



ANNUAL REPORT AND ACCOUNTS

Year ended 31 March 2006

Presented pursuant to section 10(4) of the Licensing
(Alcohol Education and Research) Act 1981

Ordered by the House of Commons to be printed on 20 July 2006

Registered Charity No. 284748

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**Report of the Alcohol Education and Research Council
for the year ended 31 March 2006**

The Council presents its report along with the financial statements of the charity for the year ended 31 March 2006. The financial statements comply with the provisions of section 10 of the Licensing (Alcohol Education and Research) Act 1981 and the Statement of Recommended Practice '*Accounting and Reporting by Charities*'.

Constitution and objects

The Alcohol Education and Research Fund is constituted under the provisions of section 6 of the Licensing (Alcohol Education and Research) Act 1981 and is a registered charity. This Act was introduced by the Government to wind up the *Licensing Compensation Scheme*, which had been established early in the 20th century as a mechanism for reducing the number of pubs in the hope that this would reduce drunkenness and drunken offences. The liquidation of the licensing compensation funds, which was finally completed in 1997, produced a total of £3,118,599.

Section 7 of the 1981 Act provides that the Fund is to be vested in and administered by the Council and applied for such charitable purposes within the United Kingdom as the Council may from time to time determine from among the following:

- (a) The education of the public as to the causes and effects of, and means of preventing, excessive consumption of alcohol;
- (b) The care and rehabilitation of persons convicted of offences involving drunkenness;
- (c) The provision of treatment and other help for persons dependent on alcohol or given to excessive consumption of alcohol; and
- (d) Research into matters relevant to any of the purposes mentioned in paragraphs (a) to (c), and the publication of the results of such research.

The Act provides additionally that, in determining how the Fund is to be applied for the purposes of (b) and (c) the Council *shall* give priority to support for novel schemes for achieving those purposes.

The Council has defined its current objectives in the following *Statement of Purpose*:

The Council seeks to develop the capacity of people and organisations to address alcohol issues and also develop the evidence base linked to alcohol policy. Effective dissemination of this evidence to researchers, policy makers and practitioners is an important component of the strategy.

These objectives were redefined as part of the output from the ongoing strategic review of AERC's activities.

Membership of the Council

The Members of the Council who served during the financial year are listed at Annex A of this Annual Report. Council Members are appointed for three years of service, are non-executive and are unpaid. Newly appointed members attend an induction session involving the Council as a whole before attending their first Council meeting. The full Council, and each of its three committees, meet not less than three times annually. The Council has access to independent financial and legal advice to ensure that the Council manages its affairs in a proper manner.

In total, Council members voluntarily gave around 150 days of their time annually, working for the AERC.

Structure, governance & management

The 15 members of the Council meet three times per year and makes decisions relating to strategies and priorities. There are two main committees that make decisions about the funding of specific projects each consisting of eight members. The Research Committee and the People & Organisations Committee consider applications for grants in their areas. They have delegated authority to refuse applications but decisions to award grants are subject to a mechanism agreed by the Council. All major Research or Development applications are reviewed by at least two experts in the field. Small grants are assessed by two members and the scientific officer. Studentships are administered by the People & Organisations Committee.

The Secretary of State for Culture, Media and Sport is the sponsoring authority for the Council. The Council's day to day contact with the sponsoring authority is through the Division of Tourism of the Department of Culture, Media and Sport. The Secretary of State for the Department of Culture, Media and Sport appoints Council Members.

Council Members and Staff Transactions

A full register of interests of Council members is held by the Council at its offices, where it may be seen on application to the Accounting Officer. Details of related party transactions in 2005/6 are disclosed in note 15 in the financial statements.

Objectives, Achievements and Performance

Research

The main objective of the research strategy is the improvement of the evidence base. The Research Committee is open to a wide range of methodologies including qualitative and quantitative approaches, single case studies and systematic reviews. As matters of policy the Council will not normally contribute to the running costs of organisations or fund bio-medical projects.

The first major objective of the Council is to fund good research projects that are methodologically sound and could have a significant impact. The following R&D projects were funded this year. They were selected from 22 applications after each was peer reviewed by at least two experts in the field.

- The Representation and Reception of Meaning in Alcohol Advertising: A Study with Teenage Consumers
- The normalisation of binge drinking? An historical and cross cultural investigation with implications for action
- Drinking to the future: Adult outcomes of adolescent alcohol involvement in the 1970 British Cohort Study
- Young people's street drinking behaviour: Investigating the influence of marketing and subculture.
- Assessing the relationships between late night drinks marketing and alcohol-related disorder in public space.
- ESPAD 2007 (The European School Survey Project on Alcohol and other Drugs)
- Reducing alcohol-related harm in the workplace: a feasibility study of screening and brief interventions for hazardous drinkers

Development

One aim is to improve the alcohol-related practice of both generic and specialist alcohol workers. Promoting organisational development and translating evidence into policy and practice are other main objectives. These objectives are being pursued by the People & Organisations Committee. The Council requires each holder of a research or development grant to provide:

- A full report of the project. In the case of research grants this will be a full academic report; and
- A draft *Alcohol Insight* which summarises the key findings and their implications.

Community Interventions

One major development, funded by the Council, is the United Kingdom Community Alcohol Prevention Project (UKCAPP). This project is based in Cardiff, Birmingham & Glasgow. Each centre is developing a community action programme involving several strands such as training bar staff, police initiatives to prevent public disorder and mobilising the community to be positive towards alcohol initiatives. The whole project is being evaluated by the Bath Mental Health R&D Unit.

