 deployment to over 2,000 active members across 198 committees
- Governance department now regularly auditing over 90 internal procedures
- Free reserves grown by £343k
- 84 out of 96 major review recommendations either complete or actions agreed



Microsoft 365 deployment to over 2,000 active members across 198 committees.

GOALS

- 2,368 registrations of new members with the Engineering Council
- 103% growth in engagement with our training and learned society programme by going online
- 570,225 downloads of documents from our library and information services
- 12 new teams, and 126 teams in total, took part in online versions of our 'Challenges'
- STEM-at-home toolkits adopted by the BBC 'Bitesize Science at Home' programme
- Our COVID-19 Task Force created an online engineering manual for disease mitigation

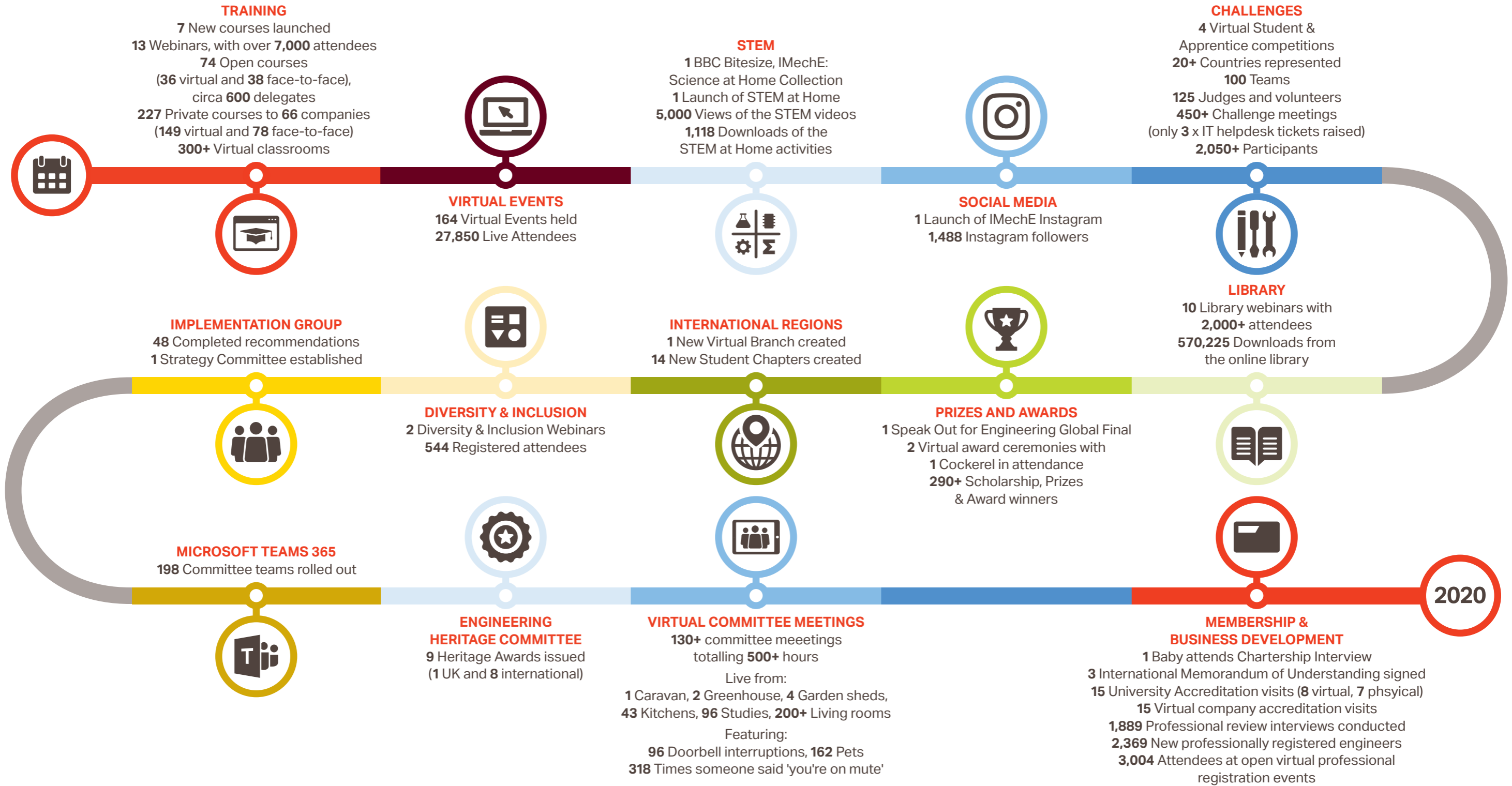


12 new teams, and 126 teams in total, took part in online versions of our 'Challenges'.



STEM-at-home toolkits adopted by the BBC 'Bitesize Science at Home' programme.

OUR YEAR IN NUMBERS





We seek to reduce the volume of waste being sent to landfill and in 2020 we retendered and awarded our refuse contract to a new waste disposal contractor who has a zero to landfill policy.



OUR COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

The respect and protection of the environment is an integral element of our underlying corporate social responsibility and, as such, we continuously look across all our business practices to ensure they have minimal adverse effect on the environment.

Despite the COVID-19 Pandemic, we have continued with our program to upgrade much of the lighting across Birdcage Walk, and by the end of 2020, nearly 90% of the building had been converted to low energy LED lighting. We have installed a new energy efficient hot water system and removed all plastic disposables from employee refreshment areas.

Throughout the IMechE premises we shall, where appropriate, seek to reduce the volume of waste being sent to landfill and in 2020 we retendered and awarded our refuse contract to a new waste disposal contractor who has a zero to landfill policy.

Following lockdown and the subsequent low occupancy of Birdcage Walk for the remainder of the year, our electricity usage in 2020 fell to 432 MWh from 648MWh in 2019 and our gas to 482 MWh in 2020 from 746MWh in 2019. We will continue to monitor and record our energy consumption and have put systems in place to be able to report against the requirements of the Streamlined Energy and Carbon Reporting (SECR) policy from January 2021.

Post COVID-19 restrictions, we will continue our aim to reduce the impact of travel by employees and members (on IMechE business) by promoting the use of lower impact modes of transport, holding telephone and videocall meetings and encouraging flexible working where possible, and in 2021 we will be investing in technology to equip many of our meeting rooms with enhanced video conferencing facilities.

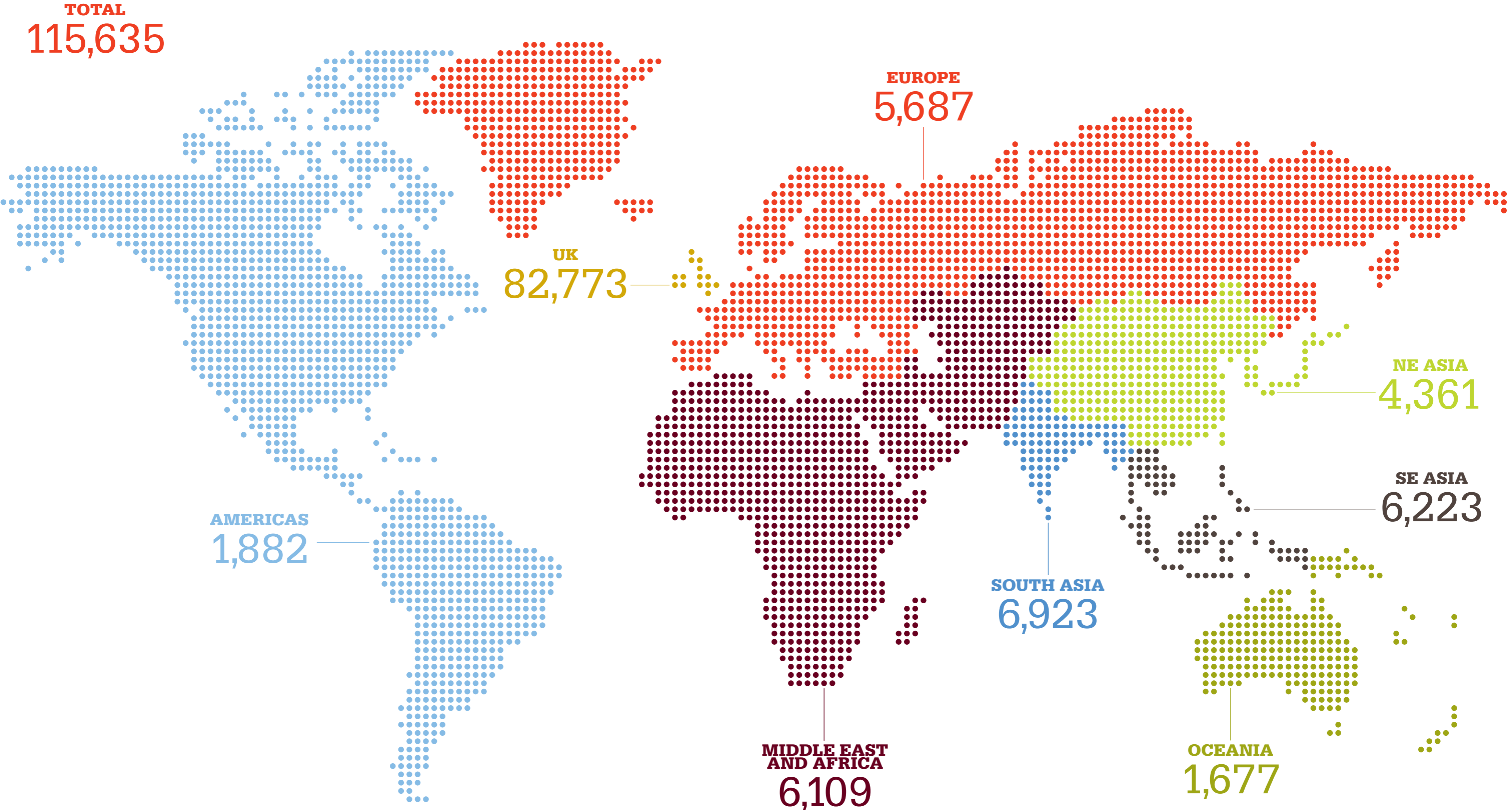
Although our corporate social responsibilities were limited due to the pandemic this year, the Institution's staff-led 'Cheer' team launched a virtual Giving Tree at Christmas raising £901.00 for the Kidsout charity.



**Post COVID-19 restrictions,
we will continue our aim to
reduce the impact of travel
by employees and members.**

GLOBAL MEMBERSHIP

Figure 1: Global membership by Region



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A package of support for committees to run virtual events in 2021 has been designed and shared with the member networks, including training and a user guide for committees wishing to run their own events via Teams.



STRATEGIC OBJECTIVES



Objective achieved



Objective not achieved

Given the difficult circumstances imposed by the COVID-19 restrictions, we have had to work hard to achieve our objectives and have ended up with a result of exactly 50% success with nine out of the eighteen complete.

CULTURE

OBJECTIVE

CG1 Output: Run a programme to embed values in Trustees, employees, and all members (link to D&I).

WHAT WE SAID WE'D DO

KPI: All employees and senior volunteers eg Board/Committee chairs to attend a values workshop. All meetings to start with a comment on implementing a value.

This objective has taken longer than we expected. We held 20 focus group sessions (170 attendees) and published a report on the findings, but it has yet to be rolled out across all employees and senior volunteers. Most meetings however do now start with a values statement, often based on Diversity and Inclusion.

OBJECTIVE

CG 2 Output: Create a baseline throughout 2020 and include a section on environmental sustainability in the next Annual Report.

WHAT WE SAID WE'D DO

KPI: The Annual Report to contain a one-page addition based on ICAEW Guidelines for Environmental Reporting.

The annual report now contains a statement which describes our own direct emissions and waste as well as any indirect effect we are having. We have also included support to other charitable activity aimed at improving the lives and hence sustainability of others.



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FOUNDATIONS

Cost effective facilities, systems & processes (FSP)

OBJECTIVE

FSP 1 Output: Complete implementation of finance and HR systems

WHAT WE SAID WE'D DO

KPI: Cascade and Microsoft Dynamics Business Central systems fully operational by end Q3.

The Cascade system was implemented as planned. COVID-19 related staffing issues at our implementation partner meant that Microsoft Business Central was not implemented until Q4.

OBJECTIVE

FSP 2 Output: Digital offerings to improve member experience and hence retention.

WHAT WE SAID WE'D DO

KPI: Develop a programme of works to engage and train the existing membership in the digital tools available eg Teams, Webinars, and YouTube content.

The total number of webinars across the member networks (supported by the Events and Member Engagement team) during 2020 was 79, and the total number of "on the day" attendees was 7,772. In total there were 13,163 pre-registrations across these events, leading to a mean conversion rate (ie percentage of registrants watching the live webinar) of approximately 60%.

A package of support for committees to run virtual events in 2021 has been designed and shared with the member networks, including training and a user guide for committees wishing to run their own events via Teams.

We have also made substantial progress on Microsoft 365 deployment to the volunteer network of over 2,000 volunteers. 198 committees now have their own Microsoft Teams spaces populated with Microsoft 365 users.



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Best practice governance and leadership (G&L)

OBJECTIVE

G&L 1 Output: Deliver accepted Review implementation goals for 2020 inc. Governance department.

WHAT WE SAID WE'D DO

KPI: Hire a Chief Governance Officer and deliver against a timed plan for all Review recommendations.

The Chief Governance Officer was recruited in Q1, and the Review recommendations are on track for completion in May 2021. As of year-end 2020, the status was:

- Finance Review – 46 principal recommendations: 36 implemented or covered elsewhere, 8 have agreed solutions for action and 2 remain in progress;
- Code of Conduct/Disciplinary – 29 principal recommendations: 4 implemented, 19 have agreed solutions for action, and 6 remain in progress;
- Governance – 21 principal recommendations – 9 implemented, 8 have agreed solutions for action, and 4 remain in progress.

OBJECTIVE

G&L 2 Output: Ensure key audits are carried out across the Institution and a rolling programme developed.

WHAT WE SAID WE'D DO

KPI: Review the state of all processes and achieve audits as scheduled by the Audit and Risk Committee.

A three-year rolling plan for all internal audits has been established around 12 audit cycles covering ~90 plans, policies and procedures, for the purpose of identifying a realistic corporate position.



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Financial resilience (FR)

OBJECTIVE

FR 1 Output: Manage capital expenditure within overall cashflow and grow free reserves to 6 months as a priority.

WHAT WE SAID WE'D DO

KPI: Grow free reserves by at least the amount of the PEP profit unless agreed differently by Trustee Board during the year.

Overall free reserves have grown during the year despite a significant PEP loss due to a significant cost reduction in the charity operations as travel and event expenditure was limited by COVID-19 lockdown.

OBJECTIVE

FR 2 Output: Complete the property strategy review.

WHAT WE SAID WE'D DO

KPI: Assess all properties (whether currently owned or leased) in a written review

Although a review has not been presented, the scope of the work has greatly increased from when the objective was set. Rather than simply recommending a direction, the Real Estate Review Group is working on detailed, fully costed, proposals for presentation to the Trustee Board during the first half of 2021



Overall free reserves have grown during the year due to a significant cost reduction in the charity operations as travel and event expenditure was limited by COVID-19 lockdown.

Skilled, engaged and motivated staff and volunteers (S&V)

OBJECTIVE

S&V 1 Output: Deliver improved induction, training, & development for staff and volunteers.

WHAT WE SAID WE'D DO

KPI: Run a series of member induction activities attached to existing Boards and Committees for all Board members and Chairs.

This project was put on hold, pending the review of governance, and updating of Board and Committee Terms of Reference. There are now objectives in the 2021 Business Plan to deliver improved training and induction for volunteers.

OBJECTIVE

S&V 2 Output: Project Respect influencing organisational change.

WHAT WE SAID WE'D DO

KPI: Code of Conduct recommendations incorporated into the value workshops

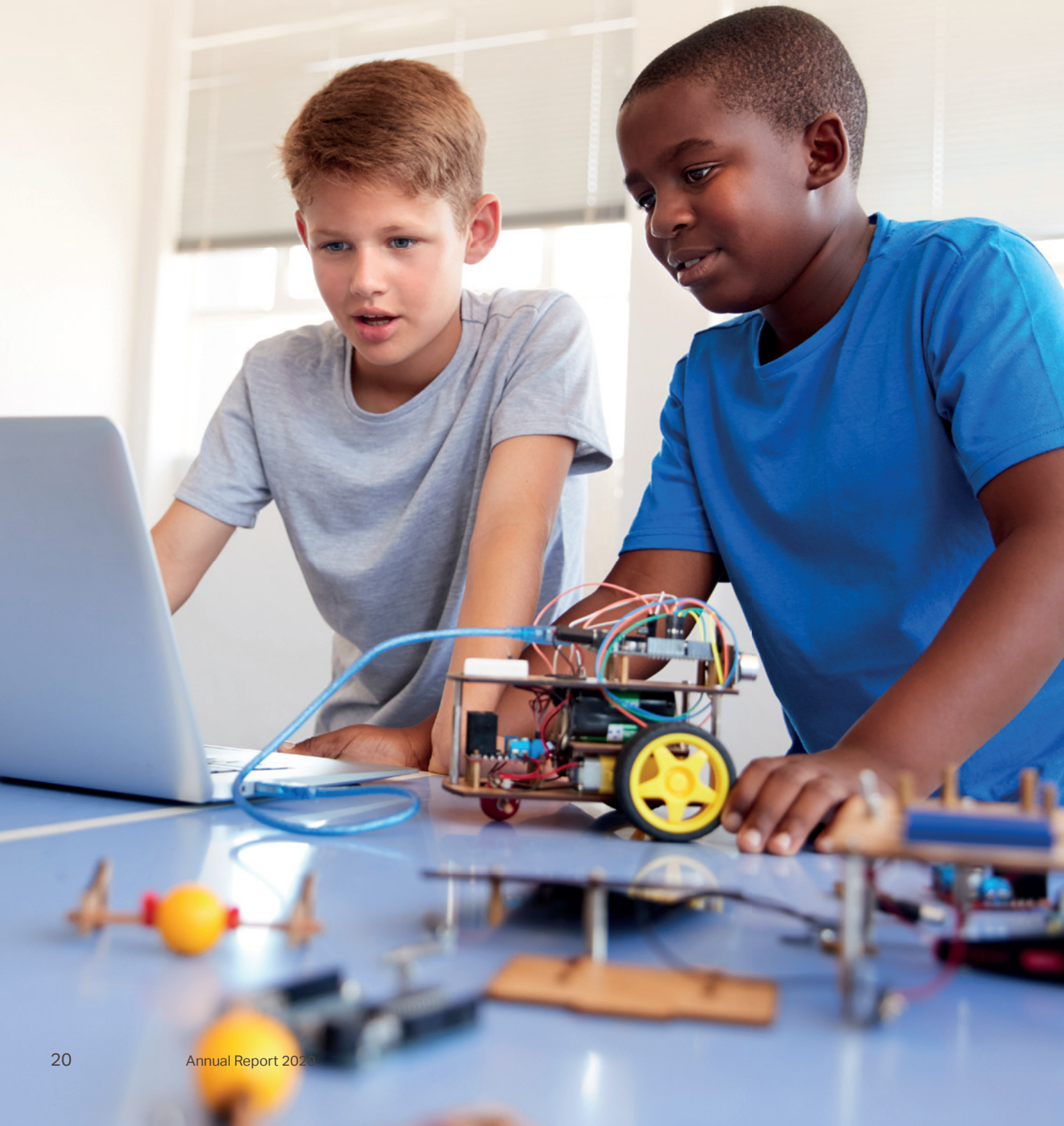
The behaviours and definitions outlined in the new one page Code of Conduct ('Act with care and competence', 'Act with integrity in a reliable and trustworthy manner', 'Engage responsibly with the environment', and 'Contribute positively to the culture and public perception of the profession and the Institution') were included in the 20 value focus groups.