Manuals & Tool-Kits

Another important development is the expansion of the Council website (www.aerc.org.uk) in order to provide access to final reports, manuals and tool-kits that emerge from funded projects. This section of the website will become increasingly important as further useful resources are added. For example it now includes:

- The manual for the Fast Alcohol Screening Test
- A tool-kit to guide professionals who are working with the children and families of alcohol misusers.
- A manual on alcohol education: A guide for teachers, employers and other programme developers.

Final reports on research and development projects are also posted in this section. The aim is to provide one plank of a systematic dissemination strategy.

Priorities

The following priorities were identified for funding in 2005-2006.

- Develop a sociological, historical, psychological and/or anthropological research perspective on how and why “binge-drinking” has become so normalised in the UK, compared to other countries in Europe and North America.
- Look at the role marketing activities have played in changing young peoples’ drinking patterns, particularly binge drinking
- Review different measures of drinking behaviour in young people to identify the best predictors of the likelihood of future misuse, for example alcohol dependence or alcohol-related crime and violence.
- Examine the effects of brief interventions delivered in non-medical settings such as social work, the criminal justice system or the workplace.
- Explore the way in which the UK drinks industry interacts with the government, including research on how the industry responds to legislation and the extent to which they adhere to current controls.

Studentships

Each year AERC funds at least a dozen studentships on reputable alcohol related courses. Thirteen new students were funded in 2005/6.

Small grants

Small projects are funded up to a maximum of £5,000. The Council funds small research projects, pilot research studies or demonstration projects with a strong evaluation component. Small grants can also fund projects that increase the capacity of individuals and organisations to deal with alcohol issues. The Council gives preference to projects that will have a demonstrable impact. The Council funded small grants totalling £92,226 in the year to 31 March 2006 (2005, £79,073).

Financial review

The financial review, summarised in the following table, relates to the objectives described above.

Programme	Grant funded activities	Support costs	Total
	£	£	£
Research	242,875	59,765	302,640
Development	49,917	12,283	62,200
Studentships	81,293	24,016	105,309
Small grants	92,226	24,016	116,242
Total	466,311	120,080	586,391

Future plans

A review of the AERC, carried out by an independent consultant, has concluded:

1. That the AERC is asked to focus its expenditure on the development of a multi disciplinary programme of research, including support to individual researchers. The development of the Drinkaware Trust with a specific role in public education should enable the AERC to clarify its focus.
2. That the AERC is asked to re-order its governance arrangements to be more closely aligned with current good practice. This should include the creation of a smaller Council, operating as a strategic board of trustees, appointed by the relevant government department, in accordance with OCPA rules, and the creation of separate specialist advisory groups.
3. That consideration should be given to moving the sponsorship of the AERC within government away from DCMS.

These changes will be implemented during the year 2006-2007. More detailed and specific changes will be formulated by the Council.

Basis of preparation of Financial Statements

The Financial Statements have been prepared in accordance with the Statement of Recommended Practice 'Accounting and Reporting by Charities' issued in March 2005 and comply with Section 10 (i) (b) (ii) of the licensing (Alcohol Education and Research) Act 1981.

Going Concern

The Council receives no grants from the Department of Culture, Media and Sport, or from any other government department, and has sufficient funds at its disposal to finance its ongoing grant commitments. There is no restriction on the reallocation of the fund's investments to supplement annual income to support its grant commitments. Accordingly, the Council considers it appropriate to prepare its financial statements on the going concern basis.

Annex A

Members of the Alcohol Education and Research Council who served during the year to 31 March 2006:

Dr Noel Olsen	Chairman
Mr Ian Ford	Chairman of the Finance & General Purposes Committee
Dr John Kemm	Chairman of the Research Committee
Mrs Daljit Sidebottom	Chairman of the Developing People and Organisations Committee
Dr Jonathan Chick	
Ms Jean Cousins	
Ms Joyce Craig	
Professor Ilana B Crome	
Ms Rhoda Emlyn-Jones	
Professor David Foxcroft	
Mr Peter Harraway	
Professor Gerard Hastings	
Professor Richard Hobbs	
Dr Pui-Ling Li	
Ms Gaye Pedlow	

Director, Scientific Advisor and Accounting Officer

Professor Ray Hodgson

Accountants

Chantrey Vellacott DFK, Russell Square House, 10-12 Russell Square, London WC1B 5LF

Administrative Office

Queen Anne Business Centre, 28 Broadway, London SW1H 9JX

Auditors

Comptroller and Auditor General, National Audit Office, 157-197 Buckingham Palace Road, London SW1W 9SP

So far as the Accounting Officer, and each person who was a Council member at the date of approving this report, are aware, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. Having made enquiries of the Council and the Council's auditor, the Accounting Officer has taken all the steps that he is obliged to take as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. Having made enquiries of the Accounting Officer, fellow Council members and the Council's auditor, each Council member has taken all the steps that he/she is obliged to take as a Council member in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Bankers