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‘STEM at Home’ became the principal focus of educational outreach activities in 2020, achieving some impressive statistics. The STEM Toolkit activities were also picked up by the BBC to run as part of the BBC Bitesize Science at Home collection.



STRATEGIC GOALS



Objective achieved



Objective not achieved

Support & develop engineers (SDE)

OBJECTIVE

SDE 1 Output: Upgrade accredited IPD offering to drive employer engagement.

WHAT WE SAID WE'D DO



KPI: Launch the successor system to Monitored Professional Development Scheme.

The project consisted of three separate work-strands based on the functionality needed for Mentors; for Mentees; and for Scheme Administrators. The first two works-strands have already been completed to User Acceptance Testing (UAT) stage, with the final Scheme Administration strand ready to run in January 2021.

OBJECTIVE

SDE 2 Output: Implement active programme to improve retention through EngTech engagement – EngTech retention to improve from 86.7% to 87%.

WHAT WE SAID WE'D DO



KPI: Demonstrate at least two new classes of events or interactions aimed specifically at the employment interests of our EngTech membership.

Supporting a path of progression for EngTech Members to Incorporate Engineer status, the Academic Assessment Committee have developed a Career Learning Assessment guidance document. This is based on a previous military guidance document produced in August 2019.

The required number of EngTech events (min. 30) however were not created. It is now hoped that these activities can be picked up in 2021, both virtually and physically.



Our MPDS successor project consisted of three separate work-strands based on the functionality needed for Mentors; for Mentees; and for Scheme Administrators.

Maintain professional standards (MPS)

OBJECTIVE

MPS 1 Output: Achieve member targets in line with initial findings from the membership strategy review – Total Membership at end 2020 stands at 120,056 / Net paying members at 71,438 (based on Falzani).

WHAT WE SAID WE'D DO

KPI: Create and publish an applicant satisfaction benchmark.

The year-end totals were 115,635 members with 67,459 members in the paying grades.

Elections were extremely variable this year due to COVID-19 and the significant changes needed to transition to virtual Professional Review Interviews. Overall, in 2020 we provided 569 panels for 1,889 candidates. This compares with 2,027 candidates in 2019.

Importantly we attracted over 3,400 attendees to open virtual events in 2020 compared to 1,457 in 2019. This growth was helped by seven new events launched including: You and Your CPD, Essentials for Early Years Graduates, and Top Tips for MPDS.

The Benchmark Survey about applications was sent out to both 'pre-COVID' and 'post-COVID' groups. Encouragingly, the results did not differ a great deal between the two groups, with the overall satisfaction at 81% for Excellent or Very Good.

OBJECTIVE

MPS 2 Output: Implement required policy changes for compulsory CPD for EngC registrants.

WHAT WE SAID WE'D DO

KPI: Gain approval for By Law changes from the Privy Council (for member vote in 2021).

The process remains on track for member vote in 2021, but the precise text that meets Privy Council, and indeed Engineering Council, needs took longer than anticipated on issues around Continuing Professional Development. Ultimately, it is expected that a total of 85 detailed modifications to the Charter and By-Laws will go for the member vote.



Importantly we attracted over 3,400 attendees to open virtual events in 2020 compared to 1,457 in 2019. This growth was helped by the launch of seven new events.

Encourage and disseminate knowledge & invention (EKI)

OBJECTIVE

EKI 1 Output: Expansion targets for overall Challenge programme including FS AI.

WHAT WE SAID WE'D DO

KPI: Improve participation in the Challenges – 10 new entries. Increase FS AI team entries by 100%

Whilst it was not possible to achieve this objective in its entirety, most of the challenges were held virtually in 2020, with some impressive results including many new teams. In total, 139 teams took part across the Unmanned Aerial Systems Challenge, the Railway Challenge, the Apprentice Automation Challenge and Formula Student.

Unfortunately, it was not possible to run the Design Challenge at all in 2020, but the competition has been 'COVID-proofed' for 2021. There will be two virtual options for the regional finals (A and B, each with different levels of virtual engagement) and effectively three for the national final (live, virtual or hybrid).

OBJECTIVE

EKI 2 Output: Increased attendance (physical + virtual) across Training & LS programme.

WHAT WE SAID WE'D DO

KPI: Achieve 5% growth overall averaged across all activity, including a clear benchmark for international engagement.

Due to the 'virtualisation' of the vast majority of the event schedule, which broadened its reach considerably, the total number of attendees in 2020 was 21,516, more than 10,000 over the target of 11,126.

Across all the events over the course of the year, the mean percentage split between members and non-members was 75% members and 25% non-members, and the mean percentage of international (non-UK) attendees was 23%.

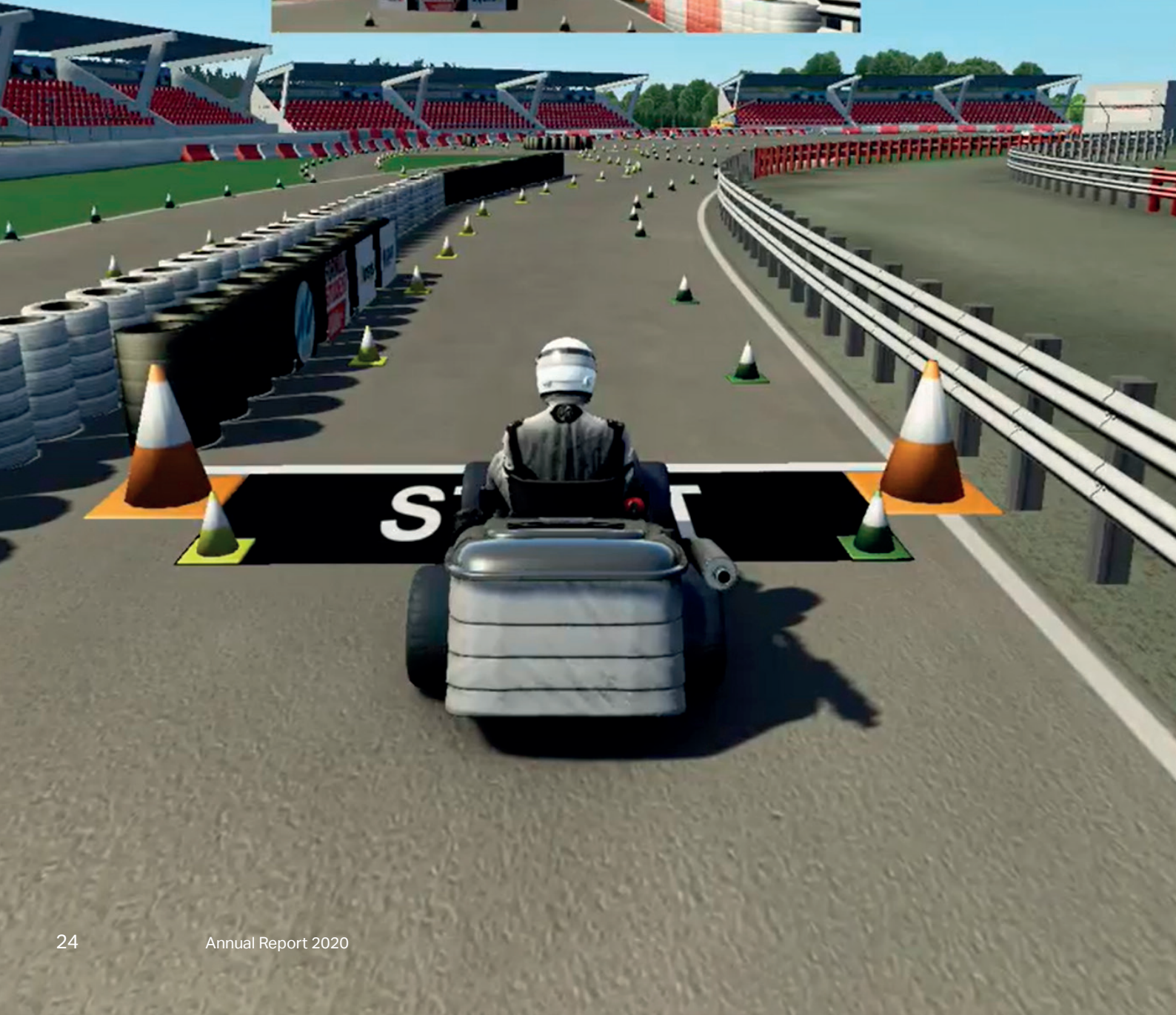
Library downloads increased by 11% with a year-end total of 570,225. Archive engagement grew by 20% with sessions on the Virtual Archive up by 22%. There were 100 new additions to the Virtual Archive site which included eighteen new 2D and 360° views of archive objects.



The 'virtualisation' of the vast majority of the event schedule broadened its reach considerably, and the total number of attendees in 2020 was 21,516, more than 10,000 over the target of 11,126.

“““

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Secure the future of the profession (SFP)

OBJECTIVE

SFP 1 Output: Develop a long-term strategy for the 2021–23 plan, including input from Relevance and market analysis.

WHAT WE SAID WE'D DO

KPI: Update the 2017 'White Paper' during Q1 as part of the analysis of competitors, markets and members to inform the member engagement and link to the new Strategy Committee.

Neither 'Relevance' nor the market analysis have delivered in 2020. The 'White Paper' from 2017 remains the latest overall picture as raw material for the new Stratcom to start to work with in 2021.

OBJECTIVE

SFP 2 Output: Deliver against the impact measures agreed in 2019 for PR and policy and for education outreach.

WHAT WE SAID WE'D DO

Demonstrable increase in impact over 2019.

For obvious reasons, 'STEM at Home' became the principal focus of educational outreach activities in 2020, achieving some impressive statistics. In total there have been 1,118 downloads of the STEM worksheets. The STEM Toolkit activities were also picked up by the BBC to run as part of the BBC Bitesize Science at Home collection.

The campaign "Inspiring Governance" was launched to encourage more engineers to become school governors. In 2020, at least 62 new sign-ups to the campaign came from the IMechE.



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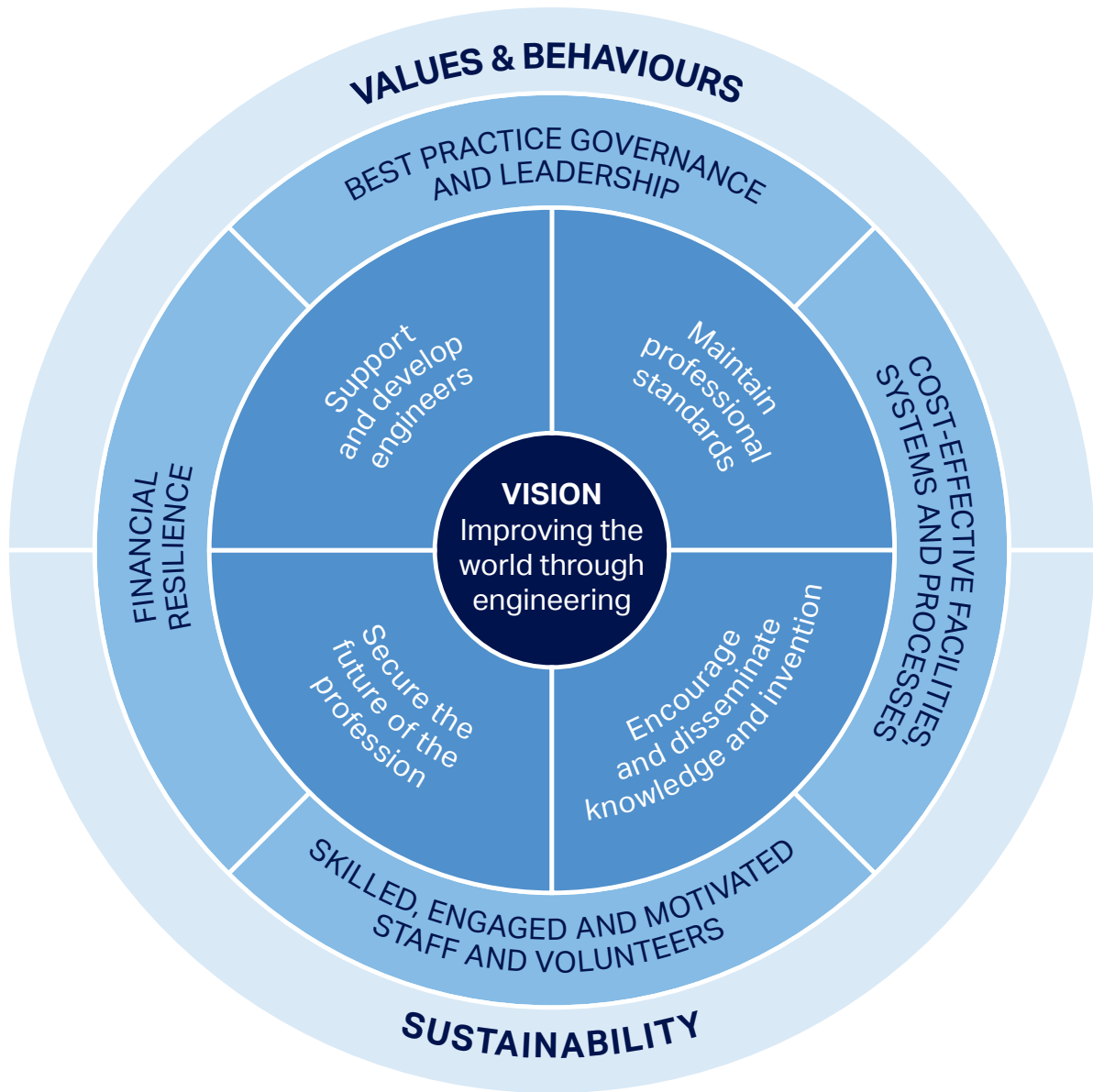
Key specific aims include a digital improvement programme to follow on from the end of the current digital modernisation investment. This will enable fully remote working for all and be class leading in hybrid delivery, even after the end of COVID-19 restrictions.



FUTURE PLANS

Our 2021 Business Plan reflects our unshakable commitment to professional values and behaviours on the part of both members and employees. Once again, we have adopted a 'wheel' representation to show how our culture with its roots in a sustainable and exemplary methods of operation wraps around all we do.

Figure 2: Institution values



The highlights of what we aim to achieve in 2021 are as follows:

CULTURE

We will be publishing a handbook of inclusive and respectful behaviours for staff and volunteers alongside the launch of a new Diversity and Inclusion strategy. We will create a support structure to ensure adherence and are looking forward to reporting on tangible evidence of positive change by year end.

FOUNDATIONS

Our Foundations will be focussed on:

- Cost effective facilities, systems and processes
- Best practice governance and leadership
- Financial resilience, and
- Skilled, engaged and motivated staff and volunteers

Key specific aims include a digital improvement programme to follow on from the end of the current digital modernisation investment. This will enable fully remote working for all and be class leading in hybrid delivery, even after the end of COVID-19 restrictions. We will also publish a clear plan for all real estate and start to implement the long-term plan for London HQ, which as a result will show environmental benefit above legal minimum requirements. Finally, we will collect data from and report on member satisfaction for all our Operating and Governance Boards, with a view to ensure they are tracking our values as behaviours as well as functioning at maximum engagement and effectiveness.

HIGH LEVEL GOALS

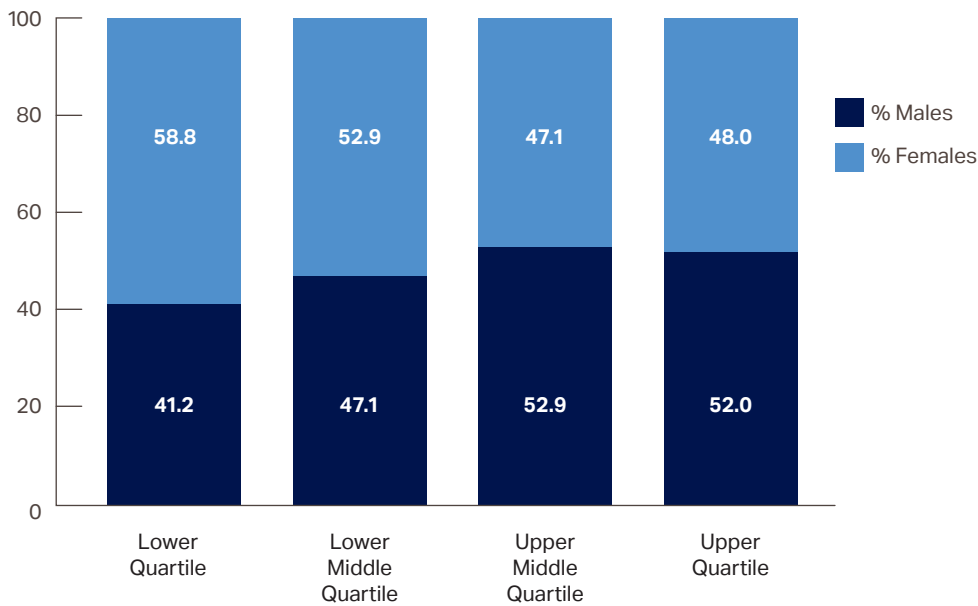
These reflect the charitable good that we are delivering in line with our Charter purpose. The 2021 outputs will include:

- The launch of a brand new online Monitored Professional Development System as an aid to professional registration, supported by an early user satisfaction survey of its operation.
- An in-depth strategic look at member recruitment and retention based on data profiling and differentiated global needs
- A critique across all our CPD offerings reflecting their popularity and value with members on which we can take positive action.
- A new range of inclusive and 'hybrid' physical / virtual solutions to retain the highest level of member engagement post-COVID
- Using a newly created and fully functioning high level Strategy Committee to own the 2022 planning cycle, engaging the full breadth of member views, and then communicating the output to all.
- Working hard on two-way communication with members to ensure they are aware of our progress and engaged in our public relations programme in education and engineering.

GENDER PAY GAP REPORTING

As an employer with fewer than 250 employees, under current legislation, the Group is not required to publish gender pay gap information. However, the data below is provided in the interests of transparency and to demonstrate the Institution's commitment to providing equal pay. On average in 2020, our male employees were paid 9.2% more than our female employees before detailed job roles are taken into account. This is driven mostly by 52% of our upper quartile roles being taken by men and 58.8% of our lower quartile roles being taken by women.

Figure 3: Gender pay gap quartiles



The situation with bonus payments however is slightly worse. 155 people received bonuses in the year, 51% of whom were women, but their bonuses – again before job roles are taken into account – were 38.2% lower on average than those received by our male employees. Overall, we will continue to take action to understand and redress these differences despite the existing performance comparing well with others in our sector.

“”

The Trustee Board are committed to improvement and change at the Institution and continue to support the culture transformation programme. At the heart of this commitment has been the launch of the five-year diversity and inclusion strategy and the launch of the values and behaviours programme.



STRUCTURE, GOVERNANCE AND MANAGEMENT OF THE CHARITY

The Institution is governed by a Trustee Board comprising of members of the Institution elected to office by Corporate and Associate members, through an annual election process. Trustee essential training is provided at the start of each election term for all Trustees and additional specific training provided as required related to specific activities or skills growth.

TRUSTEE BOARD

President	Terry Spall
President Elect	Peter Flinn
Vice Presidents	Heather Clarke Matt Garside Giles Hartill Phil Peel
International Vice President	Raymond Hodgkinson
Ordinary Members	Richard East Professor David Nowell Helena Rivers
Member ordinarily resident overseas	Vijay Raman
Member under 30	Ross O'Brien
Trustees Retired or Resigned in year	
Past President	Professor Joe McGeough
Ordinary Member	Dr Helen Meese
Member under 30	Salma Suleyman

Trustees typically meet six to eight times a year with additional meetings as required. Trustees are invited and attend as observers at Council meetings.

SENIOR MANAGEMENT TEAM

The daily management of the Institution is delegated by the Trustee Board to the Chief Executive and Senior Directors. The Chief Executive is responsible for the organisation and deployment of the Institution's employees.

Chief Executive	Dr Colin Brown
Finance & Commercial Director	Sean Fox
Human Resources Director	Bims Alalade
Member Operations Director	Joanna Horton

BOARDS AND COMMITTEES

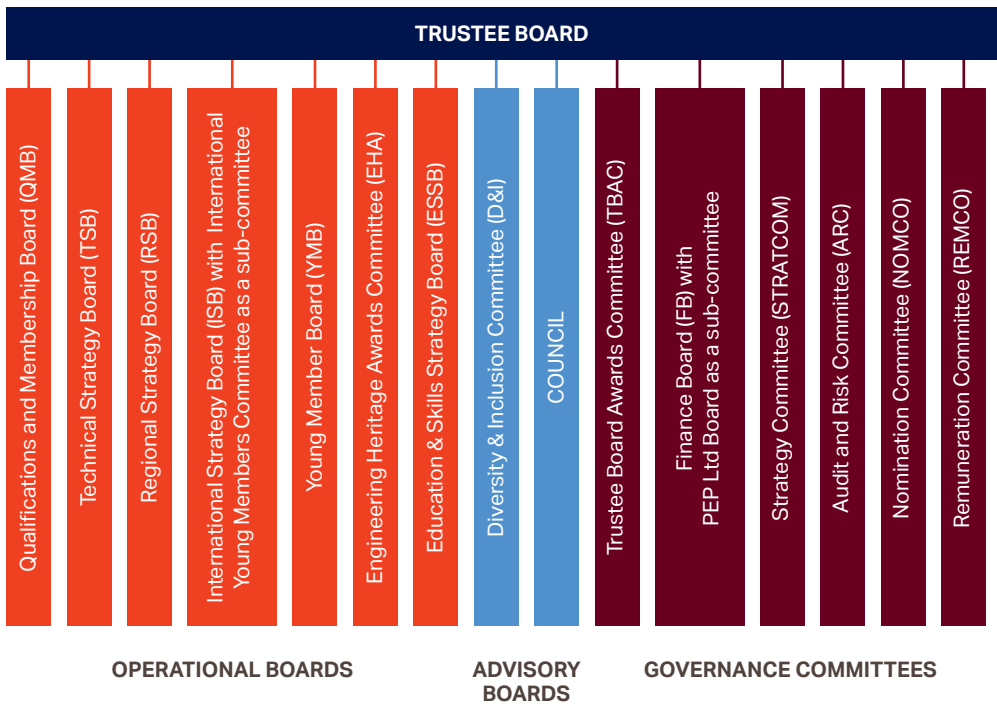
In line with the 2019 Governance Review, the Trustee Board is strengthening and providing clarity to its volunteer-led Governance and Operational boards and committees (**Figure 4**).

The newly formed Nomination Committee is central for recruitment, assessment, and nomination of suitably qualified and experienced candidates to key boards and committees alongside nominating into our annual election process. Work on strengthening these committees and boards will continue into 2021 with roles being openly advertised to encourage wider and more diverse (in all forms) membership participation. Boards and committees may appoint non-members to fill either skills / knowledge gaps or to build collaborative working relationships with representatives of other professional engineering institutions and related bodies if required.

The Trustee Board is directly supported by the work of its governance sub-committees and through the advisory role of Council and the Diversity and Inclusion Committee.

- **Audit & Risk Committee** – objective and independent review of risk management, control, and governance processes.
- **Finance Board** – management of the Institution's finances and investments.
- **PEP Ltd Board** – management of the Institution's trading subsidiaries, reporting into the Finance Board.
- **Nomination Committee** – independent and transparent recruitment of skilled members and non-members for positions on governance committees.
- **Remuneration Committee** – remuneration packages for the CEO and Directors, and overall settlement for employees.
- **Strategy Committee** – developing the Institution's high-level purpose, vision, strategy and objectives.
- **Trustee Board Awards Committee** – to administer the disbursement of the Institution's major prizes and awards.
- **Council** – tendering advice on direction and strategy of the institution and communicating the representative views of the membership.
- **Diversity and Inclusion Committee** – provides guidance on matters related to equity, diversity and inclusion for both employees and members.

Figure 4: IMechE governance – organisational structure (April 2021)



- The Institution’s member networks are overseen by operational boards chaired by elected members and comprising members with expertise in defined areas and roles representing member activities and constituencies.
- **Qualifications and Membership Board** – maintains professional standards and promotes registration to the Engineering Council.
- **Education Skills & Strategy Board** – promotes engineering to the next generation.
- **International Strategy Board** – oversees Learned Society activities and engagement with members based outside of the British Isles.
- **Regional Strategy Board** – oversees Learned Society activities and engagement with members based in the UK and Republic of Ireland.
- **Technical Strategy Board** – promotes technical interests and coordinates member activities covering sectors (Divisions) and technologies (Groups).
- **Young Members Board** (UK and Republic of Ireland) and the **International Young Members Committee** (all areas outside of the British Isles) – champions and promotes Learned Society activities and engagement for members within ten years of professional registration.
- **Engineering Heritage Awards Committee** – celebrates and recognises engineering heritage worldwide.

The combined networks of the International Strategy Board (ISB) and the Regional Strategy Board (RSB) are the key mechanisms for local engagement opportunities for our global membership. The ISB and RSB operations are structured around geographical areas overseen by Regional Committees comprising elected Chairs, Vice Chairs, Secretaries and Treasurers supported by other committee members. Regional activity is further delineated by local Branches, Areas, Young Member Panels, and the TSB’s Divisional Centres. All members are encouraged to connect with their local Institution committee to access local engagement activities and participate in our global network of members. Information regarding the 2020 activities of the operational boards and their networks are detailed elsewhere in this report.

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The extent and success of the Learned Society's engagement and activities is dependent on the commitment and efforts of our volunteer members who are supported by professional and well-trained staff.



MEMBERSHIP VOLUNTEERING

The extent and success of the Learned Society's engagement and activities is dependent on the commitment and efforts of our volunteer members who are supported by professional and well-trained staff.

The Trustee Board would like to thank the 1000's of members around the world who freely volunteer their time to support the Institution at all levels. Institution members give their time on a purely voluntary basis as members of the Trustee Board, Council, governance committees and all the operational boards and regional committees across the member networks. They are also crucial in the delivery of Professional Reviews, registration events, STEM based activities, local events, mentoring, student challenges, to name just a few of the many opportunities to connect with the Institution. Without this support many of our activities or meetings would not be possible.

PROVISION OF FREE FACILITIES

The Institution pays for most of the external facilities that it uses, particularly at national level. Locally, in the Regions and Centres, there is some dependence on the provision of free facilities to hold meetings.

CHARITY COMMISSION

The Institution takes seriously its responsibilities and duties as a large charity and is focused on continuous improvement in its governance framework to fully comply with its statutory and regulatory obligations and to demonstrate best practice.

In 2018–2019, three corporate reviews – finance, governance, and code of conduct/disciplinary regulations – were completed and a group comprising Trustees, Past Presidents and current or former members of Council was established with the task of implementing the reviews' recommendations.

At the time of writing, of the 96 principal recommendations, 74 have been fully implemented and 13 have agreed solutions and are in the process of being implemented. Just 9 recommendations were still being progressed to find implementable solutions in 2021.

A key theme underpinning many review recommendations was the importance of shared values and behaviours to shape the culture within which the Institution's governance and operations take place:

- Revisions to the Code of Conduct for members (approved September 2020) and the associated Disciplinary Regulations (approved March 2021).
- Values and behaviours project involving interviews and focus groups with members and employees, the outcomes of which were further surveyed in March 2021 with 'Own Your Values' sessions. A new Trustee role is being created to lead on values and behaviours across the organisation.
- Approval of a new Diversity and Inclusion strategy, launched in February 2021. The introduction of 'diversity and inclusion moments' in each Trustee Board meeting, for roll-out in board and committee agendas across the organisation.

It is important to emphasise the work to date to implement the reviews' recommendations are important first steps. The Trustee Board is committed to proactively building upon this momentum to maintain a long-term programme of continuous improvement in the Institution's governance and operations.

The one area where we are not currently compliant with the Charity Commission Code of Governance is that, as an active membership body, all our Trustees are currently elected, which means that we cannot ensure that they are selected on merit against objective criteria. However, one of the proposed changes to the bylaws planned for a member vote in 2021 will allow the Trustee Board to co-opt Trustees to fill any identified skills or experience gaps, which should allow us to comply with the substance of the Code, by ensuring we have a suitably skilled and experienced Trustee Board overall.

INTERNAL CONTROL

Internal control systems provide reasonable but not absolute assurance against material misstatement or loss, and cover measures to identify and manage risk.

In 2020:

- A dedicated sub-register to manage COVID-19 risks and mitigations was created alongside the corporate risk register.
- A new finance system was introduced to replace multiple legacy systems and provide integrated oversight, management and control of financial operations.
- The new Audit and Risk Committee conducted 90 short internal audits for the purpose of establishing baselines, identifying priority areas, and establishing a forward rolling programme of strategic and operational audits.

AUDITORS

In September 2020, the Trustee Board approved the Audit and Risk Committee's recommendation to appoint BDO as new Statutory Auditors for the Institution. This followed an intensive competitive tender exercise with firms down selected at several stages prior to final Interviews.

EMPLOYEE ENGAGEMENT

The Trustee Board are committed to improvement and change at the Institution and continue to support the culture transformation programme at the Institution as recommended in the Governance Review. At the heart of this commitment has been the launch of the five-year diversity and inclusion strategy and the launch of the values and behaviours programme. Members and employees had the opportunity to engage with both initiatives through stakeholder interviews, focus groups, surveys leading to ensure their voices were heard and reflected in the outcomes. Employees had further opportunities to express their thoughts and suggestions for a more inclusive workforce by attending the "let's talk about race conversations" and participating in the work and wellbeing surveys.

The Institution also has an active Employee Engagement Forum comprising of employee representatives from all grade levels and office locations. The forum has been instrumental in influencing policies and employee benefits within the Institution. There is also an established Management Forum, made up of General Managers and Heads of department. They actively contribute to the annual strategic business and operating plans and influence decisions made about employees work and wellbeing.

The Institution provides generous wellbeing benefits and promotes wellbeing initiatives such as 'Wellbeing Wednesday'. To raise awareness of wellbeing, we have increased the number of published wellbeing articles to employees and signposted employees to mental health resources and additional wellbeing resources produced as a consequence of the pandemic. In 2020, a number of staff attended mental health awareness training sessions and plans are underway to increase the number of mental health first aiders as well as provide all staff with the opportunity to attend awareness sessions. Additional training will also be offered to managers, particularly in managing remote teams.

ARRANGEMENTS FOR SETTING THE PAY AND REMUNERATION OF KEY PERSONNEL

The remuneration of senior management at Director level and above is reviewed and approved annually by the Remuneration Committee. The Committee ensures arrangements are affordable and fair, and designed to motivate and reward performance in the interests of the Group. Remuneration is benchmarked periodically using external surveys and data which include both commercial and not-for-profit organisations.

PUBLIC BENEFIT STATEMENT

The Trustees confirm that they have complied with the duty in Part 1, Section 4 of the Charities Act 2011 to have due regard to the Charity Commission's general guidance on public benefit, 'Charities and Public Benefit'.

The charitable objective of the Institution is to promote the development of Mechanical Engineering to benefit "the general public / mankind" as detailed in the Royal Charter. The Trustees ensure that this purpose is carried out for the public benefit by delivering services that are valued by our members and setting standards of achievement for engineers, thereby engendering public confidence and trust.

Membership is open to people who are pursuing a career or have an interest in mechanical engineering.

The Institution actively pursues the development of debate and action on topics for the betterment of society that relate to mechanical engineering. The Institution provides free literature, free lectures and free access to the library to encourage members of the public to engage in the improvement of the world through engineering. Many of these have been delivered online since last year due to COVID-19 restrictions.

RISK MANAGEMENT

Risks are identified and managed through a corporate risk register which is maintained by the senior management team and overseen by the Audit & Risk Committee. A number of issues are identified, and these include (but are not limited to): strategic, operational, technological, financial, regulatory/compliance, legal and reputational issues. Risk registers assist the Institution in identifying high priority areas as well as establishing the Institutions overall risk appetite.

The risk register is presented annually to the Trustee Board and reviewed more frequently by the Audit & Risk Committee to ensure risks are being managed effectively and that they remain relevant.

Overall responsibility for risk management rests with the Trustee Board. Comprehensive risk registers are maintained at department level with a consistent approach to risk being adopted throughout the organisation. The COVID-19 pandemic generated additional risk reviews necessitated by the frequent changes to Government guidelines and the impact of the pandemic on the Institution's operations.

RISK APPETITE STATEMENT 2020

INTRODUCTION

One definition of risk appetite is 'the acceptable level of risk that an organisation or function is willing to tolerate while pursuing and delivering its financial and operational priorities.'

The Institutions risk appetite describes the risk level that the organisation is prepared to accept in achieving its goals. Factors that affect risk appetite include the Institutions:

- Charitable aims and principles (including our Royal Charter).
- Strategy (objectives, stakeholder interests/ expectations).
- The duty of care that we owe as a charity and business
- Our resources, personnel, equipment and skillset.
- Our ability to identify opportunities for improvement.
- Financial impact.
- Internal or external technological factors
- Our commitment to continually improve.
- The approval of our Trustee Board.

OUR APPROACH

The Institution's approach to risk is to identify issues that could impact its business objectives. Where issues or potential issues are identified, they are evaluated and recorded as risks. Evaluating risks allows the Institution to assess whether they are acceptable in their current state or whether additional measures need to be implemented to reduce the probability or impact of them occurring. This approach provides the Institution with an opportunity to make improvements to the business and charity.

The Institution will only accept a risk where the potential benefit or detriment to the business is understood and where sensible measures are in place to control or mitigate the risk.

As risks bear a cost, they are also expressed in financial terms, thus allowing the Institution to evaluate their financial impact.

The Institutions risk appetite is linked inextricably to our ability to measure and manage risks. We use several methods to achieve this, ie by implementing policies, procedures, conducting regular reviews and updates, and assurance processes (internal audits).

The Institution's approach to risk is proactive and in line with its business strategy.

MAJOR ORGANISATIONAL RISKS

Property Assets

Risk factors associated with the Institution's property assets have to be managed, specifically the very high cost of maintaining (running costs, dilapidations, impact of COVID-19) against income and/or potential realisable capital value. The Real Estate Strategy Group was established in 2020 to consider the options for our largest property asset (One Birdcage Walk) and to present their findings to the Trustee Board.

Governance Challenges

Corporate Governance risks associated with leadership and accountability have resulted in several measures, ie, amendment of the By-Laws, values and behaviours framework together with reviews of Finance, Governance, and the Codes of Conduct by the Implementation Group.

Membership & Accreditations

As a membership-based Institution, maintaining membership streams and membership engagement is vital. Although we expect to reach our membership target, potential members may be tempted to join other organisations due to a variety of factors (fees, allocation of resources to advertise, recruit and engage). Associated with this, are the risks connected to maintaining OFQUAL approval and accredited membership status.

IT Infrastructure

IT infrastructure and operations posed a significant risk to the Institution particularly where IT systems and processes were no longer fit for purpose. A review of these risks has resulted in mitigation measures – the appointment of a new Head of Digital, recruitment of an in-house support team, the upgrading/modernisation of the core network infrastructure, Microsoft 365 rollout as well as planned solutions centred around our membership engagement.

Compliance and Reputation GDPR

As a membership organisation, we are particularly sensitive to data protection issues and the UK GDPR regime. Steps are being taken to ensure that any new processes or policies are updated in line with the Brexit Implementation Period and ICO guidelines.

Health & Safety

We have a Health & Safety committee and employ professionally qualified facilities management staff to ensure Health & Safety conformity at all sites. We have regular site inspections and reviews by senior management and a Health & Safety report is reviewed by the Trustee Board.

Cyber-security

This is an area of continuous change as technology evolves. As part of our wider digital modernisation, we are building cyber security routines into our systems and processes, including penetration testing by external third parties.

IR35

A key employment risk is the introduction of the IR35 regime which focuses on individuals who provide services to businesses within the remit of consultancy/ self-employed contract but despite the use of a self-employed agreement, the arrangement may still amount to a employee–employer contract within the context of the rules.

In order to mitigate against the risk of an HMRC enquiry and any associated penalty where any contractor falls within IR35, the Institution has undertaken assessments and reviews of all its contractors and their associated work arrangement. This includes collating and where necessary undertaking a CEST assessment for contractors. Where the relationship or contract could fall within IR35, we have chosen to transfer the arrangement to an employment contract to ensure we are compliant with the legislation.

COVID-19

At the time of approving the 2020 Trustees' Report and Financial Statements it is clear that 2021 will continue to experience significant disruption to the work of the Institution as a result of the ongoing COVID-19 pandemic.

Due to the progress made on the Digital Modernisation Programme, Institution staff and members were able to move quickly to a homeworking approach and have been working remotely since the Government's advice to work from home where possible.

The Trustees and senior management team have put in place additional measures to mitigate the financial impact of the outbreak, at the same time as delivering against our 2020 objectives in the most appropriate way given the current COVID-19 control measures. This includes measures such as use of Government approved schemes such as the furlough scheme (and US Payroll Protection Program), reviews of our commercial trading entities (frequent review of current performance and resources against projected income and expenditure) and the identification of ways in which the Institution can continue to deliver on its strategic aims (membership engagement, delivery of products, training solutions) whilst complying with any Public Health England/Government guidelines.

Further work

We will look to continue to develop statements on the following for the next annual report:

- Charities Governance Code
- Diversity reporting
- Modern Slavery Act

OPERATIONS AND CHANGE MANAGEMENT

IT infrastructure and systems

We have completed our programme to migrate from an on-premises infrastructure to Microsoft Azure cloud platform. By the end of 2020 all key systems were cloud-based.

All digital projects are managed in-house and in 2021 the Strategy Committee will oversee a Digital sub-committee on behalf of Trustee Board.

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We engage with government, industry and education to promote and encourage young people to study maths and science at school. As well as supporting young people to pursue engineering paths in further and higher education and training.



GOVERNANCE AND MEMBERSHIP

Governance

Of the 21 principal recommendations arising from the 2019 Governance review, 9 have been implemented, 8 have agreed solutions for implementation, and 4 are in progress. Some solutions require changes to the Royal Charter and By-laws, which will go out for a vote by Corporate and Associate members in 2021.