CAF Bank Ltd, King's Hill, West Malling, Kent ME19 4TA

The Bank of New York Limited, One Canada Square, London E14 5AL

Investment Managers

Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN

Solicitors

Arlingtons Sharmas, 6 Arlington Street, London SW1A 1RE

Registered Charity no. 284748

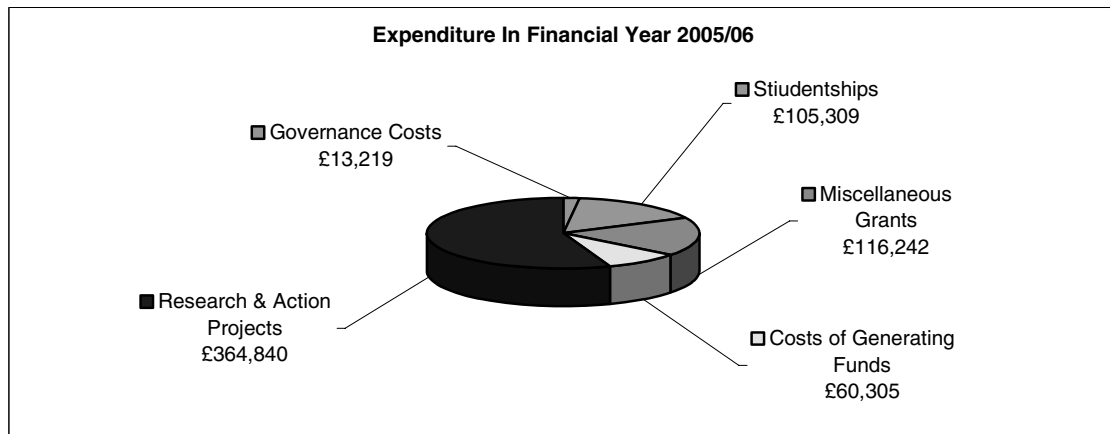
Financial Review

Results for the year

The value of the Fund at 31 March 2006 was £13,195,681, an increase of £1,831,979 over the value of 31 March 2005 (£11,363,702). The increase in the value of the fund reflects the ongoing recovery of the UK stock market which commenced in 2003/4 following two years of declining values. The Council continues to maintain a conservative investment policy, where the opportunities for capital growth are constrained by a requirement to generate a minimum level of investment income.

The total income of the Council in the financial year was £660,053 (2004/5 £706,441). The reduction in income of £46,388 (6.1%) is mainly due to lower bequests and donations from £42,121 in 2004/5 to £5,610 in 2005/6.

Total expenditure amounted to £659,915 (2004/5, £896,837), of which, £13,219 (2004/5, £22,346) was accounted for by governance costs.



Review of Investment Policy and Performance

By section 7(5) of the Licensing (Alcohol Education and Research) Act 1981 as amended, the Council is empowered to invest any sums that are not immediately required for any other purpose in any investments in which trustees may invest under the general power of investment in section 3 of the Trustee Act 2000 (as restricted by sections 4 and 5 of that Act).

Baillie Gifford & Co manages the Fund on behalf of the Council. Following consultation with Baillie Gifford, the Council has decided to revise its investment policy which now seeks to generate both income and capital appreciation from investments in corporate bonds and UK equities. The primary investment objective is for the total investment return, for both income and capital appreciation, to outperform the bespoke benchmark outlined below by 1% per annum over rolling five year periods.

Included within the corporate bond portfolio is a holding in the pooled Baillie Gifford High Yield Bond Fund where, although there are no formal bond rating restrictions applicable, the Investment Manager is required to notify the Council if the pooled fund's exposure to bonds rated lower than B- exceed 10%. At 31 March 2006 this investment represented 3.8% of the Fund's value.

ASSET CLASS	INDICES	WEIGHTING
<i>UK Equities</i>	Micropal Equity Income Sector Average Return	67%
<i>Corporate Bonds</i> - Investment Grade	Merrill Lynch > 5 year Corporate Bonds	26%
- Sub-Investment Grade	Merrill Lynch Sterling High Yield	6%
<i>Cash</i>	LIBID 7 Day	1%

Notwithstanding the objective of achieving a total return of capital appreciation and income, an income benchmark target of £615,000 has been agreed with Baillie Gifford for the year to 31 March 2007. The investment manager is given flexibility to deviate from this income target by up to 10%.

The only restriction that the Council places upon Baillie Gifford's investment discretion is that the Fund may not invest directly in any company involved in the manufacture of tobacco. Under section 4(1) of the Trustee Act 2000 the Council is obliged to have regard *inter alia* to the *suitability* of investments. As a charity involved in addictive health issues the Council believes that it would be extremely damaging to its reputation were it to be seen by the public at large to be investing in tobacco companies. The Council are of the opinion that this restriction falls within the acceptable criteria outlined in the Charity Commissioners Guidance Note CC14 – Investment of Charitable Funds.

The fund managers submit a monthly report to the Council on the valuation of the fund and on transactions in the portfolio. A full report is sent each quarter to each member of the Council, which in addition provides an overview of performance, a report on the economic outlook and other relevant issues. The fund managers regularly attend meetings of the Finance and General Purposes committee and from time to time attend meetings of the Council.

During the year the fund managers delivered a level of return that exceeded the target level. In terms of performance against the benchmark, Baillie Gifford & Co produced a total return of 21.5% against a return on the benchmark of 19.8%. The Council is of the opinion that investment performance can only be effectively assessed over a longer timeframe than one year. The Council is pleased to note that Baillie Gifford's average annualised performance over a 3 and 5 year timeframe has exceeded the benchmark as follows:-

	<u>3 Years</u> <u>% p.a.</u>	<u>5 Years</u> <u>% p.a.</u>
Fund	21.1	10.0
Benchmark	19.4	7.9

Each month the fund manager transfers to the Council's deposit account with CafCash Ltd the investment income and bank interest that has been received in the past month.

Fundraising

The Council actively seeks to expand its funding base through collaboration with other funding bodies in the alcohol field.