Continuing relevance to modern engineers

We conduct regular membership surveys and act upon the results. One key objective of the digital modernisation programme is that of improving relevance to membership through the provision and delivery of better products and services and we have delivered significant projects in this area during 2020. The President met with other professional engineering institutions to identify areas where we could all work more collaboratively for the betterment of Engineering.

Supply of future engineers

In collaboration with the other professional engineering institutions, we engage with government, industry and education. By doing so, we promote and encourage young people to study maths and science at school. As well as supporting young people to pursue engineering paths in further and higher education and training.

FINANCIAL

Cost of remaining at One Birdcage Walk

As an old building in a conservation area, it has very high running costs and requires significant capital expenditure over the next few years due to the poor state of the building fabric. It is too large for our needs and, although excess space is either let to tenants or for short term events, this income does not cover the running costs. A real estate strategy group (RESG) was established in 2019 to consider the optimum treatment of the Institution property portfolio. Following initial work in 2020, detailed proposals and a fully costed business case are now being prepared to address all the issues identified. It is aimed to present these to the Trustee Board in 2021 in preparation for an appropriate membership communication. Once the RESG proposals are approved by our members, implementation is likely to take several years to complete.

Returns from commercial trading investments

Following the report of the Finance Review Group in 2019, a number of changes have been implemented relating to the commercial trading investments. A new Professional Engineering Projects Limited (PEP Ltd) Board was created in late 2019 to oversee the activities of the trading companies, reporting to the (also newly established) Finance Board. The PEP Ltd Board is chaired by a Trustee of the Institution and also has a Past President, an independent non-executive director and one of the General Managers from the trading companies as members, supported by the Finance and Commercial Director. Individual operating Boards have been established for all trading entities with a member of either the Finance Board or PEP Ltd Board on each one to provide regular support.

The internal finance oversight has also been strengthened with the appointment of a new permanent Head of Finance position in February 2020 and the implementation of a new integrated accounting system in November 2020, which has replaced the five different systems previously in usage.

Despite all these changes, returns from commercial trading investments are currently severely impacted by the COVID-19 pandemic and are expected to remain so for a significant part of 2021.

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The key objective in improving the financial position of the Institution is to provide secure financial underpinnings to deliver the Learned Society activities to our members.



FINANCIAL REVIEW

FINANCIAL RESULTS

The key objective in improving the financial position of the Institution is to provide secure financial underpinnings to deliver the Learned Society activities to our members. The Institution runs several commercial ventures which are pertinent to its core values to help subsidise the charitable purpose. Following the completion of the Finance Review in 2019, achieving self-funding for the charitable business and increasing the level of free reserves have become key priorities, but these have both been hampered by the significant impact of the COVID-19 pandemic.

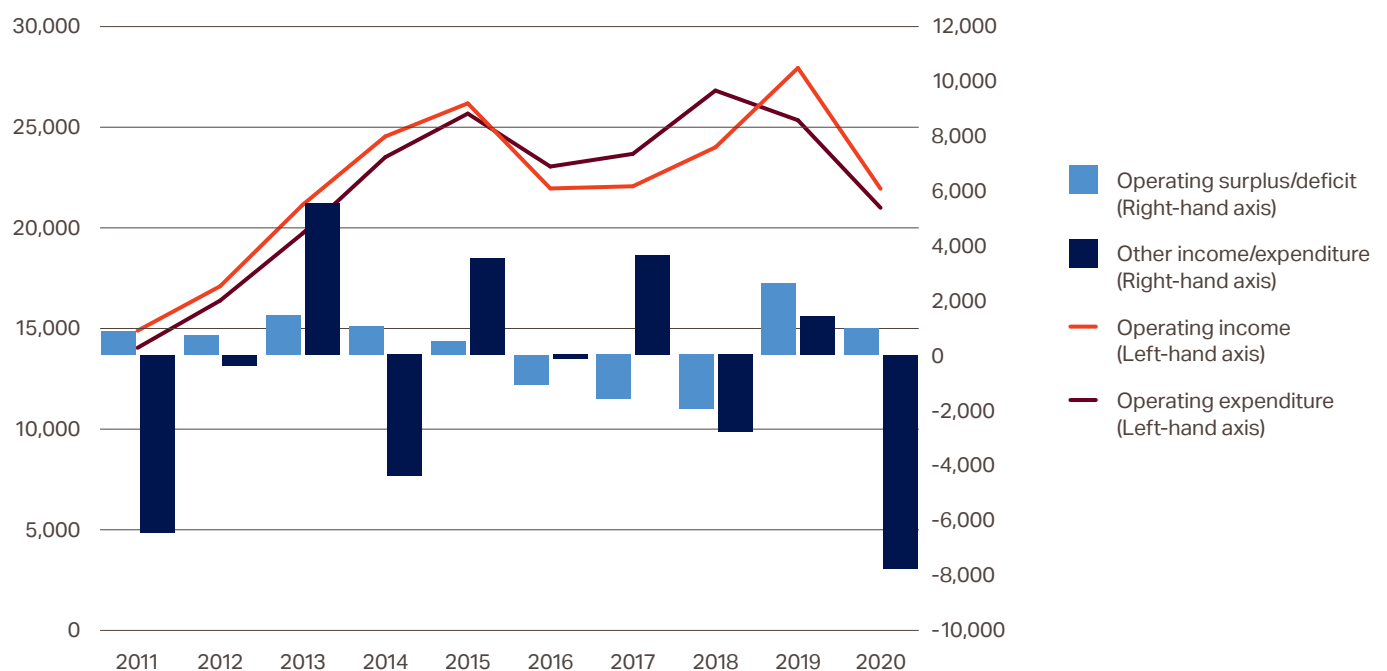
In 2020, overall income fell 21% to £21.9M (2019 – £27.9M). Of that decrease, £1.9M relates to the sale of 6 Old Queen Street in the prior year and the underlying decrease was 16%. The overall level of income from subscriptions and associated services rose by 0.4%, reflecting higher rates offset by an increase in lapsing as members were impacted by the COVID-19 pandemic.

£0.4M of other income (2019: Nil) relates to furlough income receivable under government COVID-19 support schemes.

Operating expenditure fell 17% to £21.0M (2019 – £25.3M) resulting in an operating surplus of £0.9M (2019 – £2.6M). These costs included items totalling £0.1M (2019 – £0.3M) for legal and governance costs relating to or following the 2018 Special Meeting. Excluding these costs, there was an underlying operating surplus of £1.1M (2019 – £2.9M).

Non-operating costs included a £0.7M loss on investments due to a COVID-19 related write down in the values of some of the investments in our mixed-motive investment fund (2019 – £2.2M profit), and a £7.1M actuarial loss (2019 – £0.9M loss) on the pension fund scheme (see note 10 for full details), resulting in a net movement of funds (operating and non-operating) of £6.9M deficit (2019 – £3.9M surplus) for the year.

Figure 5: Income and expenditure trends 2011–2020 (£'000s)



CHARITY RESERVES

The Trustee Board has a policy which requires that the level of free reserves should reflect six months of charitable spend. The impact of COVID-19 has been taken into consideration and this policy is deemed appropriate for the reported financial period. Independently of the COVID-19 impact, a review is currently underway to consider how to reflect the impact of risks identified in the risk register in the free reserves target in a more dynamic and responsive way. A revised policy will be presented to the Trustee Board for consideration during 2021.

A change has been made to the calculation of free reserves to deduct the value of contribution payable to the pension fund within the next 12 months. The previous policy, of excluding the whole pensions deficit on the basis that it was a long-term liability over many decades, ignored the short-term element of the commitment. Previous years, in the table below and following chart, have been restated to reflect this.

As of 31st December 2020, this calculation was as shown:

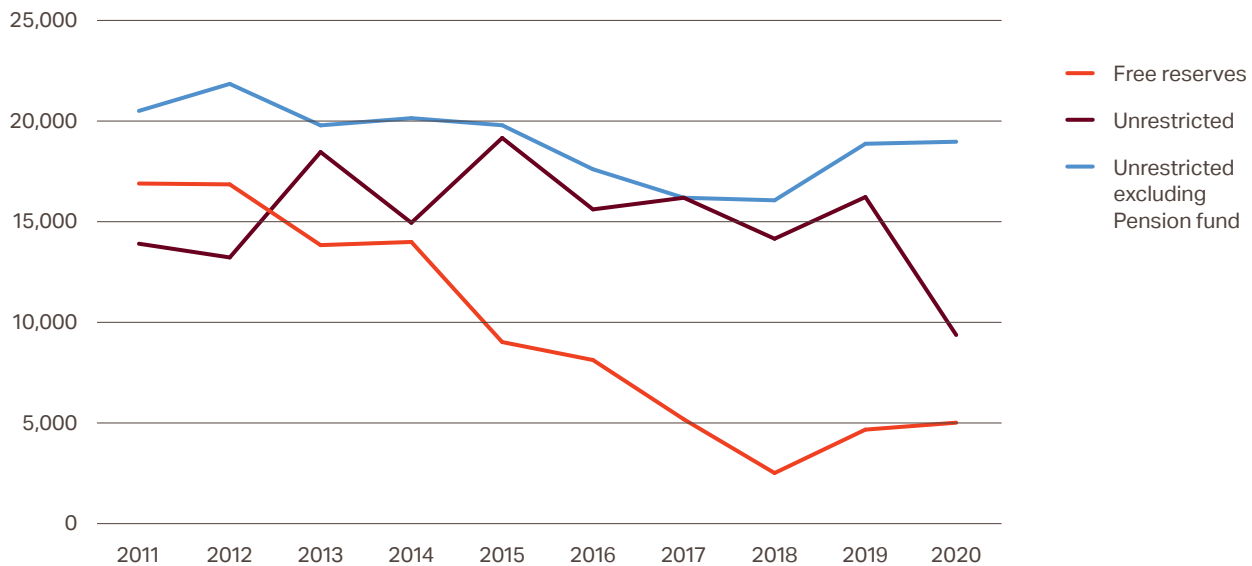
	2020	Restated 2019
	£'000	£'000
Total Charity funds excluding pension liability	32,900	32,871
Less: Endowment funds	(10,717)	(10,627)
Less: Restricted income funds	(3,647)	(3,808)
Unrestricted funds	18,536	18,436
Less: mixed-motive investments	(2,679)	(3,397)
Less: intangible assets	(3,610)	(2,690)
Less: tangible assets	(6,697)	(7,141)
Less: current year pension deficit payments	(410)	(410)
Free reserves	5,140	4,798
Total Expenditure	20,981	25,333
Less restricted expenditure	(487)	(633)
Less non-charitable trading activities	(7,665)	(9,720)
Less current year pension deficit payments	(410)	(410)
Charitable activities expenditure	12,419	14,570
Months expenditure to free reserves	5.0	4.0

The current level of free reserves is close to the policy. However, the target level of free reserves is being reviewed in order to more explicitly follow the guidelines of CC19. The level of free reserves is expected in future to be calculated as a sum of:

- Special projects (excluding routine maintenance) eg the extensive capital repairs needed to One Birdcage Walk.
- Major risks – a judgement based on a combination of those known or reasonably forecast in the medium-term – as defined in the Institution’s Risk Register.
- Unknown risks for a major loss of income (eg the type of unexpected event that COVID-19 was in 2020).
- The cost of orderly wind-up of the charity if ever required.

This is expected to be higher than the current target until the building strategy is implemented.

Figure 6: Trends in unrestricted and free reserves 2011–2020 (£’000s)



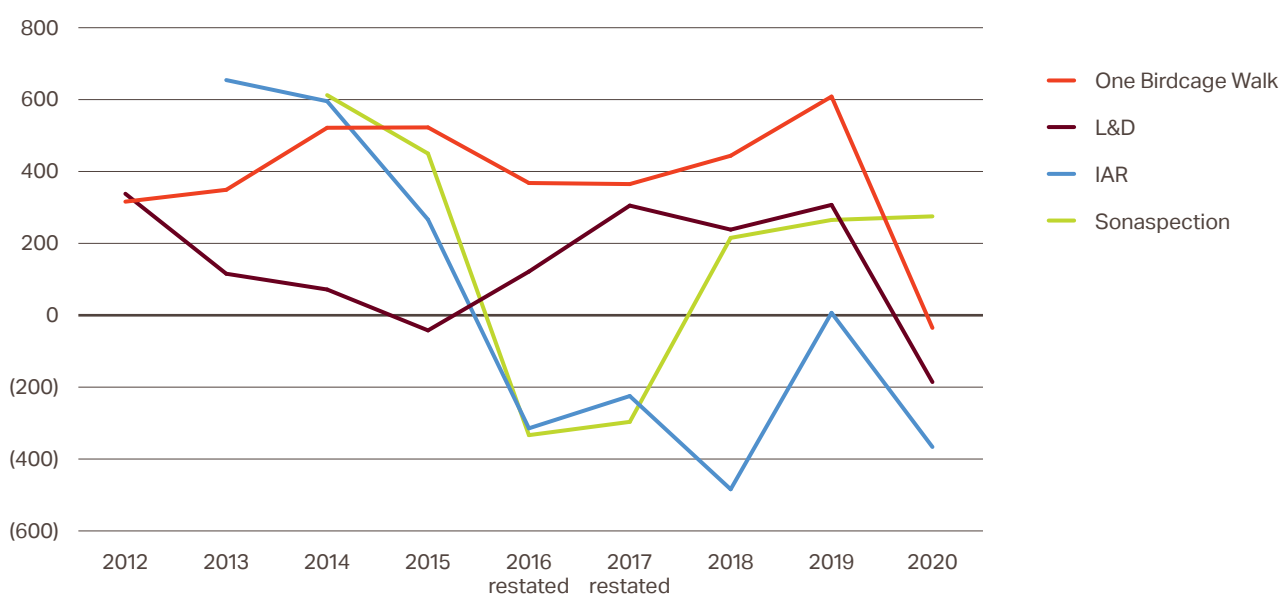
TRADING ENTITIES

The governance of the trading companies is the responsibility of the Finance Board, chaired by the Honorary Treasurer, reporting to the Trustee Board. The Board of Professional Engineering Projects Ltd (PEP) directly manages the activities of the trading entities and is chaired by a Trustee, who is also the Deputy Chair of the Finance Board. Both boards have external members who are senior members of the Institution or appropriately qualified independent members, supported by external professional advice. The PEP Ltd Board approves both the annual operation plan and three-year strategic plan for each operating business which is then submitted to the Finance Board for approval as part of the overall Institution's financial processes.

The Institution operates four main trading activities through its subsidiary Professional Engineering Projects Ltd and its sub-subsidiaries. The shared costs (finance, HR, IT and legal & professional) and other minor commercial activities were a net cost of £0.40M in 2020, (2019: £0.41M). Slightly offsetting this were £0.03M of R&D tax credit claims received in cash during the year (2019: nil).

Like many other organisations, our trading entities were severely impacted in 2020 by the COVID-19 pandemic and the associated lockdowns and travel restrictions. More details of the impact on each business are in the table following but overall trading turnover fell by 32% in 2020 to £6.7M (2019: £9.8M) and the operating result declined to a loss of £0.7M (2019: £0.7M profit) at budgeted exchange rates, after direct costs of £7.4M. This is different from the amounts shown in Note 3 to the accounts which show direct costs of only £6.8M due to foreign exchange differences on consolidation of the US dollar denominated US subsidiary and consolidation adjustments as the trading entities have some transactions with the charity, such as the Sheffield building, which is rented by PEP Ltd from the charity.

Figure 7: Commercial trading entities profit & loss trends 2012–2020 (£000s)



ONE BIRDCAGE WALK

Institution of
MECHANICAL
ENGINEERS

One Birdcage Walk

Our Venue Hire business, trading under the 'One Birdcage Walk' brand at our head office was severely impacted by the COVID-19 epidemic during 2020. The business ceased trading in mid-March, during the first national lockdown, and remained closed for the rest of the year. This was more severe than the expectations at the time of the 2019 annual report when a phased re-opening was expected from the autumn.

Consequently, against expectations of remaining profitable despite COVID-19 in last year's report, turnover fell 81% compared to 2019 to £0.25M (2019: £1.35M) with an operating loss of £0.04M (2019: £0.61M profit).

The venue hire business at Sheffield remained very small at around 3% of total venue hire revenue during 2020 as this building has been closed for venue hire for the same period.

The business remains closed at the time of signing, and the date of re-opening is very uncertain being dependent on the vaccine roll-out and other pandemic developments eg new variants of COVID-19.

The 2021 budget assumes a steady recovery from quarter 2, leading to a 113% increase in turnover to £0.54M and a small profit. However, the recent national lockdown makes this look very challenging and a result similar to 2020 is likely in 2021 as a return to more normal levels of activity is now expected to occur only very slowly.

LEARNING & DEVELOPMENT

Institution of
MECHANICAL
ENGINEERS

Learning & Development

Our London-based training business was also severely impacted by the COVID-19 epidemic during 2020 with a combination of the extended closure of our London training location and our corporate customers barring entry of external trainers to their sites.

We have developed a considerable on-line training capability and some of the planned activity has migrated to this delivery method but, despite this, turnover decreased by 51% to £1.01M (2019: £2.05M) and the business delivered an operating loss of £0.19M (2019: £0.31M profit).

This downturn is despite making significant use of the government furlough scheme and there have been some staff reductions during the year to adjust to the lower level of activity.

The business is currently operating at below pre COVID-19 levels of activity but the budgeted 43% increase in sales and return to profitability, albeit at a low level, still looks achievable.



IMechE Argyll Ruane (IAR)

After a major turnaround from three years of losses to a small profit in 2019, and expectations of strong profit growth in 2020, COVID-19 also had a severe impact on business. The Sheffield training location closed for a number of weeks from mid-March, and students have returned only slowly during the year.

We also suffered from the closure for varying periods of many of our affiliated overseas exam centres for which we perform exam services.

Overall turnover declined 37% to £1.71M and the business slipped to a £0.37M loss (2019: £0.01M profit) despite significant cost cutting and making significant use of the government furlough scheme.

A modest recovery is expected in 2021 with a 14% budgeted increase in turnover to £1.95M. The business is exploring opportunities for both revenue generation and further costs savings but it is expected that a reduced loss will be made in 2021 before returning to profit in 2022. One of the confirmed opportunities is the opening of a new training facility in Scotland under the IMechE Fife NDT name in the first half of 2021.



Sonaspection

Sonaspection operates primarily in essential industries such as nuclear, oil and gas and heavy engineering which, after some initial disruption as COVID-safe working practices were quickly developed and implemented, returned to almost normal levels of activity.

Turnover fell 6% in 2020 to £3.50M reflecting lower activity in March and April at the beginning of the pandemic but higher margins and reduced overheads resulted in a 4% increase in operating profits to £0.27M (2019: £0.26M profit).

The upgrade of the manufacturing side of the Lancaster site was completed during the year and the increased space made establishing COVID-safe operations much easier.

The 2020 result reflects a high level of sales to the Hinkley Point C nuclear new build. That programme is coming to a conclusion during 2021 and sales to this customer will materially decline and, although partly offset by other business, a 15% decline in sales to £2.98M is expected in 2021. Despite this, cost control is expected to deliver stable profits.

BALANCE SHEET

Following a change of accounting policy, our investment in the Stephenson LLP is now reported separately from our listed investments as a mixed-motive investment and, due to the reliability of measurement, reported at market value rather than cost (see Note 25 for details of the change).

Through the Stephenson LLP fund, we invested in early stage innovation companies until November 2018, in line with our charitable aim of being an impulse to innovation. At the end of 2020, we had invested £1.8M in 11 companies (2019: also £1.8M in 11). The market value of these investments was £2.7M at the end of 2020 (2019: £3.4M), a decline of £0.7M (2019: £0.1M increase) due to provisions taken against some of the investments because of the impact of COVID-19 on their development plans. Further investment is now on hold, outside of the costs necessary to operate the fund for the remainder of its life.

Our listed investments declined to £18.3M (2019: £18.4M) due to sales of £0.1M to fund prizes and awards.

Following the COVID-19 outbreak, the Institution's investment portfolio initially fell as a result of the stock market falls around the world. Nevertheless, the Institution's investment policy, to hold investments in low to medium risk funds, and to diversify across different fund managers, helped to moderate these losses. By year end, the losses had been fully recovered, on average, across all the funds.

Intangible assets increased to £3.6M (2019: £2.7M) as we continued to invest in our digital modernisation programme. Further Digital Modernisation developments went live, triggering the start of amortisation, which increased sharply in 2020 and a further increase is likely in 2021 as further elements of the programme are implemented. 2020 is expected to be the peak year for investment in intangible assets with a decline in future years.

Tangible fixed assets decreased by £0.4M to £6.7M (2019: £7.1M). During the year, a full fixed asset register was created resulting in the recorded disposal of scrapped assets with an original cost of £6.1M but negligible book value.

Due primarily to declines in interest rates during the year (which increase the value of liabilities), significantly driven by the response of global central banks to the COVID-19 pandemic, the pension fund moved from a deficit of £2.6M in 2019 to a £9.5M deficit at the end of 2020. The sensitivity of this fund is such that a 0.5% reduction in interest rates leads to a £6.9M increase in pension liabilities. The aim of the Trustees of the Pension fund and the Institution is to transfer the total risk to an acceptable financial vehicle, such as an insurance company, in the medium-term, but this must be considered unfeasible in the current financial situation.

Due to the £6.9M overall decrease in funds, group reserves decreased to £23.4M from £30.2M in 2019. Excluding the volatile pension fund deficit, group reserves were stable at £32.9M. The Institution continues to remain financially sound. The Trustee Board is committed to maintaining financial prudence and, in particular, making an overall surplus and increasing free reserves.

DEGREE OF FINANCIAL DEPENDENCY

The Institution is dependent on the voluntary efforts of its members. However, there is no significant degree of dependence on any single member or small group of members in respect of voluntary effort or financial contributions.

Income from events and publications is also derived from a significant number of independent sources. However, the success of these activities is dependent on the general state of the economy.

GOING CONCERN

The Trustees have considered several factors in concluding that the adoption of a going concern basis in the preparation of these financial statements is appropriate. These factors have included a summary of the key risks and uncertainties in the context of the Institution's operations (including COVID-19) and a review of the budgets and forecasts, including cash flows and sensitivity analysis. The future forecast considers the mitigating actions the Institution has taken and considers both immediate liquidity and longer-term solvency, together with the impact on reserves.

Working capital requirements are met through a combination of income received from the Institution's activities, including commercial activities undertaken in the Institution's trading subsidiaries. The Institution has the ability to drawdown against funds held within the Institution's unrestricted investment portfolio if required. The Institution does not have any debt facilities but has, since year end, received £0.1M into the trading subsidiaries from the government bounce-back loan scheme.

The COVID-19 pandemic has had a significant, immediate impact on the Institution's operations. However, the cancellation of physical activities due to lockdown restrictions, discretionary cost saving measures, and utilising the support offered by the UK government through its Coronavirus Job Retention Scheme has meant that the Institution was able to deliver an overall operating surplus for 2020.

Membership income is a key income stream and the Institution continues to ensure the delivery of value of being a member to guard against any decline. Despite this, increased lapsing is seen as a heightened risk. The experience of 2020 has been incorporated into future forecasts.

As detailed above, Trustees have reviewed sensitivities and approved a 2021 budget to mitigate the future impact of the pandemic which includes cost saving measures and a potential drawdown on reserves.

Having regard to the above, the Trustees believe it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

SUMMARY OF FUNDS AND INVESTMENTS

GENERAL

A description of all the various funds included within the Institution's accounts is provided below.

INVESTMENT POLICY AND RETURNS

The Trustee Board has established an investment policy which is reviewed on an annual basis. The policy includes the following principles:

1. A diversity of investments will be held, in so far as is appropriate to the fund concerned. This may be achieved via a pooled investment vehicle like a unit trust or investment trust.
2. Investment policy will be appropriate to the needs of the fund.
3. Appropriately authorised investment managers will be employed.
4. Appropriately authorised nominees may be employed to hold individual stocks and shares. The investment managers work towards the following objectives:

RESERVE FUND, GENERAL TRUST & JAMES CLAYTON TRUST

Target asset allocations have been set for each fund with the objective of outperforming the relevant composite benchmark by 0.5% over rolling three-year periods. The composite benchmark being calculated using the asset allocations and an appropriate index for the asset class.

OTHER TRUSTS

Funds are invested in special pooled funds restricted to charity use. It is not appropriate to set individual objectives for these investments. However, performance is compared against statistics prepared by the Investment Management company.



The Institution continues to remain financially sound. The Trustee Board is committed to maintaining financial prudence and, in particular, making an overall surplus and increasing free reserves.

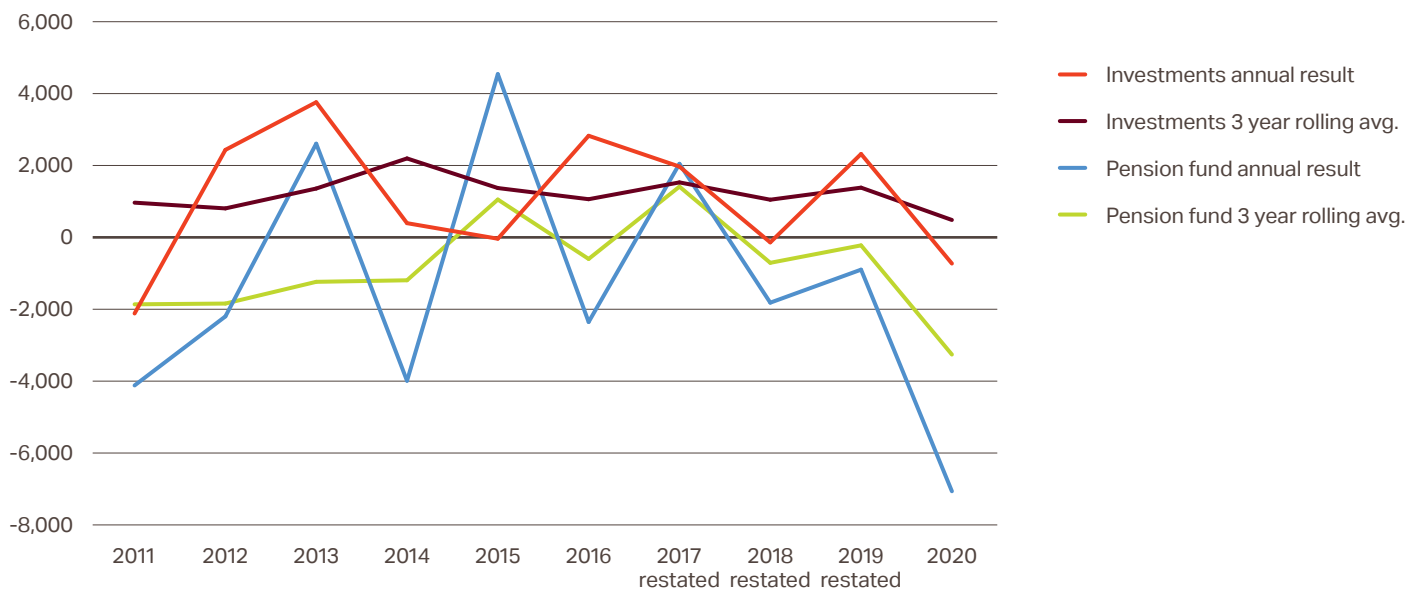


Financial Review (continued)

A summary of the total annual rates of return (income and capital) achieved on investments during 2020 and 2019 is as follows:

	Year to 31.12.20	Year to 31.12.19
	%	%
Reserve Fund	7.0	12.5
General Trust	7.1	12.7
James Clayton Trust	7.1	12.8
Charities Official Investment Fund income units	5.1	22.4
Whitworth Scholarships Fund – Charishare	(4.7)	5.1
Whitworth Scholarships Fund – Charinco	6.7	9.8

Figure 8: Investment and pension fund gains/losses trends 2011–2020 (£'000s)



STATEMENT OF TRUSTEES' RESPONSIBILITIES IN RESPECT OF TRUSTEES' ANNUAL REPORT AND THE FINANCIAL STATEMENTS

Under the trust deed and rules of the charity and charity law, the Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations.

Charity law requires the Trustees to prepare financial statements for each financial year. The Trustees have elected to prepare the financial statements in accordance with FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The group and charity's financial statements are required by law to give a true and fair view of the state of affairs of the group and the charity and of the group's excess of income over expenditure for that period.

In preparing these financial statements, generally accepted accounting practice entails that the Trustees:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- State whether the financial statements comply with the trust deed and rules, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the charity will continue in business.

The Trustees are required to act in accordance with the trust deed and the rules of the charity, within the framework of trust law. They are responsible for keeping proper accounting records, sufficient to disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and to enable the Trustees to ensure that, where any statements of accounts are prepared by them under section 132(1) of the Charities Act 2011, those statements of accounts comply with the requirements of regulations under that provision. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the charity and to prevent and detect fraud and other irregularities. The Trustees are responsible for the maintenance and integrity of the financial and other information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FUNDRAISING

The charity had no fundraising activities requiring disclosure under S162A of the Charities Act 2011.

DISCLOSURE OF INFORMATION TO AUDITOR

The Trustees who held office at the date of approval of this Trustees' Annual Report confirm that, so far as they are each aware, there is no relevant audit information of which the Institution's auditor is unaware; and each Trustee has taken all the steps that he/she ought to have taken as a Trustee to make himself/herself aware of any relevant information and to establish that the Institution's auditor is aware of that information. The financial statements have been prepared in accordance with the accounting policies set out in the notes to the accounts and comply with the charity's governing documents, the Charities Act 2015 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, published on 16 July 2014.

This annual report was approved by the Trustee Board on 14 May 2021 and was signed on its behalf by



Terry Spall
President



Phil Peel
Honorary Treasurer

INDEPENDENT AUDITOR'S REPORT TO TRUSTEES OF INSTITUTION OF MECHANICAL ENGINEERS

OPINION ON THE FINANCIAL STATEMENTS

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Charity's affairs as at 31 December 2020 and of the Group's 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 Charities Act 2011.

We have audited the financial statements of Institution of Mechanical Engineers ("the Parent Charity") and its subsidiaries ("the Group") for the year ended 31 December 2020 which comprise the consolidated statement of financial activities, the consolidated balance sheets, the consolidated statement of cash flows and notes to the accounts, 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).

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 Group and the Parent Charity 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

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Charity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which the Charities Act 2011 require us to report to you if, in our opinion;

- the information contained in the financial statements is inconsistent in any material respect with the Trustees' Annual Report; or
- adequate accounting records have not been kept by the Parent Charity; or
- the Parent Charity financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF TRUSTEES

As explained more fully in the Statement of Trustees' Responsibilities in respect of the Trustees' Annual Report and the Financial Statements, the Trustees 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 determines 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 Group's and the Parent Charity'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 either intend to liquidate the Group or the parent Charity 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.

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.

EXTENT TO WHICH THE AUDIT WAS CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the charity and the industry in which it operates, we identified that the principle laws and regulations that directly affect the financial statements to be relevant are the Charities Act in the UK, UK GAAP and tax legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

We considered the Parent Charity's own assessment of the risks that irregularities may occur either as a result of fraud or error. We also considered financial performance and key drivers for any performance targets. We also considered the risks of non-compliance with other requirements imposed by the Charity Commission and we considered to extent to which non-compliance might have a material effect of the financial statements.

In addition the charity is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We have identified the following areas as those most likely to have such as effect: employment law and data protection. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of Those Charged with Governance and other management as well as inspection of regulatory and legal correspondence if any.

Audit procedures performed by the engagement team included:

- Enquiry with management, staff and advisors in tax and compliance functions and Those Charged with Governance regarding known or suspected instances of non-compliance with laws and regulation and fraud;
- Enquiry of management and Those Charged with Governance around actual and potential litigation and claims;
- Reviewing minutes of meetings of Those Charged with Governance;
- Assessing the design and operating effectiveness of controls and procedures relevant to the preparation of the financial statements and the detection and prevention of irregularities and fraud;

- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Testing the transfer of data from the old finance system to the new finance system to verify the completeness and integrity of financial data;
- Identifying and testing the appropriateness of journal entries and other adjustments, with particular focus on unusual account combinations and postings by unexpected users or senior management;
- Challenging the assumptions and judgements made by management for key estimates, in particular the valuation of investments and assumptions used to value the defined benefit pension scheme;
- Reviewing performance related payments made to staff, with particular challenge as to whether individuals receiving such payments were able to influence the metrics used to determine amounts to be paid; and
- Incorporating unpredictability into our testing approach through amending the nature and extent of audit procedures.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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.

USE OF OUR REPORT

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

BDO LLP

BDO LLP, statutory auditor
London, UK
Date: 14 May 2021

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

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

Institution of Mechanical Engineers – Consolidated Statement of Financial Activities
Year ended 31 December 2020

	Notes	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	2020 Total £'000	2019 restated Total £'000
Income and Endowments from:						
Donations and Legacies		72	–	–	72	17
Charitable Activities						
Membership Subscriptions		12,468	–	–	12,468	12,416
Groups, Divisions & Events		578	–	–	578	2,088
Professional Development		205	–	–	205	212
Information & Library Services		4	–	–	4	–
Apprentice End Point Assessment		411	–	–	411	199
Other trading activities						
Venue Hire, Training, Exam Services, Consultancy, Flawed Samples		6,461	–	–	6,461	9,760
Investments						
Interest & Dividends	14	139	495	–	634	613
Other						
Other Income	2	399	–	–	399	1,885
Rents Receivable		697	–	–	697	743
Total		21,434	495	–	21,929	27,933
Expenditure on:						
Raising funds						
Non-charitable Trading Activities		7,665	–	–	7,665	9,720
Investment Management Costs		–	9	–	9	9
Charitable Activities						
Groups, Divisions & Events		3,856	–	–	3,856	5,551
Marketing		1,769	–	–	1,769	1,774
Business Development		2,229	–	–	2,229	2,173
Apprentice End Point Assessment		455	–	–	455	298
Professional Development		826	–	–	826	1,173
Information & Library Services		787	–	–	787	759
Membership Subscriptions		2,345	–	–	2,345	2,750
Tenants & Public Facilities		506	–	–	506	502
Prizes, Awards and Scholarships		56	478	–	534	624
Total	3	20,494	487	–	20,981	25,333
Net gains/(losses) on investment assets	13/14	(663)	(169)	90	(742)	2,308
Net income/(expenditure)		277	(161)	90	206	4,908
Other recognised gains/(losses)						
Actuarial (losses) on defined benefit pension scheme	10	(7,081)	–	–	(7,081)	(912)
Net movement in funds		(6,804)	(161)	90	(6,875)	3,996
Reconciliation of funds						
Total funds brought forward, as previously stated	20	15,808	3,808	10,627	30,243	24,735
Opening balance adjustment	26	–	–	–	–	1,512
Total funds brought forward, as restated		15,808	3,808	10,627	30,243	26,247
Total funds carried forward	20	9,004	3,647	10,717	23,368	30,243

The notes to the accounts numbered 1 to 26 form part of these accounts

Statement of Financial Activities

Comparative information

	2019 Unrestricted Funds £'000	2019 Restricted Funds £'000	2019 Endowment Funds £'000	2019 Total £'000
Total Income	27,440	493	–	27,933
Total expenditure	(24,700)	(633)	–	(25,333)
Net investment gains	375	444	1,489	2,308
Transfers between funds	–	184	(184)	–
Actuarial losses on defined benefit pension scheme	(912)	–	–	(912)
Net movement in funds	2,203	488	1,305	3,996

Institution of Mechanical Engineers – Consolidated Balance Sheets
Year ended 31 December 2020

	Notes	2020 £'000	Group 2019 restated £'000	2020 £'000	Institution 2019 restated £'000
Fixed Assets					
Intangible assets	11	3,610	2,690	3,447	2,690
Tangible assets	12	6,697	7,141	5,919	6,240
Investments: mixed motive	13	2,679	3,397	2,679	3,397
Investments: listed	14	18,310	18,424	11,766	11,477
Total fixed assets		31,296	31,652	23,811	23,804
Current Assets					
Stocks	15	128	445	–	–
Debtors	16	2,556	3,466	7,434	10,228
Cash at bank and in hand		6,079	5,530	4,751	4,148
Total current assets		8,763	9,441	12,185	14,376
Liabilities					
Creditors: amounts falling due within one year	17	7,159	8,222	6,178	9,574
Net current assets or liabilities		1,604	1,219	6,007	4,802
Total assets less current liabilities		32,900	32,871	29,818	28,606
Net assets excluding pension liability		32,900	32,871	29,818	28,606
Defined benefit pension scheme liability	10	(9,532)	(2,628)	(9,532)	(2,628)
Net assets	20	23,368	30,243	20,286	25,978
The funds of the charity					
Endowment funds		10,717	10,627	6,864	6,540
Restricted income funds		3,647	3,808	786	757
Unrestricted funds		18,536	18,436	22,168	21,309
Pension reserves		(9,532)	(2,628)	(9,532)	(2,628)
Total unrestricted funds		9,004	15,808	12,636	18,681
Total charity funds	20	23,368	30,243	20,286	25,978

The consolidated statement of financial activities is for the Group as a whole. The Charity's total income for the year was £15,156k (2019: £18,073k). The Charity's total funds decreased by £5,692k in the year (2019: £2,370k increase)

The financial statements were approved by the Trustee Board on 14 May 2021 and were signed on its behalf by:



Terry Spall
President



Phil Peel
Honorary Treasurer

The notes to the accounts numbered 1 to 26 form part of these accounts

Charity registration Number: 206882

Institution of Mechanical Engineers – Consolidated Statement of Cash Flows
Year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities:			
Net cash provided by operating activities	23	1,753	1,853
Cash flows from investing activities:			
Dividends, interest and rent from investments	13	634	613
Purchase of property, plant and equipment	12	(583)	(738)
Proceeds from sale of property	23	–	1,885
Purchase of mixed motive investments	13	(43)	(115)
Purchase of intangible assets	11	(1,345)	(822)
Proceeds from sale of investments	14	118	81
Cash awaiting investment		15	(9)
Net cash (used in)/from investing activities		(1,204)	895
Change in cash and cash equivalents in the reporting period		549	2,748
Cash and cash equivalents at the beginning of the reporting period		5,530	2,782
Cash and cash equivalents at the end of the reporting period		6,079	5,530

The notes to the accounts numbered 1 to 26 form part of these accounts

Analysis of Net Funds

	Balance 01.01.2020 £'000	Group Cash Flows £'000	Balance 31.12.2020 £'000
Cash awaiting investment	68	(15)	53
Cash at bank and in hand	5,530	549	6,079
	5,598	534	6,132

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2020

1. ACCOUNTING POLICIES

The Charity is registered with the Charity Commission (registered number: 206882), domiciled in the UK and is a public benefit entity and incorporated by Royal Charter in 1930. The address of the registered office is 1 Birdcage Walk, London, SW1H 9JJ

a) Basis of preparation

The Financial Statements have been prepared in accordance with the Charities SORP, FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and applicable UK charity law.