The Council has also, from time to time, received donations or bequests. Under section 4 of the Alcoholics Anonymous (dispositions) Act 1986 any bequests made to the *Alcoholics Anonymous Fellowship* are deemed to have been made to the Council.

In the course of 2005/6 the Council received £5,610 in donations and bequests.

Reserves policy

It is the Council's policy to maintain approximately 1 – 2 per cent of the Fund in cash under the control of the fund manager.

The Council has considered the Charity Commission Guidance Note CC 19 dated April 2002. It is the Council's intention not to accumulate reserves, but to expend income year on year. However, due to the nature of the projects that it finances, it is possible for the Council to overspend or underspend in any one year depending upon the quality of grant applications received and the timing of grant claims. The Council reviews this policy on an annual basis.

Prompt Payment Policy

The Council follows the Treasury's guidance on payment of invoices. In 2005/6 the Council paid as many as possible of its invoices within the target 30 days.

Audit

Under statute, the Comptroller and Auditor General is the auditor of the Council's Accounts for the year ended 31 March 2006. The audit fee in respect of this work was £3,200.

Noel David Lyche Olsen
Chairman of the Council

Ray Hodgson
Director and Accounting Officer

7 July 2006

7 July 2006

Statement of Council Members' and Accounting Officer's Responsibilities

Under the Licensing (Alcohol Education and Research) Act 1981 and the Charities Act 1993, the Council is required to prepare a statement of financial accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with the consent of the Treasury. The accounts are prepared to show a true and fair view of the Council's financial activities during the year and of its financial position at its year end.

In preparing the Council's accounts, Members are required to:

- Observe the accounts direction issued by the Secretary of State*, including the relevant accounting and disclosure requirements, and apply them on a consistent basis;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards and statements of recommended practice have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statement on the ongoing basis, unless it is inappropriate to presume the Council will continue in operation.

Professor Ray Hodgson is the designated Accounting Officer for the Council and his relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

Noel David Lyche Olsen
Chairman of the Council

Ray Hodgson
Director and Accounting Officer

7 July 2006

7 July 2006

* A copy is available from the administrative office, Room 178, Queen Business Centre, 28 Broadway, London SW1H 9JS. A charge will be made for this.

Statement on Internal Control

Scope of Responsibility

As Accounting Officer and Chair of the Council (as a representative of the Council) we have joint responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives as set out in our Statement of Purpose, whilst safeguarding the public funds and Council assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned to him in Government Accounting.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the Alcohol Education and Research Council for the year ended 31 March 2006 and up to the date of the approval of the annual report and accounts, and accords with Treasury Guidance.

Capacity to Handle Risk

The Council reviews its risk management arrangements each year. These arrangements include addressing risks involved in strategy and policies, people, partnerships, processes and priorities.

The Risk and Control Framework

The key elements of the risk strategy are to:

- Make the identification of risks an integral part of the planning process. Objectives have been set and then risks are linked directly to them;
- Assess risks on the basis of the likelihood and impact, and evaluate the impact of controls to distinguish between inherent risk and residual risk;
- Integrating risk assessment into all key areas of Council activities; and
- Reviewing strategic risks and progress against them.

Strategies are currently in place to address the following key risks:

- Fall in the value of investments;
- Catastrophic IT malfunction and loss of files;
- Loss of key staff resulting in loss of the core knowledge required to run the Council;
- Failure of grant holders to deliver; and
- Fall in the reputation of the Council and loss of support from the research community.

Review of Effectiveness

As Chairman of the Council and Accounting Officer, we have responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the work of the Finance and General Purposes Committee, who have responsibility for monitoring risk management procedures and the maintenance and operation of the system of internal control, and comments made by the external auditors in their management letter and other reports.

We have been advised by the Council and the Finance and General Purposes Committee on the implications of the result of our review of the effectiveness of the system on internal control.

Significant Internal Control Problems

There are no significant internal control problems to report.

Noel David Lyche Olsen
Chairman of the Council

Ray Hodgson
Director and Accounting Officer

7 July 2006

7 July 2006

ALCOHOL EDUCATION AND RESEARCH COUNCIL

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR
GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Alcohol Education and Research Council for the year ended 31 March 2006 under the Licensing (Alcohol Education and Research) Act 1981. These comprise the Statement of Financial Activities, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Council, the Director, and auditor

The Council, and the Director, as Accounting Officer, are responsible for preparing the Trustees' Report, the Remuneration Report and the financial statements in accordance with the Licensing (Alcohol Education and Research) Act 1981 in the form directed by the Secretary of State for Culture, Media, and Sport and approved by the Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Council's and Director's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Licensing (Alcohol Education and Research) Act 1981 and directions made thereunder by the Secretary of State for Culture, Media, and Sport, with the consent of the Treasury. I also report whether in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Trustees' Report is not consistent with the financial statements, if the Alcohol Education and Research Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on page 13 reflects the Alcohol Education and Research Council's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Trustees' and Director's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Alcohol Education and Research Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Trustees' Report, and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and the Director in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Alcohol Education and Research Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Licensing (Alcohol Education and Research) Act 1981 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury, of the state of the Alcohol Education and Research Council's affairs as at 31 March 2006 and of the incoming resources and application of resources for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Licensing (Alcohol Education and Research) Act 1981 and directions made thereunder by the Secretary of State for Culture, Media, and Sport with the consent of the Treasury; and
- in all material respects the expenditure, income and resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP*

18 July 2006

The maintenance and integrity of the UKTI's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

**STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006 Unrestricted Funds £	2005 Unrestricted Funds £
Incoming resources			
Incoming resources from generating funds:			
Voluntary donations		5,610	42,121
Investment income	3	654,443	664,320
Total incoming resources		660,053	706,441
Resources expended			
Cost of generating funds:			
Voluntary donations	4	322	3,076
Investment Management fees		59,983	51,079
		60,305	54,155
Charitable expenditure:			
Research and action projects		364,840	658,036
Studentship		105,309	64,104
Small Grants		116,242	98,196
Charitable expenditure	4	586,391	820,336
Governance costs	4	13,219	22,346
		599,610	842,682
Total resources expended		659,915	896,837
Net incoming/(outgoing) resources		138	(190,396)
Notional cost of capital		(429,789)	(384,590)
		(429,651)	(574,986)
Add back: Notional cost of capital		429,789	384,590
		138	(190,396)
Other recognised gains and losses			
Gains/Losses on investment assets:			
-realised	7	141,884	(11,639)
-unrealised	7	1,689,957	952,825
Net Movement in Fund		1,831,979	750,790
Fund Balance brought forward at 1 April 2005		11,363,702	10,612,912
Fund Balance carried forward at 31 March 2006		13,195,681	11,363,702

All charitable activities relate to continuing operations.

There are no recognised gains or losses other than those dealt with through the Statement of Financial Activities.

The notes on pages 20 to 30 form part of these financial statements.

**BALANCE SHEET
AT 31 MARCH 2006**

	Notes	2006	2005
		£	£
Fixed Assets			
Office equipment	6	-	768
Investments	7	<u>13,479,698</u>	<u>11,632,878</u>
		13,479,698	11,633,646
Current Assets			
Debtors	9	119,920	109,964
Cash at bank		<u>639,017</u>	<u>671,486</u>
		758,937	781,450
Creditors: amounts falling due within one year	10	<u>996,419</u>	<u>977,972</u>
Net Current Liabilities		<u>(237,482)</u>	<u>(196,522)</u>
Total assets less current liabilities		13,242,216	11,437,124
Creditors: amounts falling due after more than one year	10	<u>(46,535)</u>	<u>(73,422)</u>
Net Assets		<u>13,195,681</u>	<u>11,363,702</u>
Funds:			
Unrestricted Funds	1.8	<u>13,195,681</u>	<u>11,363,702</u>

The notes on pages 20 to 30 form part of these financial statements.

Approved by Council on 7 July 2006 and signed on its behalf on by:

Noel David Lyche Olsen
Chairman of the Council

Professor Ray Hodgson
Director and Accounting Officer

**CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006		2005	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	14		(17,490)		122,785
Capital expenditure and financial investment					
Payments for investments		(3,665,722)		(2,379,683)	
Proceeds from sales of investments		<u>3,594,816</u>		<u>2,413,133</u>	
			(70,906)		33,450
Net cash (outflow)/inflow for the year	14		<u>(88,396)</u>		<u>156,235</u>

The notes on pages 20 to 30 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

1 Accounting Policies

1.1 Basis of accounting

The Council has adopted the following policies which should be read in conjunction with the financial statements set out on pages 17 to 19. These have been prepared in accordance with the Statement of Recommended Practice "Accounting and Reporting by Charities" (SORP 2005) issued in March 2005 and applicable UK Accounting Standards and comply with Section 10(1)(b)(ii) of the Licensing (Alcohol Education and Research) Act 1981.

1.2 Investment Income

Investment income comprises interest and dividends receivable in the year and is shown inclusive of recoverable tax.

Donated goods or services are included at market value

1.3 Expenditure

Grants are accounted for by recognising the grants at the date on which they receive formal approval. All approved grants are therefore regarded as commitments.

Administrative and other expenditure is charged to the statement of financial activities in the year in which it is incurred.

Where possible expenditure has been allocated to specific categories in the SOFA. Where this is not possible they have been allocated on the basis of staff time.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful economic life, as follows:

Office equipment 25% - 33% straight line

1.5 Investments

Investments are included at their market value at the balance sheet date. Market value includes accrued interest on Corporate bonds and Government stocks.

1.6 Foreign currency transactions

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 transaction. All differences are taken into the statement of financial activities.

1.7 Taxation

As a registered charity the fund is not liable to taxation on its charitable activities.

1.8 Funds

The Unrestricted Funds comprise income which the Council is free to use in accordance with its objects.

1.9 Pension

The Council does not have an Occupational pension scheme, but contributes a proportion of members salaries to private savings schemes. These amounts are expensed through the SOFA.

1.10 Cost of Capital

The cost of capital is calculated using an interest rate of 3.5%.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

2 Constitution

The Alcohol Education and Research Fund is provided for as a statutory charity under the terms of the Licensing Act (Alcohol Education and Research) Act 1981, which was brought into operation on 1 October 1981 by Statutory Instrument 1981 No 1324. The fund is applied for the charitable purposes outlined in Section 7 sub-sections 2-4 of the Act.