The Financial statements have been prepared to give a true and fair view and have departed from the charities (Accounts and Reports) Regulation 2008 only to the extent required to give a true and fair view. This departure has involved following Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) effective 1 January 2019 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

The annual accounts have been prepared on the historical cost basis of accounting, modified by the recognition of certain financial assets and liabilities measured at fair value.

b) Going Concern

The Trustees have considered several factors in concluding that the adoption of a going concern basis in the preparation of these financial statements is appropriate. These factors have included a summary of the key risks and uncertainties in the context of the Institution's operations (including COVID-19) and a review of the budgets and forecasts, including cash flows and sensitivity analysis.

The budgets and forecasts consider the mitigating actions the Institution can deploy and consider both immediate liquidity and longer term solvency, together with the impact on reserves.

Working capital requirements are met through a combination of income received from the Institution's activities, including commercial activities undertaken in the Institution's trading subsidiaries. The Institution has the ability to drawdown against funds held within the Institution's unrestricted investment portfolio if required. The Institution does not have any debt facilities.

The COVID-19 pandemic has had a significant, immediate impact on the Institution's operations. A key risk is in relation to the returns from commercial operations which have been impacted by social distancing requirements. The government guidelines introduced in March resulted in the cancellation of training, events and venue hire programmes both within the charity and the trading subsidiaries where the buildings closed for extended periods or customers have cancelled events. Some activities have now restarted, although generally at a lower level than before the pandemic. Other trading activity has not been significantly impacted.

1. ACCOUNTING POLICIES (CONTINUED)

b) Going Concern (continued)

Membership income is a key income stream and the Institution continues to ensure the delivery of value of being a member to guard against any decline here although increased lapsing is seen as an increased risk. This has been incorporated into the budgets reflecting the experience of 2020.

As detailed above, Trustees have reviewed sensitivities and approved a revised forecast to mitigate the impact of the pandemic which includes cost saving measures, utilising the support offered by the UK government through its Coronavirus Job Retention Scheme and a potential drawdown on reserves.

Having regard to the above the Trustees believe it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

c) Basis of consolidation

Consolidated figures for the Institution and group companies (see note 2 to the accounts) have been included in these financial statements for the year ended 31st December 2020. Companies acquired by the group are consolidated on an acquisition basis ie fair values are attributed to the Group's share of the net tangible assets and where the cost of acquisition (being the fair value of the purchase consideration and the expenses of the acquisition) is greater than the fair values attributable to such net assets, the difference is treated as goodwill.

d) Income

Income is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. No amounts are included in these financial statements for the services donated by volunteers.

With the exception of Membership Income, all income is included in the SOFA when the Institution is legally entitled to the income and the amount can be quantified with reasonable accuracy.

Pecuniary legacies are recognised when probate is in place. Residuary legacies are recognised when probate is granted, a copy of the will has been received to confirm the Institution's entitlement, and there is sufficient information to value them. In practice this is usually when the assets and liabilities statement is received. Reversionary interests involving a life tenant and contentious legacies are not recognised.

Membership subscription income is accounted for on the basis of the amount receivable for the year. Accordingly, the amounts received during the year in relation to future years are deferred. Members who join in the final quarter of the year are not charged subscriptions by the Institution for that year. The annual subscription payment received is treated as relating entirely to the following year and is deferred.

Income from contracts for the provision of professional services (Professional Development, Information & Library Services, Apprentice end-point assessment, Venue Hire, Training, Exam Services, Consultancy, Flawed Samples categories) is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. When the outcome cannot be estimated reliably, income is recognised only to the extent of the expenses recognised that are recoverable.

1. ACCOUNTING POLICIES (CONTINUED)

d) Income (continued)

Income from events is recognised on the basis of the amount receivable in the period in which the event takes place. Income from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation.

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis at the following rates:

Freehold buildings: Building improvements	2% on original purchases, 4% on improvements per annum
Leasehold buildings: Building improvements lease if quicker per annum	2% or over the period of the lease if quicker per annum
Furniture and equipment:	20% to 33.3% per annum
Plant and equipment:	10–20% per annum

Freehold land is not depreciated.

Fixed assets are regularly reviewed to consider whether they have been impaired and to ensure that the depreciation costs reflect their working life. Expenditure below £1,000 is not capitalised.

f) Goodwill

Goodwill represents the excess of the cost of acquisition of incorporated and unincorporated businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill shall be considered to have a finite useful life, and shall be amortised on a systematic basis over its economic life of five years.

Where there are indications of impairment, an impairment review is undertaken to assess a recoverable amount, which considers a service potential and not cash flows.

g) Website and Digital Transformation costs

Website costs are capitalised when it is probable that the expected future economic benefits that are attributable will flow to the Group and their costs can be reliably measured. Website and Digital Transformation costs are initially recognised at cost and amortised over the expected useful life of five years.

h) Impairment of tangible and intangible assets

At each reporting end date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

1. ACCOUNTING POLICIES (CONTINUED)

h) Impairment of tangible and intangible assets (continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in SOFA, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i) Financial assets

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS102 to all of its financial instruments.

Financial assets are recognised in the company's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

j) Financial Liabilities

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

1. ACCOUNTING POLICIES (CONTINUED)

k) Investments

Listed investments are stated at market value, valued at their bid price, at the balance sheet date.

It is the Group's policy to keep valuations of stock exchange listed investments up to date, such that when investments are sold there is no gain or loss arising relating to prior years. As a result the statement of financial activities does not distinguish between the valuation adjustments relating to sales and those relating to continued holdings, as they are together treated as changes in the value of the investment portfolio throughout the year. Investments not listed on a recognised stock exchange are valued at fair value, unless there is no reliable basis of valuation, in which case they are valued at cost.

Mixed-motive investments

The Institution formed a limited partnership with Stephenson LP in February 2014 to make venture capital investments into a portfolio of Companies involved in or associated with young innovative engineering businesses. This investment has a genuine mixed motive because investment is being made both for financial return but also to advance engineering. The investment is held at fair value based on the most recent share sale prices of the underlying investments, less any impairment. If there is objective evidence of impairment, then an immediate impairment loss is recognised in the statement of financial activities.

l) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to Statement of Financial Activities.

m) Expenditure

Expenditure is included in the Statement of Financial Activities on a accruals basis and is recognised once there is a legal or constructive obligation to transfer economic benefit to a third party, it is probable that a transfer of economic benefits will be required in settlement and the amount of the obligation can be measured reliably.

n) Stocks

Stock classified as finished goods per sale are stated at the lower cost and net realisable value using FIFO method. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Work-in progress is assessed on an individual basis based on the stage of completion of the contract which is estimated using combination of the milestones in the contract and the time spent to date compared to the total time expected to be required to undertake the contract. Estimates of the total time required to undertake the contracts are made on a regular basis and subject to management review. These estimates may differ from the actual results due to a variety of factors such as efficiency of working, accuracy of assessment of progress to date and client decision making.

1. ACCOUNTING POLICIES (CONTINUED)

n) Stocks (continued)

See note 15 for the disclosure of the amount of work in progress as at the balance sheet date. Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

o) Retirement benefit

The Charity operates a defined benefit pension scheme which was closed to new members in 2002 and is also closed to future accrual. It also operated a defined contribution scheme open to existing staff.

Defined benefit pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability.

For the defined benefit pension scheme, the current service costs, gains and losses on settlements and curtailments, and administrative costs are charged to expenditure. They are included as part of staff costs. Actuarial gains and losses are recognised immediately in 'Other recognised gains/(losses)'

For the defined contribution scheme, the amounts charged to expenditure in respect of pension costs and the post-retirement benefits are the contributions payable in the year.

p) Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over the hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the statement of financial activities over the periods of the leases and hire purchase contracts are included as liabilities in the balance sheet.

q) Critical accounting estimates and judgements

In the application of the accounting policies, the Trustees are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. Judgements and estimates are also required for the allocation of support costs to the expenditure headings in the statement of financial activities, as set out in Note 3. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities have been outlined on the following page:

1. ACCOUNTING POLICIES (CONTINUED)

q) Critical accounting estimates and judgements (continued)

Unlisted investments

The Group makes an estimate of the fair value of unlisted investments based on the last price paid for shares and subject to an impairment review for any material changes in circumstance since the last share sale.

Actuarial assumptions in respect of defined benefit pension schemes

The application of actuarial assumptions relating to defined benefit pension schemes is incorporated in the financial statements in accordance with FRS102. In applying FRS102, advice is taken from independent qualified actuaries. In this context, significant judgement is exercised in a number of areas, including future changes in salaries and inflation, mortality rates and the selection of appropriate discount rates.

Bad debt provision

The Group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtors, the aging profile of debtors and historical experience.

r) Reserves

Unrestricted funds are those available for application against any of the charity's objectives. Restricted funds are those only available for certain purposes defined by the provider of the original funds. Permanent endowment funds are those where the original gift may not be spent, only any income on those funds, which is placed into a related restricted fund. Expendable endowment funds are those where both the income and the original capital may be spent.

s) Taxation

As a charity the Institution is exempt from Corporation tax. The tax expense represents the sum of the corporation tax currently payable and deferred tax in the commercial subsidiaries. The companies liabilities for current tax are calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

t) Heritage assets

Heritage assets comprise:

- printed books
- archives
- works of art and artefacts.

Additions to heritage assets are made by donation. Reliable and relevant information on the cost of many of the assets is therefore not readily available and there is a lack of comparable market values. As such, none of these assets are recognised in the accounts. Moreover, the Trustees do not consider that a reliable estimate of the fair value can be obtained without incurring costs that would exceed the benefits provided.

2. NET INCOMING RESOURCES

The consolidated results for the Institution are presented in the statement of financial activities. These include the activity of the parent charity, The Institution of Mechanical Engineers, and the activities of its 100% owned subsidiaries, as detailed below. The incoming resources of the Institution alone for 2020 were £14,941k (2019: £15,894k), and resources expended in 2020 were £13,393k (2019: £15,477k).

Other income

	2020	2019
	£'000	£'000
Government grants – furlough scheme	394	–
Sales of consumables	5	–
Profit on the disposal of fixed assets	–	1,885
	399	1,885

Subsidiary Companies

Professional Engineering Projects Ltd, a wholly owned subsidiary, registered in England and Wales (Reg N 01103638), was established by the Institution as an organisation from which it could conduct the majority of its publishing activities, including the magazines that are made available to members. Whilst this main trade was disposed of during 2010, the company continues to carry on trading in non-charitable activities, mainly provision of training to engineers.

The company also has four wholly owned subsidiary companies, IMechE Services Ltd (Reg N 01361114), IMechE Fife NDT Limited (Reg N 01917207), Siantonas Ball Ltd (Reg N 01655732), Sonaspection Worldwide Limited (Reg N 04891363), all registered in England and Wales, which carry on non-charitable trading activities. These activities are consolidated on a line by line basis with the relevant amounts described as "Other non-charitable trading activities" under Incoming Resources and Resources Expended in the Consolidated Statement of Financial Activities. Both IMechE Fife NDT Limited (previously IMechE Engineering Training Solutions Limited) Limited and Siantonas Ball Ltd became dormant on 1st January 2014. Since year end, IMechE Fife NDT Limited has become active again as the legal entity through which PEP's new training facility in Scotland has been established.

Sonaspection Worldwide has two wholly owned subsidiary companies, Sonaspection International Limited (Reg N 02050101) registered in England and Wales and Sonaspection Incorporated registered in the United States of America, which carry on non-charitable activities. These activities are consolidated on a line by line basis with the relevant amounts described as "Other non-charitable trading activities" under Incoming Resources and Resources Expended in the Consolidated Statement of Financial Activities.

The whole of the issued share capital of Professional Engineering Projects Ltd (£2) is held by nominees on behalf of the Institution. A summary of the company's consolidated profit and loss account is shown below. Audited accounts are filed with the Registrar of Companies for the individual companies. These figures are subject to the adjustments mentioned above prior to their incorporation in the Consolidated Statement of Financial Activities.

The Whitworth Scholarships Fund, registered charity No. 313756, was established in 1868 under a deed of covenant and trust between Sir Joseph Whitworth and the then President of the Committee of Council on Education. The Fund is now governed under the terms of a Scheme made by the Charity Commissioners for England and Wales dated 11 December 2001, with the Institution of Mechanical Engineers as the controlling entity.

2. NET INCOMING RESOURCES (CONTINUED)

The objects of the Fund are to promote education in all engineering disciplines with a preference for mechanical engineering through the award of scholarships to: suitably qualified applicants to enable them to study engineering, with a preference for mechanical engineering, at any establishment approved by the trustee; and prizes for solutions to real problems encountered in the workplace by engineers following an accredited programme of work-based training.

Subsidiary Companies 2020

	PEP	Sona Intl	Sona Inc	IMechE Services	Total
	£'000	£'000	£'000	£'000	£'000
Turnover	2,962	2,702	776	–	6,440
Cost of sales	(877)	(1,541)	(915)	–	(3,333)
Gross profit	2,085	1,161	(139)	–	3,107
Distribution costs	–	(43)	–	–	(43)
Administration costs	(3,336)	(702)	(27)	(3)	(4,068)
Interest payable to the Institution	(114)	–	–	–	(114)
Other income	266	13	–	–	279
Dividends receivable	300	–	–	–	300
Profit/(loss) on ordinary activities before tax	(799)	429	(166)	(3)	(539)
Taxation	39	43	–	–	82
Dividends payable	–	(300)	–	–	(300)
Profit/(loss) for the year	(760)	172	(166)	(3)	(757)
Total assets	4,307	2,201	338	74	6,920
Total liabilities	(7,238)	(373)	(534)	(96)	(8,241)
Total funds	(2,931)	1,828	(196)	(22)	(1,321)

Subsidiary Companies 2019

	PEP	Sona Intl	Sona Inc	IMechE Services	Total
	£'000	£'000	£'000	£'000	£'000
Turnover	6,045	2,736	1,155	–	9,936
Cost of sales	(1,935)	(1,639)	(754)	–	(4,328)
Gross profit	4,110	1,097	401	–	5,608
Distribution costs	–	(65)	–	–	(65)
Administration costs	(3,696)	(603)	(227)	(22)	(4,548)
Interest payable to the Institution	(60)	–	–	–	(60)
Profit/(loss) on ordinary activities before tax	354	429	174	(22)	935
Taxation	(77)	(58)	–	–	(135)
Profit/(loss) for the year	277	371	174	(22)	800
Total assets	5,193	2,831	307	75	8,406
Total liabilities	(7,363)	(1,175)	(337)	(94)	(8,969)
Total funds	(2,170)	1,656	(30)	(19)	(563)

3. EXPENDITURE

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to that category. For administrative purposes the Institution is divided into a number of directorates and then subdivided into departments. Accounting records permit the costs and revenues of all departments to be determined accurately. The classification of costs in the Consolidated Statement of Financial Activities utilises this information to show expenditure broken-down into broad functional areas. Where costs cannot be directly attributed to a particular heading, they have been allocated to activities on the basis of headcount and floor area.

Total expenditure 2020

	Direct Costs	Allocated Support Costs	Total
	£'000	£'000	£'000
Raising Funds			
Non-Charitable Activities	6,724	941	7,665
Investment Management Costs	9	–	9
Charitable Activities			
Marketing & Policy	984	785	1,769
Group, Divisions & Events	2,482	1,374	3,856
Business Development	1,117	1,112	2,229
Apprentice End Point Assessment	392	63	455
Professional Development	368	458	826
Information & Library Services	513	274	787
Membership Subscriptions	1,036	1,309	2,345
Tenants & Public Facilities	–	506	506
Prizes, Awards & Scholarships	534	–	534
Total resources expended	14,159	6,822	20,981

Total expenditure 2019

	Direct Costs	Allocated Support Costs	Total
	£'000	£'000	£'000
Raising Funds			
Non-Charitable Activities	8,759	961	9,720
Investment Management Costs	9	–	9
Charitable Activities			
Marketing & Policy	1,085	689	1,774
Group, Divisions & Events	3,885	1,666	5,551
Business Development	1,311	862	2,173
Apprentice End Point Assessment	243	55	298
Professional Development	598	575	1,173
Information & Library Services	515	244	759
Membership Subscriptions	1,601	1,149	2,750
Tenants & Public Facilities	–	502	502
Prizes, Awards & Scholarships	624	–	624
Total resources expended	18,630	6,703	25,333

3. EXPENDITURE (CONTINUED)

2020

	Governance & Management	Finance	Information Technology	Facilities & Depreciation	Defined Benefit Pension Charge	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-Charitable Activities	140	180	272	349	–	941
Marketing	250	96	161	243	35	785
Groups, Divisions & Events	438	169	282	426	59	1,374
Business Development	354	137	228	344	49	1,112
Apprentice End Point Assessment	21	8	13	21	–	63
Professional Development	146	56	94	142	20	458
Information & Library Services	83	32	54	93	12	274
Membership Subscriptions	417	161	268	405	58	1,309
Tenants & Public Facilities	–	–	–	506	–	506
Total	1,849	839	1,372	2,529	233	6,822
Basis of allocation	Headcount	Headcount	Headcount	Floor area	Headcount/ Floor area	

2019

	Governance & Management	Finance	Information Technology	Facilities & Depreciation	Defined Benefit Pension Charge	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-Charitable Activities	140	180	292	349	–	961
Marketing	219	111	149	179	31	689
Groups, Divisions & Events	528	269	362	433	74	1,666
Business Development	273	139	187	224	39	862
Apprentice End Point Assessment	18	9	12	16	–	55
Professional Development	182	92	126	149	26	575
Information & Library Services	73	37	50	74	10	244
Membership Subscriptions	364	185	250	299	51	1,149
Public Facilities – Birdcage Walk	–	–	–	502	–	502
Total	1,797	1,022	1,428	2,225	231	6,703
Basis of allocation	Headcount	Headcount	Headcount	Floor area	Headcount/ Floor area	

For comparison purposes 2019 expenditure has been revised across expenditure categories following a review of the use of support costs by different activities this year and a subsequent change in the methodology for allocating these costs.

4. TAXATION

The Institution is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable trust for UK income tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Part 10 Income Tax Act 2007 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. The charity's trading subsidiaries are subject to corporation tax.

5. TRANSACTIONS WITH MEMBERS OF THE TRUSTEE BOARD

Neither the Trustees, nor any person connected with them, receive remuneration.

	2020	2019
	£'000	£'000
Travel and subsistence expenses	18	22
	No.	No.
Number of members reimbursed	6	12

All Trustee costs are reimbursements to Trustees for costs incurred in fulfilling their duties. The 2020 total includes £9k of exceptional subsistence expenses incurred due to the COVID-19 lockdown which were subsequently reclaimed through an Institution insurance policy.

6. INDEMNITY INSURANCE

	2020	2019
	£'000	£'000
Indemnity insurance premiums paid	21	23

During 2020 the Institution paid for three insurance policies, covering professional indemnity, the liabilities of trustees and "directors and officers" liabilities. Cover applies to the Trustee Board, ordinary members involved with Institution affairs and employees, including directors of subsidiary companies.

7. STAFF

	2020	2019
	No.	No.
Average numbers of staff employed throughout the year		
The Institution of Mechanical Engineers	128	125
Professional Engineering Projects Limited	49	43
Sonaspection International Limited	16	16
Sonaspection Incorporated	6	7
Total employees	199	191

8. EMPLOYMENT COSTS

	2020	2019
	£'000	£'000
Salaries and benefits	8,567	7,987
Employer's social security costs	777	834
Employer's pension costs	456	446
Total employment costs	9,800	9,267

8. EMPLOYMENT COSTS (CONTINUED)

The numbers of employees whose emoluments, excluding employer's pension contributions, exceeded £60,000 are analysed as follows:

	2020	2019
	No.	No.
£60,001–£70,000	13	11
£70,001–£80,000	4	8
£80,001–£90,000	5	2
£90,001–£100,000	3	4
£100,001–£110,000	1	1
£110,001–£120,000	1	–
£120,001–£130,000	–	1
£150,001–£160,000	–	1
£160,001–£170,000	1	–
£180,001–£190,000	–	1
£190,001–£200,000	1	–
Total	29	29

26 of the above employees (2019: 26) are members of the defined contribution scheme and none (2019: nil) are active members of the defined benefit scheme. The Institution contributed £152,281 as employer pension contributions (2019: 179,470) for these members into the defined contribution scheme.

During the year key management received remunerations and benefits of £675,101 (2019: £634,194). The remuneration of key management consists of salary, pension contributions and benefits in kind.

Number of Directors in 2020: 4 (2019: 4)

Highest paid director – Dr Colin Brown (2020 and 2019)

	2020	2019
	£'000	£'000
Salary	159	156
Benefits	26	25
Bonus	12	5
Total	197	186

The charity designated four directors as key management personnel.

10 employees were made redundant during the year (2019: 10). The cost of redundancies of £154,458 was paid during 2020 (2019: £211,608). Included within the previous costs were ex-gratia costs of £54,671 payable to 7 people (2019: £72,214 to 10 people).

9. AUDITOR'S REMUNERATION

	2020	2019
	£'000	£'000
Fees for the audit of these financial statements	45	52
Fees for the audit of other group companies	27	–
Fees in relation to the prior year audit	–	56
Tax fees payable to auditors	–	5
Total	72	113

10. PENSIONS

The Institution operates a defined benefit scheme. A full actuarial valuation was carried out and updated to 31 December 2020, by a qualified independent company of actuaries. The major assumptions used by the actuary are detailed within this note to the financial statements. The scheme was closed to new members with an effective date of 5 September 2002, and is closed to future accrual.

A defined contribution pension plan has been established for employees who are not eligible to join the defined benefit pension scheme. The Institution has agreed to match employee contributions to the defined contribution plan up to a maximum of 10% of salary. There is an outstanding contribution at the end of the financial year of £90,184 (2019: £81,167).

The pension cost charge for the period represents contributions payable by the Institution to the defined contribution pension plan and amounted to £411,000 (2019: £446,000).

Assumptions

	2020	2019
Price inflation, (RPI)	3.00	3.00
Pension increases	2.50	2.00
Salary increases	3.50	3.50
Return on assets	*	*
Discount rate	1.30	2.10
*Equal to the discount rate (in line with FRS102)		

Mortality assumptions used in 2019 and 2020 are based upon the S1Px tables adjusted to reflect the broad wealth characteristics of each member. Future improvements are assumed to be in line with the CMI projection model, assuming improvements have peaked. The long term improvement is assumed to be 1.25% p.a. (2019: 1.25% p.a.), declining at older ages.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

	2020	2019
Male currently age 40–45	88.8	88.7
Female currently age 40–45	91.2	91.0
Male currently age 65	87.4	87.3
Female currently age 65	89.7	89.5

10. PENSIONS (CONTINUED)

Movements in present value of defined benefit obligation

	2020	2019
	£'000	£'000
At 1 January	58,644	53,069
Current service cost	180	180
Interest cost	1,215	1,513
Actuarial (gains)/losses	9,767	5,859
Benefits and expenses paid	(1,790)	(1,977)
At 31 December	68,016	58,644

Movements in fair value of plan assets

	2020	2019
	£'000	£'000
At 1 January	56,016	51,174
Interest on assets	1,162	1,462
Employer Contributions	410	410
Return on plan asset less interest	2,686	4,947
Benefits and expenses paid	(1,790)	(1,977)
At 31 December	58,484	56,016

Analysis of Amount Credited/(Charged) in SOFA

	2020	2019
	£'000	£'000
	(180)	(180)
Current service cost	(180)	(180)

Analysis of Pension Finance (Cost) / Income in SOFA

	2020	2019
	£'000	£'000
Interest on obligation	(1,215)	(1,513)
Interest on scheme assets	1,162	1,462
Net cost	(53)	(51)
Amount (Charged)/Credited to SOFA (Total operating charge less net return)	233	231

Sensitivity of the value placed on the liabilities

Adjustments to assumptions	Approximate effect on liabilities
Discount rate decreased by 0.5% p.a.	+£6,901,000
Inflation increased by 0.5% p.a.	+£3,524,000
Long term rate of mortality improvement increased to 1.5% p.a.	+£875,000

10. PENSIONS (CONTINUED)

Analysis of Gains / (Losses) Recognised in SOFA

	2020	2019
	£'000	£'000
Actuarial gains/(losses) on pension scheme assets	2,686	4,947
Change in impact of asset ceiling	–	–
Actuarial (losses)/gains on obligation	(9,767)	(5,859)
Actuarial (loss)/gain in Pension Scheme	(7,081)	(912)
Actuarial (loss)/gain in pension plan recognised in SOFA	(7,081)	(912)

Movement in Deficit During Year

	2020	2019
	£'000	£'000
Deficit in scheme at 1 January	(2,628)	(1,895)
Current service cost	(180)	(180)
Employer contributions	410	410
Net return	(53)	(51)
Actuarial gain/(loss)	(7,081)	(912)
Deficit in scheme at 31 December	(9,532)	(2,628)

History of Experience Gains and Losses

	2020	2019	2018	2017	2016
	£'000	£'000	£'000	£'000	£'000
Experience adjustments on scheme asset	2,686	4,947	(4,046)	3,251	6,798
Present value of scheme assets	58,484	56,016	51,174	56,248	53,262
Experience adjustment on scheme liabilities	(9,767)	(5,859)	1,981	(988)	236
Present value of scheme liabilities	68,016	58,644	53,069	56,020	55,241
Deficit/surplus in scheme	(9,532)	(2,628)	(1,895)	–	(1,979)

The deficit shown in the accounts reflects the methodology and assumptions required to be used for accounting purposes. A separate actuarial valuation for the purposes of determining funding requirements is currently underway with an effective date of 31 December 2020, and the resulting deficit may be different. As part of the valuation process the Institution expects to agree revised future funding arrangements with the pension scheme Trustees over the course of 2021.

The Company expects to contribute approximately £410,000 to its defined benefit plans in the next financial year.

11. FIXED ASSETS – INTANGIBLE ASSETS

	Goodwill	Website & DM costs	Total
Group	£'000	£'000	£'000
Cost			
At 1 January 2020	5,232	3,203	8,435
Additions	–	1,345	1,345
Re-classifications from tangible	–	151	151
At 31 December 2020	5,232	4,699	9,931
Amortisation			
At 1 January 2020	5,232	513	5,745
Amortisation charged	–	576	576
At 31 December 2020	–	1,089	6,321
Net Book Value			
At 31 December 2020	–	3,610	3,610
At 1 January 2020	–	2,690	2,690
		Website & DM costs	Total
Institution		£'000	£'000
Cost			
At 1 January 2020		3,188	3,188
Additions		1,234	1,234
At 31 December 2020		4,422	4,422
Depreciation			
At 1 January 2020		498	498
Amortisation charged		477	477
At 31 December 2020		975	975
Net Book Value			
At 31 December 2020		3,447	3,447
At 1 January 2020		2,690	2,690

Website and Digital Modernisation Programme, Platform costs

The intangible assets for the Institution are represented by Website and Digital Modernisation (DM) costs. The website development was completed in March 2016 and began being amortised from April. The DM projects started to come into use during 2019 although there are significant amounts still in development. Both website and DM costs were purchased and developed by the Institution.

12. FIXED ASSETS – TANGIBLE ASSETS

	Land & Property	Furniture & Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Group cost				
At 1 January 2020	10,271	8,159	33	18,463
Additions	405	178	–	583
Disposals/movements	30	(6,134)	(33)	(6,137)
Transfers to intangible assets	–	(151)	–	(151)
At 31 December 2020	10,706	2,052	–	12,758
Depreciation				
At 1 January 2020	4,441	6,848	33	11,322
Disposals/write-off	(171)	(5,875)	(33)	(6,079)
Amount charged	403	415	–	818
At 31 December 2020	4,673	1,388	–	6,061
Net Book Value				
At 31 December 2020	6,033	664	–	6,697
At 1 January 2020	5,830	1,311	–	7,141
		Land & Property	Furniture & Equipment	Total
		£'000	£'000	£'000
Institution cost				
At 1 January 2020		10,067	5,603	15,670
Additions		202	79	281
Disposals/movements		2	(4,716)	(4,714)
At 31 December 2020		10,271	966	11,237
Depreciation				
At 1 January 2020		4,273	5,157	9,430
Disposals/movements		1	(4,701)	(4,700)
Amount charged		372	216	588
At 31 December 2020		4,646	672	5,318
Net Book Value				
At 31 December 2020		5,625	294	5,919
At 1 January 2020		5,794	446	6,240

Transfers and reclassifications relates to certain assets which had previously been included in the incorrect category in error.

The Institution's head office at One Birdcage Walk is included in Land and Property above at its depreciated historical cost. The Trustees believe that its open market value is significantly in excess of this historical cost based on carrying value.

The Institution owns the freehold of One Birdcage Walk and its head office. Whilst part of the building is let out to third parties, the entire property is accounted for within tangible fixed assets at cost less depreciation as the areas rented cannot be separately disposed.

12. FIXED ASSETS – TANGIBLE ASSETS (CONTINUED)**Heritage assets**

The Institution holds a collection of heritage assets which relate to the history of the Institution itself and the wider history of mechanical engineering as well as a specialist engineering library collection.

The collection is broadly split into the following categories:

Printed works: The Institution has the one of the strongest specialist engineering libraries in the UK, holding unparalleled physical collections relating to mechanical engineering and comprising over 90,000 titles. These range from very early works such as *Theatrum instrumentorum et machinarum*, published in 1578, to extensive scarce nineteenth- and early twentieth-century works to current reference works and British Standards. Subjects covered include fluid mechanics, tribology, combustion engines, automotive engineering, environment and emissions, risk and reliability, energy, machine tools and pressure vessels.

Archives: The archive collection dates from 1726 and is comprised of documents, volumes, engineering drawings, digital files and an extensive photographic collection relating to engineers, engineering firms and engineering products. The collection also includes the business and administrative records of the Institution of Mechanical Engineers as well as the Institution of Locomotive Engineers and the Institution of Automobile Engineers.

Works of art and artefacts: The collection is comprised of over 50 portraits and busts of prominent engineers including many former Presidents of the Institution and over 100 artefacts including models, instruments and personal items of engineers.

The Institution's collections are managed by the Information and Library Service according to the relevant professional standards for each format of material. Expenditure which in the Trustees' view is required to preserve or clearly prevent deterioration of individual collection items is recognised in the income and expenditure account when it is incurred.

There have been no donations, additions or disposals of heritage assets in the last five years.

13. INVESTMENTS – MIXED MOTIVE

	2020		2019 Restated	
	Cost	Market Value	Cost	Market Value
	£'000	£'000	£'000	£'000
Group and Institution				
Analysis of Investments – UK				
Stephenson LLP	1,808	2,679	1,765	3,397
			2020	2019
			£'000	£'000
Movement of Investments				
Market value at 1 January			3,397	3,162
Acquisitions			43	115
Net investment (loss)/gain			(761)	120
Market value at 31 December			2,679	3,397
Unrealised investment gain at 31 December			861	1,632

14. FIXED ASSETS – INVESTMENTS

Group	2020		2019 Restated	
	Cost	Market Value	Cost	Market Value
	£'000	£'000	£'000	£'000
Analysis of Investments – UK				
Fixed Interest Unit Trusts	170	642	170	621
Equities Unit Trusts	1,312	5,903	1,312	6,326
Charities Official Inv. Fund Income Units	1,066	3,067	1,066	2,883
Cash	53	53	68	68
Property – let on 999 year lease	9	9	9	9
	2,610	9,674	2,625	9,907
Multi-Asset Funds	7,818	8,636	7,925	8,517
Total Investments	10,428	18,310	10,550	18,424
Analysis of Funds and Ranges				
	Cost	2020 Market Value	Cost	2019 Market Value
Reserve Fund – Unrestricted				
Free range	3,034	3,270	3,039	3,188
Whitworth Scholarships Fund				
Restricted	819	2,691	819	2,860
Endowment	663	3,853	663	4,087
	1,482	6,544	1,482	6,947
General Trust				
Wider range	3,384	3,819	3,482	3,820
Charities Official Inv. Fund Income Units	–	–	–	–
	3,384	3,819	3,482	3,820
James Clayton				
Wider range	1,453	1,600	1,473	1,577
Special – property	9	9	9	9
	1,462	1,609	1,482	1,586
Education & Research				
Charities Official Inv. Fund Income Units	829	2,362	829	2,220
Sundry Small Trusts				
Charities Official Inv. Fund Income Units	237	706	237	663
	10,428	18,310	10,551	18,424

The above figures refer to investments held by the Group, the figures for the Institution exclude the investments held by the Whitworth Scholarships Fund.

The investments of the Reserve Fund, General Trust and James Clayton Trust are managed by Schroder & Co Ltd. Investments of the Whitworth Scholarships Fund are managed by Blackrock Investment Management (UK) Ltd. The let property is part of the James Clayton Trust Fund and was included as part of assets left to the Institution in the will of the late James Clayton. A summary of the investment powers can be found in the Administrative Details section.

The carrying value of investments in subsidiaries amounted to £2.

14. FIXED ASSETS – INVESTMENTS (CONTINUED)

	2020	2019
	£'000	£'000
Movement of investments		
Market value at 1 January – as previously reported	18,356	17,899
less: Stephenson LLP at cost	–	(1,650)
Market value at 1 January – restated	18,356	16,249
Sales proceeds	(118)	(81)
Net investment gain/(loss)	19	2,188
Market value (excluding cash) at 31 December	18,257	18,356
<hr/>		
Cash awaiting investment	53	68
<hr/>		
Total market value at 31 December	18,310	18,424
Historic cost at 31 December	(10,428)	(10,550)
Unrealised investment gain at 31 December	7,882	7,874

	2020	2019
	£'000	£'000
Interest & Dividends		
Dividends receivable from unit trusts	634	613

All the dividend and loan stock interest arises from the investments detailed above.

15. STOCKS

	2020	2019
	£'000	£'000
Group only		
Work in progress	28	338
Finished goods and goods for resale	100	107
	128	445

16. DEBTORS

	Group		Institution	
	2020	2019	2020	2019
Amount due within 1 year:	£'000	£'000	£'000	£'000
Trade debtors	1,254	2,261	489	338
Other debtors incl VAT, other taxes	358	605	352	807
Prepayments and accrued income	944	600	734	471
Amounts due from group companies	–	–	738	3,491
	2,556	3,466	2,313	5,107
<hr/>				
Amount due after more than 1 year:				
Loans due from group companies	–	–	5,121	5,121
	2,556	3,466	7,434	10,228

Loans from group companies are charged interest at a rate of 2% above the National Westminster Bank base rate.

17. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Institution Restated	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Trade creditors	882	722	739	621
Other creditors	297	582	439	377
Amounts due to group companies	–	–	–	2,959
Accruals	1,047	1,189	686	982
Taxation and social security	227	246	–	–
	2,453	2,739	1,864	4,939
Deferred income	4,706	5,483	4,314	4,635
Total Creditors	7,159	8,222	6,178	9,574

Deferred income represents the value of membership subscriptions, property rents, contract income, and event income received in respect of the next calendar year

For consistency with the group disclosure, the 2019 Institution disclosure has been updated to separately disclose accruals of £982k, which were previously reported within other creditors.

Reconciliation of deferred income

	Group		Institution	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Balance at 1 January	5,483	5,175	4,635	4,218
Amount released to income	(5,483)	(5,175)	(4,635)	(4,218)
Amount deferred in the year	4,706	5,483	4,314	4,635
Balance at 31 December	4,706	5,483	4,314	4,635

18. OPERATING LEASE COMMITMENT

The operating lease charges represent leasehold leases from 3rd parties. The leases are negotiated over terms of 10 years and rentals are fixed for two years. All leases include a provision for five-yearly upward rent reviews according to prevailing market conditions. Next rent review is 2021. The total of future minimum lease payments under non-cancellable operating leases for each of the following periods is:

	2020	2019
	£'000	£'000
Within one year	71	69
Between one and five years	296	276
Over five years	268	345

19. ANALYSIS OF GROUP NET ASSETS BETWEEN FUNDS

	Unrestricted	Endowment	Restricted	2020 Total
Group	£'000	£'000	£'000	£'000
Fund balances at 31 December 2020 are represented by:				
Intangible fixed assets	3,610	–	–	3,610
Tangible fixed assets	6,697	–	–	6,697
Investments: listed	3,273	12,313	2,724	18,310
Investments: social	2,679	–	–	2,679
Current assets and liabilities	2,277	(1,596)	923	1,604
Defined benefit pension scheme liability	(9,532)	–	–	(9,532)
	9,004	10,717	3,647	23,368

	Unrestricted	Endowment	Restricted	Restated 2019 Total
Fund balances at 31 December 2019 are represented by:	£'000	£'000	£'000	£'000
Intangible fixed assets	2,690	–	–	2,690
Tangible fixed assets	7,141	–	–	7,141
Investments: listed	3,186	12,214	3,024	18,424
Investments: social	3,397	–	–	3,397
Current assets and liabilities	2,022	(1,587)	784	1,219
Defined benefit pension scheme liability	(2,628)	–	–	(2,628)
	15,808	10,627	3,808	30,243

	Unrestricted	Endowment	Restricted	2020 Total
Institution	£'000	£'000	£'000	£'000
Fund balances at 31 December 2020 are represented by:				
Intangible fixed assets	3,447	–	–	3,447
Tangible fixed assets	5,919	–	–	5,919
Investments: listed	3,273	8,460	33	11,766
Investments: social	2,679	–	–	2,679
Current assets and liabilities	6,850	(1,596)	753	6,007
Defined benefit pension scheme liability	(9,532)	–	–	(9,532)
	12,636	6,864	786	20,286

	Unrestricted	Endowment	Restricted	Restated 2019 Total
Fund balances at 31 December 2019 are represented by:	£'000	£'000	£'000	£'000
Intangible fixed assets	2,690	–	–	2,690
Tangible fixed assets	6,240	–	–	6,240
Investments: listed	3,186	8,127	164	11,477
Investments: social	3,397	–	–	3,397
Current assets and liabilities	5,796	(1,587)	593	4,802
Defined benefit pension scheme liability	(2,628)	–	–	(2,628)
	18,681	6,540	757	25,978