3 Investment Income

	2006 £	2005 £
Corporate bonds and British Government stocks	189,727	185,198
Convertible loan stocks	9,240	55,691
Equities	391,119	365,754
Irrecoverable tax on Equities	(40,865)	(35,658)
Managed and utilised funds	65,206	59,079
Bank deposit interest	38,596	34,256
Other income	1,420	-
	<u>654,443</u>	<u>664,320</u>

4a Resources Expended

	Notes	Charitable	Fundraising	Governance	2006 Total £	2005 Total £
		£	£	£		
Secretary		1,080		120	1,200	1,200
Scientific officer		10,530		1,170	11,700	31,000
Secretarial assistance		26,078		2,897	28,975	26,998
Pension costs		3,292		366	3,658	1,622
National Insurance		3,728		414	4,142	6,211
Rent and service charges (incl. secretary's expenses)		5,993		503	6,496	4,875
Insurance		466		52	518	-
IT costs		3,263		362	3,625	5,551
Printing, postage and stationery		1,427		159	1,586	614
Travel expenses		674		75	749	767
Meetings of Full Council in and out of London		14,768		1,641	16,409	7,934
Research committee meetings		1,357		151	1,508	1,546
Education committee meetings		801		89	890	2,103
Finance and GP committee meetings		968		107	1,075	867
Staff Training				-	-	250
Dissemination		180		20	200	-
Auditors' remuneration for audit services				3,200	3,200	3,100
Accountancy fees		4,284		476	4,760	4,083
Bank charges		52		6	58	76
Chairman's expenses		1,975		219	2,194	3,671
Depreciation		691		77	768	1,561
Research facilitation		25,816			25,816	-
Carried Forward		107,423	-	12,104	119,527	104,029

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

4a Resources Expended (cont.)

	Notes	Charitable £	Fundraising £	Governance £	2006 Total £	2005 Total £
Brought Forward		107,423	-	12,104	119,527	104,029
Investment Management fees			57,670		57,670	51,079
Custody fees			2,313		2,313	-
Irrecoverable VAT		11,567		995	12,562	13,929
Fundraising			322		322	3,076
Payroll Services		900		100	1,000	1,000
Other expenditure		190		20	210	-
		120,080	60,305	13,219	193,604	173,113
Research and action projects	13	292,792			292,792	599,669
Grants payable - studentship	13	81,293			81,293	44,982
Grants payable - small	13	92,226			92,226	79,073
		586,391	60,305	13,219	659,915	896,837

The directors salary and associated national insurance and pension costs have been split 30:70 between salary and research facilitation costs.

4b Analysis of Charitable Expenditure

Analysis of Charitable Expenditure	Grants	Allocation of Support Costs	Total	2005
Research and action projects	292,792	72,048	364,840	658,036
Studentship	81,293	24,016	105,309	64,104
Small	92,226	24,016	116,242	98,196
Total	466,311	120,080	586,391	820,336

Support costs have been allocated to charitable expenses in proportion to grant expenditure.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

5 Staff costs

The Council have employed two part time staff during the year (2005: two), who were engaged in administrative duties.

Staff costs for the above persons were:	2006	2005
	£	£
Salaries	61,475	57,998
Social security costs	6,614	6,211
Pension costs	3,658	1,622
	<u>71,747</u>	<u>65,831</u>

No employee received remuneration in excess of £60,000 per annum (2005: none).

The Accounting Officer received emoluments of £32,500 during the year (2005: £31,000) and pension contributions of £1,950 (2005: nil). He also received £2,019 of pension contributions for 2006/07 in advance

6 Tangible fixed assets

	Office Equipment £
Cost	
At 1 April 2005	13,352
At 31 March 2006	<u>13,352</u>
Depreciation	
At 1 April 2005	12,584
Charge for the year	768
At 31 March 2006	<u>13,352</u>
Net book value	
At 31 March 2006	<u>-</u>
At 31 March 2005	<u>768</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

7 Listed investments

At valuation:	2006	2005
	£	£
Listed investments 1 April 2005	11,437,655	10,529,919
Additions	3,665,722	2,662,623
Disposals	(3,452,933)	(2,707,712)
Unrealised gains on revaluation	1,689,957	952,825
	<hr/>	<hr/>
Listed investments 31 March 2006	13,340,401	11,437,655
Cash awaiting re-investment	139,297	195,223
	<hr/>	<hr/>
	13,479,698	11,632,878

Analysis by type:

	2006		2005	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
Corporate bonds and British Government stocks	3,577,555	3,225,317	3,580,384	3,286,745
Equities and convertible loan stocks	9,762,846	7,409,646	7,857,271	6,694,234
Cash awaiting re-investment	139,297	139,297	195,223	195,223
	<hr/>	<hr/>	<hr/>	<hr/>
	13,479,698	10,774,260	11,632,878	10,176,202

All investments are held in the UK.

Realised Gains/(Losses):

The difference between the total market value of shares disposed and the cash received resulted in a realised profit/(loss) of £141,884 (2005: £(1,304)). There were no other realised losses on investments in the year (2004/05: a further realised loss of £10,335 was incurred as the net result of bonus issues and replacement of shares in AERC's portfolio as the result of mergers and acquisitions).

At the year end there was no individual investments that accounted for 5% or more of the portfolio of investments.

8 Trustees' reimbursements

Included in the cost of meetings is a total of £8,476 of travel and hotel costs (2005: £5,329) reimbursed to or paid directly on behalf of 15 trustees (2005: 15). No remuneration is paid to trustees. Grant funding received by trustees is disclosed in Note 15.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

9 Debtors

	2006 £	2005 £
Tax recoverable	1,283	4,602
Fixed interest due	17,172	4,437
Equity dividends declared but not yet received	95,759	82,027
Managed & Unitised Fund income	-	18,898
Prepayments	2,019	-
Other debtors	3,687	-
	119,920	109,964

All amounts due within one year.