20. CAPITAL & INCOME FUNDS – ANALYSIS

Provided below is an analysis of the various funds included in these financial statements:

Group	Restated Balance 01.01.2020*	Incoming Resources	Resources Expended	Gains & (Losses)	Balance 31.12.2020
	£'000	£'000	£'000	£'000	£'000
Unrestricted Funds – restated					
Institution, Reserve Fund & PEP Ltd	15,808	21,434	(20,494)	(7,744)	9,004
Restricted Funds					
Whitworth Scholarships Fund	3,051	187	(208)	(169)	2,861
General Trust (includes legacy)	–	155	(139)	–	16
James Clayton Trust	89	65	(49)	–	105
Trust for Education & Research	406	68	(84)	–	390
Sundry small trusts	262	20	(7)	–	275
	3,808	495	(487)	(169)	3,647
Endowment Funds					
Whitworth Scholarships Fund	4,087	–	–	(234)	3,853
General Trust	2,629	–	–	96	2,725
James Clayton Trust	1,490	–	–	44	1,534
Trust for Education & Research	1,953	–	–	142	2,095
Sundry small trusts	468	–	–	42	510
	10,627	–	–	90	10,717
Total Funds	30,243	21,929	(20,981)	(7,823)	23,368

*See FY19 note on p.89

Institution	Restated Balance 01.01.2020*	Incoming Resources	Resources Expended	Gains & (Losses)	Balance 31.12.2020
	£'000	£'000	£'000	£'000	£'000
Unrestricted Funds					
Institution, Reserve Fund	18,681	14,848	(13,149)	(7,744)	12,636
Restricted Funds					
General Trust (includes legacy)	–	155	(139)	–	16
James Clayton Trust	89	65	(49)	–	105
Trust for Education & Research	406	68	(84)	–	390
Sundry small trusts	262	20	(7)	–	275
	757	308	(279)	–	786
Endowment Funds					
General Trust	2,629	–	–	96	2,725
James Clayton Trust	1,490	–	–	44	1,534
Trust for Education & Research	1,953	–	–	142	2,095
Sundry small trusts	468	–	–	42	510
	6,540	–	–	333	6,864
Total Funds	25,978	15,156	(13,428)	(7,420)	20,286

*See FY19 note on p.90

20. CAPITAL & INCOME FUNDS – ANALYSIS (CONTINUED)

The restricted and endowment funds mainly comprise a number of trusts established by deed, holding resources set aside to provide prizes and awards to recognise achievement and generally foster progress in mechanical engineering. The restricted funds represent the income and expenditure of each trust and the endowment funds the capital held to generate investment income. The Trustee Board acts as sole corporate trustee. The majority of the funds held originate from legacies and lifetime gifts donated to commemorate the achievements of prominent engineers. The General Trust and Trust for Education & Research were established with the agreement of the Charity Commissioners to aggregate the resources of a large number of smaller trusts with similar aims. The James Clayton Trust and some smaller trusts (for reasons of convenience totalled in the sundry category above) have more specific objectives and could not be included in the two main trusts. The Whitworth Scholarships Fund was originally established in 1868, with the trusteeship being transferred from the UK Government in December 2001.

	Balance 01.01.2019	Restatement (note 26)	Restated Balance 01.01.2019	Incoming Resources	Resources Expended	Gains & (Losses)	Transfers	Balance 31.12.2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group								
Unrestricted Funds								
Institution & Reserve Fund & PEP Ltd	12,700	905	13,605	27,440	(24,700)	(537)	–	15,808
Restricted Funds								
Whitworth Scholarships Fund	2,304	262	2,566	199	(158)	444	–	3,051
General Trust (includes legacy)	–	(39)	(39)	147	(295)	–	187	–
James Clayton Trust	133	(23)	110	60	(81)	–	–	89
Trust for Education & Research	336	100	436	67	(97)	–	–	406
Sundry small trusts	249	(2)	247	20	(2)	–	(3)	262
	3,022	298	3,320	493	(633)	444	184	3,808
Endowment Funds								
Whitworth Scholarships Fund	3,725	(262)	3,463	–	–	624	–	4,087
General Trust (includes legacy)	2,299	213	2,512	–	–	301	(184)	2,629
James Clayton Trust	1,364	–	1,364	–	–	126	–	1,490
Trust for Education & Research	1,262	354	1,616	–	–	337	–	1,953
Sundry small trusts	363	4	367	–	–	101	–	468
	9,013	309	9,322	–	–	1,489	(184)	10,627
Total Funds	24,735	1,512	26,247	27,933	(25,333)	1,396	–	30,243

20. CAPITAL & INCOME FUNDS – ANALYSIS (CONTINUED)

	Balance 01.01.2019	Restatement (note 26)	Restated Balance 01.01.2019	Incoming Resources	Resources Expended & Transfers	Gains & (Losses)	Transfers	Restated Balance 31.12.2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Institution								
Unrestricted Funds								
Institution & Reserve Fund	14,446	2,549	16,995	17,779	(15,556)	(537)	–	18,681
Restricted Funds								
General Trust (includes legacy)	–	–	(39)	147	(295)	–	187	–
James Clayton Trust	–	–	110	60	(81)	–	–	89
Trust for Education & Research	–	–	436	67	(97)	–	–	406
Sundry small trusts	–	–	247	20	(2)	–	(3)	262
	456	298	754	294	(475)	–	184	757
Endowment Funds								
General Trust (includes legacy)	–	–	2,512	–	–	301	(184)	2,629
James Clayton Trust	–	–	1,364	–	–	126	–	1,490
Trust for Education & Research	–	–	1,616	–	–	337	–	1,953
Sundry small trusts	–	–	367	–	–	101	–	468
	7,194	(1,335)	5,829	–	–	865	(184)	6,540
Total Funds	22,096	1,512	23,608	18,073	(16,031)	328	–	25,978

21. TRUST & PRIZE FUND INDIVIDUAL ACCOUNTS

General Trust

Benefactors Comprise

James Bates	Bryan Donkin
Thomas Bernard Hall	Charles Howard Readman
Horace Bedford	H V Disney
Herbert Edward Hancocke	William Sweet Smith
Charles Sharpe Beecher	A H Duncan
Francis Hewlett	A M Strickland
William Bennett	Christian Peter Dunkel
Lord Hinton of Bankside	Clifford S Steadman
Joseph Bramah	John Edward Elliott
Shirley Nelson Howe	Thomas Stephen
T H Carr	James Moir Forbes
Robert Herbert Innes	Thatcher Bros.
Thomas Andrew Common	Sir Hugh Ford
Kenneth Harris James	Fredrick Barnes Waldron
Gresham Cooke	Winifred Foreman
Anne Labrow	Edwin Walker
Winifred Smart Crabtree	Andrew Fraser
Olive Mary Main	Neil Watson
George Curry	Thomas Lowe Gray
Ernest William Moss	Viscount Weir
Bernard Incedon Day	Donald Julius Groen
The Reactionaries	Frau May Borner Wylie

Trust for Education and Research

Benefactors and Predecessor Trusts Comprise

John F Alcock Memorial Prize	Frank Radcliffe
Carl Louis Breedon	Alfred Rosling Bennett Premium
Henry Stacey Cattermole	Clarence Noel Goodall
Engineering Applied to Agriculture	Charles S Lake
Filtration	Rover Midlander
M M Flatman	T A Stewart Dyer
Thomas Hawksley	Fredrick Harvey Trevithick
Hele-Shaw National Certificate	Sir Seymour Briscoe Tritton
Mrs P M Lowery	Stanley Herbert Whitelegg
Manville Bequest Scholarship	Safety Award in Mech. Engineering
E May	Starley Premium
Ludwig Mond	George Stephenson Research
F G Moore	Herbert Ackroyd Stuart
Arthur Morley Higher National Diploma	The Students Aid
John Player Lectureship	Water Arbitration
Raymond Coleman Prescott Scholarship	Willans Premium William Alexander Agnew
Meritorious	L Marson
Alastair Graham-Bryce	Margaret Winifred Astridge

The above trust funds are under the trusteeship of the Institution of Mechanical Engineers. Because of the limited space available, the information presented is, of necessity, brief. If you would like more details, please contact the Secretary to the Trustee Board Awards Committee.

22. RELATED PARTY TRANSACTIONS

	2020	2019
	£'000	£'000
Institution		
Amounts due from/(to) Professional Engineering Projects Limited	574	2,643
Amounts due from/(to) IMechE Services Limited	94	94
Amounts due from/(to) Sonaspection International Limited	70	–
Loan due from Professional Engineering Projects Limited	5,121	5,121
All amounts are considered to be repayable on demand during the year except the loan due from Professional Engineering Projects Limited, which has a 53 week notice period for repayment		
Transactions with Professional Engineering Projects Limited	22	359
Transactions with IMechE Services Limited	(1)	15
Transactions with Sonaspection International Limited	70	708
Professional Engineering Projects Limited		
Amounts due from/(to) Siantonas Ball Limited	(233)	(233)
Amounts due from/(to) IMechE Fife NDT Limited	(731)	(731)

Helena Rivers, originally elected as a Trustee on 24 May 2017, is also a director at AECOM. The Institution has charged a fee to AECOM for MPDS accreditation visits for a number of years now. Fees charged were £500 for the year ended 31 December 2020 (2019: £570). There was no balance outstanding as at 31 December 2020 (31 December 2019: £570).

Dr Helen Hudson (nee Meese), a Former Trustee (resigned 10 May 2020), is also a director at The Care Machine Ltd. The Institution has been invoiced for commissioned work for the Marketing Department for a number of years. Invoices received totalled £7,517 for the year ended 31 December 2020 and £6,350 for the year ended 31 December 2019. A balance outstanding as at 31 December 2020 of £NIL and 31 December 2019 of £1,500.

Neil Kelly is a Director of Sonaspection International Limited appointed on 29th June 2020, who's close related family member is the owner of Kelly Contracting. Kelly Contracting provide electrical material and labour and have been providing a service for a number of years. Kelly Contracting charged £4,246 during the year to 31 December 2020 (2019: £645). Kelly Contracting has a balance payable as at 31 December 2020 of £21 (31 December 2019: nil).

23. RECONCILIATION OF NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2020	2019
	£'000	£'000
Net income for the reporting period (as per the statement of financial activities)	206	4,788
Proceeds from sale of property	–	(1,885)
Adjustments for:		
Loss on disposal of tangible fixed assets	58	–
Amortisation	576	245
Depreciation charges	818	755
Dividends & interest	(634)	(613)
Decrease in debtors	910	1,023
(Decrease) in creditors	(1,063)	(94)
Decrease in stocks	317	1
(Gain)/losses on investments	742	(2,188)
Net cash provided by operating activities before pension scheme costs	1,930	2,032
Increase in Defined benefit pension scheme costs	(177)	(179)
Net cash provided by operating activities	1,753	1,853

24. FINANCIAL INSTRUMENTS

	Group		Institution	
	2020	2019 restated	2020	2019 restated
	£'000	£'000	£'000	£'000
Financial assets measured at amortised cost	7,979	8,749	6,216	10,325
Financial liabilities measured at amortised cost	2,226	2,493	2,550	4,939
Financial assets measured at fair value	20,989	21,821	14,445	14,874

25. CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES 2019 RESTATED

	Notes	Unrestricted Funds £'000	Restricted Funds £'000	Endowment Funds £'000	Restated 2019 Total £'000	Restated 2018 Total £'000
Income and Endowments from:						
Donations and Legacies		17	–	–	17	208
Charitable Activities						
Membership Subscriptions		12,416	–	–	12,416	11,888
Groups, Divisions & Events		2,088	–	–	2,088	2,248
Professional Development & Membership		212	–	–	212	162
Information & Library Services		–	–	–	–	5
Marketing & Regional		199	–	–	199	203
Other trading activities						
Venue Hire, Training, Learning & Development		9,760	–	–	9,760	7,981
Publishing Royalties		–	–	–	–	2
Investments						
Interest & Dividends	13	120	493	–	613	606
Other						
Other Income	23	1,885	–	–	1,885	–
Rents Receivable		743	–	–	743	684
Total		27,440	493	–	27,933	23,987
Expenditure on:						
Raising funds						
Non-charitable Trading Activities		9,720	–	–	9,720	10,307
Investment Management Costs		–	9	–	9	16
Charitable Activities						
Marketing & Policy		1,774	–	–	1,774	5,910
Groups, Divisions & Events		5,551	–	–	5,551	2,389
Business Development		2,173	–	–	2,173	–
Apprentice End Point Assessment		298	–	–	298	2,380
Professional Development		1,173	–	–	1,173	1,023
Information & Library Services		759	–	–	759	1,892
Membership Subscriptions		2,750	–	–	2,750	1,489
Tenants & Public Facilities		502	–	–	502	729
Prizes, Awards and Scholarships		–	624	–	624	674
Total	3	24,700	633	–	25,333	26,809
Net gains/(losses) on investment assets	13	375	444	1,489	2,308	(154)
Net income/(expenditure)		3,115	304	1,489	4,908	(2,976)
Transfers between funds	18	–	184	(184)	–	–
Other recognised gains/(losses)						
Actuarial gains/(losses) on defined benefit pension scheme	10	(912)	–	–	(912)	(1,831)
Net movement in funds		2,203	488	1,305	3,996	(4,807)
Reconciliation of funds						
Total funds brought forward	18	13,605	3,320	9,322	26,247	31,054
Total funds carried forward	18	15,808	3,808	10,627	30,243	26,247

The note references above relate to those of the consolidated Statement of Financial Activities 2019 as issued last year.

26. PRIOR YEAR ADJUSTMENT

Investments in the Stephenson LLP, a mixed-motive investment, were previously reported at cost. As the valuation of these investments is now considered reliable they have now been reported at market value and prior year values and movements have been restated accordingly.

In addition, mixed-motive investments are now reported as a separate class of fixed assets, Investments: Mixed-motive (Note 13), rather than being included within the overall investments class, which has now been renamed Investments: Listed (Note 14).

Restatement of Investments

	2019	2018	2017
	£'000	£'000	£'000
Listed investments at market value, as previously reported	20,189	17,958	22,496
less: Stephenson LLP previous value at cost	1,765	1,650	1,400
Restated listed investments at market value	18,424	16,308	21,096
Stephenson LLP – restated at market value	3,397	3,162	1,569
Stephenson LLP – unrealized investment gain	1,632	1,512	169
Gains/(losses) on investments – previously reported	2,188	(1,497)	
Gain on Stephenson LLP	120	1,343	
Restated gains/(losses) on investments	2,308	(154)	

A number of transfers between funds were identified relating to previous years which had not been posted correctly in the individual fund accounts. This did not change total funds but did change the distribution between endowment, restricted and unrestricted. These have been corrected and prior balances restated.

26. PRIOR YEAR ADJUSTMENT (CONTINUED)

Restatement of Funds

	Previously Reported Balance 01.01.2019	Funds Transfers Restatement	Stephenson LLP Restatement	Restated Balance 01.01.2019	Previously Reported Funds Movement	Gains and (Losses) Restatement	Funds Transfers Restatement	Restated Balance 31.12.2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group								
Unrestricted funds	12,700	(607)	1,512	13,605	1,936	120	147	15,808
Restricted funds	3,022	298	–	3,320	7	–	481	3,808
Endowment funds	9,013	309	–	9,322	1,933	–	(628)	10,627
	24,735	–	1,512	26,247	3,876	120	–	30,243

Institution								
Unrestricted funds	14,446	1,037	1,512	16,995	1,419	120	147	18,681
Restricted funds	456	298	–	754	(34)	–	37	757
Endowment funds	7,194	(1,335)	–	5,859	865	–	(184)	6,540
	22,096	–	1,512	23,608	2,250	120	–	25,978

	Previously Reported Balance 01.01.2018	Stephenson LLP Restatement	Restated Balance 01.01.2018	Previously Reported Funds Movement	Gain on Stephenson LLP	Funds Transfers Restatement	Restated Balance 31.12.2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group							
Unrestricted funds	16,233	169	16,402	(3,533)	1,343	(607)	13,605

Institution							
Unrestricted funds	19,693	169	19,862	(5,247)	1,343	1,037	16,995

ADMINISTRATIVE DETAILS

Name

The Institution of Mechanical Engineers

Address of principal office

1 Birdcage Walk, Westminster, London, SW1H 9JJ

Charity registration numbers

The charity registration number of the Institution and subsidiary prize and award funds is 206882. The number for the Whitworth Scholarships Fund is 313756.

Governing document and constitution

The Institution was founded in 1847 and was incorporated by Royal Charter in 1930. Copies of the Royal Charter and By-Laws are available from the Trustee Department at the London address.

Trustees

The Trustee Board comprises the President, President-Elect, four Vice-Presidents, an International Vice-President and five or more ordinary members. All Trustees are elected by the Corporate and Associate Membership of the Institution. Trustees are required to retire after a maximum of 3 years in post.

Trustees met 8 times for Board Meetings supported by the Executive team during 2020 (2019: 8)

The names of those who served as Trustees during the year and at the date of approval of this document are as follows:

	Number of meetings attended	Number of meetings in session
H A Clarke (due to retire 24 May 2023)	7	8
R C East (elected 22 May 2019, retires 26 May 2021)	6	8
P Flinn (due to retire 25 May 2022)	8	8
M P J Garside (due to retire 25 May 2022)	8	8
G S Hartill (retires 26 May 2021)	8	8
R G Hodgkinson (due to retire 25 May 2022)	8	8
Professor J A McGeough (elected 22 May 2019, retired 27 May 2020)	3	3
Dr H M Meese (resigned 10 May 2020)	2	2
Professor D Nowell (due to retire 25 May 2022)	8	8
R O'Brien (elected 27 May 2020, due to retire 24 May 2023)	5	5
P J Peel (due to retire 25 May 2022)	8	8
V Raman (elected 27 May 2020, due to retire 24 May 2023)	8	8
H C Rivers (due to retire 24 May 2023)	8	8
T Spall (elected 22 May 2019, retires 26 May 2021)	8	8
S M Suleyman (retired 27 May 2020)	2	3

Elected' and 'retired' relate to the normal transition of Trustees at the beginning and end of their periods of elected office. 'Appointed' and 'resigned' relate to other changes outside this normal process.

Administrative Details (continued)

Chief Executive:

Dr Colin Brown

Key Management Personnel:

This includes the Chief Executive and three directors:

Finance and Commercial Director – Sean Fox

Human Resources Director – Bims Alalade

Membership Operations Director – Joanna Horton

Professional advisers

Auditor:

BDO LLP, Baker Street, London W1U 7EU

Bankers:

National Westminster Bank PLC, PO Box 113, Cavell House,

2A Charing Cross Road London, WC2H 0PD

CAF Bank Ltd, 25 Kings Hill Avenue, Kings Hill, West Malling, Kent ME19 4JQ

Investment managers:

Schroder & Co Limited, 12 Moorgate, London, EC2R 6DA

Blackrock Investment Management (UK) Limited, 33 King William Street,

London EC4R 9AS

CCLA Investment Management Limited, 80 Cheapside, London, EC2V 6DZ

Solicitors:

Bristows, 100 Victoria Embankment London, EC4Y 0DH

Mills & Reeve LLP, Botanic House, 1 Hills Road, Cambridge CB2 1PH

Pension advisers:

Barnett Waddingham LLP, Decimal Place, Chiltern Avenue, Amersham HP6 5FG

Lane, Clark & Peacock LLP, 95 Wigmore Street, London, W1U 1DQ

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