10 Creditors

	2006 £	2005 £
Amounts falling due within one year:		
Accrued expenses	33,740	12,315
Research and action projects	788,322	861,362
Small Grants	97,124	69,553
Studentship grants	51,874	34,742
Other creditors	25,359	-
	996,419	977,972
Amounts falling due after more than one year:		
Research and action projects	34,001	67,802
Studentship grants	12,534	5,620
	46,535	73,422

11 Financial Instruments

FRS 13, Derivatives and other Financial Instruments, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the Council faces in undertaking its activities. As permitted by FRS13, debtors and creditors which mature or become payable within twelve months of the Balance Sheet have been omitted from this note.

Liquidity and Currency Risk

The Alcohol Education and Research Council has no borrowings and does not rely on departmental or other grants for its cash requirements. Income is generated primarily from its investments which as at the 31 March 2006 were £13.5M (2005: £11.6M). It is therefore not exposed to liquidity risk. Furthermore all material assets and liabilities are denominated in sterling, it is also not exposed to currency risk. The Council has chosen not to manage its interest rate risk as it does not believe it to be significant.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

11 Financial Instruments (cont.)

Interest Rate Risk

Financial assets

	Floating Rate £	Asset Earning Equity Return £
At 31 March 2006		
Sterling:		
Cash at Bank	639,017	--
Cash awaiting reinvestment investments.	139,297	-
Fixed Asset Investments	-	13,340,401
Total	<u>778,314</u>	<u>13,340,401</u>

At 31 March 2005

Sterling:		
Cash at Bank	671,486	-
Cash awaiting reinvestment investments.	195,223	-
Fixed Asset Investments	-	11,437,555
Total	<u>866,709</u>	<u>11,437,555</u>

Reconciled to the Accounts

	2006 £	2005 £
Fixed Asset Investments	13,479,698	11,632,878
Cash at Bank	639,017	671,486
Total	<u>14,118,715</u>	<u>12,304,364</u>

12 Cash balances

	2006 £	2005 £	Change in year
Cash on deposit at bank	639,017	671,486	(32,469)
Cash awaiting re-investment	139,297	195,223	(55,926)
	<u>778,314</u>	<u>866,709</u>	<u>(88,395)</u>

13 Grants payable

	Research & action projects £	Studentship grants £	Small grants £	2006 total £	2005 total £
Commitments at 1 April 2005	929,164	40,362	69,553	1,039,079	713,152
Awarded in Year	306,093	81,293	92,224	479,610	742,713
Payments made during the year	(399,633)	(57,246)	(64,655)	(521,534)	(397,799)
Grants Cancelled	(13,301)	-	1	(13,300)	(18,987)
Commitment at 31 March 2006	<u>822,323</u>	<u>64,409</u>	<u>97,123</u>	<u>983,855</u>	<u>1,039,079</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006

13 Grants payable (cont.)

Details of grants paid during the year and outstanding at the year end are as follows:

	Paid £	Outstanding £	Payable
Institutional grants (research and action projects)			
University of Bath		1,808	2006/07
Leeds Addiction Unit	3,400		2006/07
Pontypridd & Rhondda NHS Trust	9,028		2006/07
University College, London		6,183	2006/07
National Deaf Services		2,250	2006/07
Black and Ethnic Minorities Project	20,500	12,250	2006/07
Manchester Royal Infirmary	4,720		2006/07
University of Newcastle-upon-Tyne	15,407	9,742	2006/07
Glasgow University School of Dentistry	17,475	2,695	2006/07
Imperial College Department of A and E Medicine		10,505	2006/07
Educari	9,819		2006/07
Galahad SMS Ltd	10,000		2006/07
Dorset Healthcare NHS Trust	1,000		2006/07
University of Wales Institute, Cardiff		993	2006/07
University of Birmingham	662	15,567	2006/07
Oxford Brookes University	26,798	10,772	2006/07
The University of Birmingham	867	32,774	2006/07
The University of Bath	23,057	18,903	2006/07
The University of Bath	28,546	1,454	2006/07
Alcohol Concern	6,050	750	2006/07
Alcohol Concern	5,970	392	2006/07
Goldsmith's College, University of London	26,803	18,037	2006/07
TSA	25,846	9,232	2006/07
London School of Hygiene & Trop - Nanchahal	29,717	18,680	2006/07
London School of Hygiene & Trop - Roberts	18,150	2,846	2006/07
University of Bath	24,121	31,293	2006/07
Community Action - Cardiff	26,547	16,044	2006/07
Community Action - Birmingham	21,702	28,297	2006/07
Community Action - Glasgow		50,000	2006/07
Community Action - Evaluator - Uni of Bath	17,198	63,931	2006/07
UWIC		40,833	2006/07
Community Safety Unit, Suffolk Police		50,000	2006/07
Womens Resource & Development Agency	9,434	5,311	2006/07
Robert Gordon University	16,189	10,105	2006/07
UK CAP R&D	628	53,137	2006/07
University of Leicester		46,745	2006/08
London School of Hygiene & Trop - Berridge		36,000	2006/07
National Addiction Centre		49,767	2006/08
Glasgow Caledonian University - Shewan		38,146	2006/07
Glasgow Caledonian University - Forsyth		46,964	2006/07
Alcohol & Health Research Trust		30,000	2006/08
Glasgow Caledonian University - Watson		49,917	2006/07
Carried forward	399,634	822,323	

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

13 Grants payable (cont.)

Brought forward	399,634	822,323	
(Small Grants)			
Middlesex University	882	961	2006/07
Greater Easterhouse Alcohol Awareness Project	1,654		2006/07
Glasgow Caledonian University		1,204	2006/07
Brook	5,000		2006/07
University of Bath	4,000	1,000	2006/07
University of Ulster		5,000	2006/07
University of Stirling	4,959	37	2006/07
University of Southampton		3,900	2006/07
OCHRAD	776	4,153	2006/07
CATH		4,550	2006/07
East Kent Community Alcohol Service		5,000	2006/07
Breakthrough Breast Cancer	3,180		2006/07
TIE Review	4,200		2006/07
University of Bristol		4,243	2006/07
City of Stoke on Trent		5,000	2006/07
University of the West of England		4,854	2006/07
Cardiff Alcohol and Drug Team	5,001		2006/07
Leeds North East PCT		3,500	2006/07
Medical Council on Alcohol	4,766	234	2006/07
Royal Gwent Hospital		1,500	2006/07
Lothian and Borders Police	3,809	191	2006/07
Cardiff University	427	15	2006/07
University of the West of England	3,600	1,400	2006/07
Manchester Metropolitan University		4,826	2006/07
Addictions Forum	3,000		2006/07
NOFAS UK	5,000		2006/07
NDSAG	3,000		2006/07
North Bristol NHS Trust		1,000	2006/07
Glasgow Caledonian University		4,764	2006/07
Liverpool Film Academy Educational Trust	5,000		2006/07
The Nursing Council on Alcohol	400		2006/07
Alcohol Focus Scotland	3,000		2006/07
PUAC		4,975	2006/07
Claire Novak		650	2006/07
Northumbria University		4,880	2006/07
Alcohol Concern		5,000	2006/07
University of Ulster at Magee Campus		4,826	2006/07
The Gwalia		5,000	2006/07
Alcohol & Health Research Trust	3,000		2006/07
Glasgow Caledonian Uni-Forsyth		4,996	2006/07
University of Bristol - Mufano		4,964	2006/07
Priority Youth Housing		4,500	2006/07
	64,654	97,123	
Grants to individuals			
Studentship grants (see below)	57,246	64,409	
	521,534	983,855	

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006**

13 Grants payable (cont.)

Grants to individuals (Studentship grants)

The Council paid grants to 27 students in the year totalling £57,246 after deduction of sums refunded (2005: 19 students, total £101,765). The grants covered course fees and, in the case of full-time students, included maintenance and other allowances on a scale similar to that of the Economic and Social Research Council

14 Cash Flow Statement

	2006	2005
	£	£
Reconciliation of net movement in funds to net cash inflow from operating activities		
Net incoming/(outgoing) resources	138	(190,396)
Depreciation	768	1,561
(Increase)/decrease in debtors	(9,956)	(3,950)
Increase in current liabilities	18,447	340,643
(Decrease) in long-term liabilities	(26,887)	(25,073)
Net cash inflow from operating activities	<u>(17,490)</u>	<u>122,785</u>
Analysis of changes in cash during the year (Note 12)		
Cash at bank	(32,469)	77,820
Cash awaiting re-investment	(55,926)	78,415
	<u>(88,395)</u>	<u>156,235</u>

15 Related party transactions

The Alcohol Education and Research Council is a Non-Departmental Public Body sponsored by the Department for Culture, Media and Sport. The Department for Culture, Media and Sport is regarded as a related party. During the year, the Council has undertaken no significant transactions with the Department or its other sponsored bodies. No key staff have undertaken any material transactions with the Council.

Of the grants paid during the year, the following Council members have been involved in projects and, during the course of the project, they or their unit have received funding from the institution to which the grant was made. The details are as follows:-

Oxford Brookes University

One of the grant holders is Professor David Foxcroft who is a member of the council.

Cardiff University

One of the grant holders is Ms Rhoda Emlyn-Jones who is a member of the council.

In addition, fees amounting to £2,393 (2005: £1,200) were paid in the year to a relative of the Accounting Officer's for IT services. The work paid for was commissioned and following a competitive tendering process, which did not involve the Accounting Officer, and which confirmed the quotation accepted as being the lowest received.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2006

15 Related party transactions (contd.)

The Council's investments include a holding of 34,400 ordinary shares in Diageo plc. Mrs Pedlow, council Member, is an employee of Diageo plc, and Mr Ford, Council Member, is an employee of The North British Distillery Company Limited, a subsidiary of Lothian Distillers Ltd which is 50% owned by Diageo plc. At 31 March 2006 this holding was valued at £311,836 (2005: £238,720). The decision to invest in Diageo plc was made under delegated powers granted to Baillie Gifford & Co. The Council does not influence decisions to invest in specific equity or bond investments.

The North British Distillery Company Limited provides accountancy, finance, payroll and information technology services to AERC free of charge. The estimated market value of these services is £1,000 (2005: £1,000).

16 Past Balance Sheet Events

In May 2006, the Council moved into new premises at Queen Anne Business Centre, 28 Broadway, London, SW1H 9JX.

Remuneration Report

The members of the Finance and General Purposes Committee undertake the duties and responsibilities of a remuneration committee.

The Council members themselves are not remunerated. The Council's policy on the remuneration of the Director, Scientific Advisor and Accounting Officer, and of the Grants Manager, being the only two staff employed by the Council, is to align their salaries with reference to relevant Civil Service salary scales.

The two employees also receive pension contributions of 6% of salary each year.

Noel David Lyche Olsen
Chairman of the Council

7 July 2006

Ray Hodgson
Director and Accounting Officer

7 July 2006

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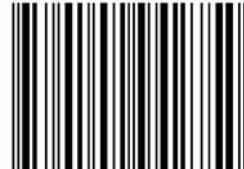
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