

# **The Fairtrade Foundation**



## **Annual Report and Financial Statements**

**for the year ended 31 December 2006**

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# The Fairtrade Foundation

## Report of the Trustees

### For the year ended 31 December 2006

The Trustees, who are also directors of the charity for the purposes of the Companies Act, present their annual report and financial statements of The Fairtrade Foundation (the "charity") for the year ended 31 December 2006. The Reference and Administrative information on pages 29 and 30 form part of this Report.

## Objectives and Activities

The Foundation's vision is of:

*A world in which every person, through their work, can sustain their families and communities with dignity.*

The Foundation works to the definition of Fair Trade agreed by FINE, a working group of the four international Fair Trade networks (Fairtrade Labelling Organisations International, International Fair Trade Association, Network of European World Shops and the European Fair Trade Association).

"Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South."

The objects of the charity are formally set out in the Memorandum and Articles of Association as:

- Relieving poverty, suffering and distress in any part of the world.
- Promoting research into and education concerning causes and effects of poverty, particularly in relation to the conduct of trade and to the conditions of employment (including self-employment) of poor people in any part of the world, and publishing the useful results of that research.

and are translated within the context of the Fairtrade Foundation's work into the following objectives:

- To assist disadvantaged producers and workers in the developing world to improve their social and economic position through improved market access, information and terms of trade.
- To raise awareness among consumers, enabling them to make informed choices about purchases.
- To influence UK companies to expand Fairtrade product availability and to develop better trading relationships with suppliers in the South.

The Foundation part-owns and works very closely with Fairtrade Labelling Organisations International (FLO), the umbrella organisation based in Germany that is responsible for the international standards that underpin Fairtrade and, through its subsidiary FLO CERT, for certifying adherence to the standards by producers and traders.

The Foundation seeks to achieve these objectives through three key areas of activity:

- Providing an independent certification of the trade supply chain, with the FAIRTRADE Mark as the consumer guarantee.
- Facilitating the market so that producers can sell to traders and retailers in order that the market for Fairtrade grows.
- Awareness-raising among consumers of the need for Fairtrade and the importance of the FAIRTRADE Mark.

## Report of the Trustees

In 2004 the Foundation undertook a strategic review which set an outline direction through to 2010 with short-term goals through to 2006 of seeking to take Fairtrade much wider, while ensuring that mainstreaming is always done with credibility and that Fairtrade systems are strengthened. The plan also set short-term priorities for 2005 and 2006 against which we are reporting in this report. During 2007 we will again be carrying out a strategic review with our stakeholders to determine our direction for the next five years.

## Achievements and Performance

The key priorities set in the strategic plan for 2005 and 2006 are:

- To maintain the current momentum of growth in sales of Fairtrade products through:
  - Being proactive on core products with significant potential.
  - Improving the level and quality of trade communications and prioritising key strategic relationships.
  - Expediting the development and launch of new products.
- To maintain the current growth in awareness of Fairtrade and increase the active purchasing of Fairtrade products by:
  - Stressing the guarantee of the Mark without ever over claiming.
  - Maintaining and developing the activist base, seeking to deepen their understanding and effectiveness in reaching new consumers.
  - Putting more resources into communications initiatives developed with commercial partners, and driving effective consumer messages.
- To invest new resources in strengthening our systems both at the Foundation and internationally by:
  - Building an international vision of improving links with producers.
  - Strengthening FLO's standard-setting processes and the Foundation's contributions to those processes.
  - Considering the best option for external verification of Fairtrade certification.
  - Improving the Foundation's internal organisational systems.

Trustees review progress on each priority during the year through quarterly reporting against key performance indicators. For the year in review the Trustees are able to report the following progress.

- To maintain the current momentum of growth in sales of Fairtrade products:

Retail sales of products with the FAIRTRADE Mark for 2006 are estimated to be £290 million, up 46% from 2005, with growth coming across all product areas. This growth comes from the new products that have been launched over the last few years, such as wine, nuts and cotton, and also from the longer established products. Coffee, tea and bananas all grew at rates in excess of 38% and are expected to continue to see significant growth. The announcement in December 2006 by Sainsbury's and Waitrose of their plans to convert all their banana supplies to Fairtrade certified sources during 2007 will more than double the level of banana sales extending benefits to thousands more farmers and workers in Central & South America and the Caribbean. Volumes of Fairtrade sales, the benchmark for defining the real benefit returned to producers, rose by an even higher rate of over 60%, with 368 producer groups now supplying the UK market – a 31% increase from 2005. The Foundation has placed particular emphasis on increasing access for producer groups from Africa, and the number of such groups supplying the UK market increased from 98 to 131 during the course of 2006.

The range of Fairtrade certified products continues to grow apace and by the end of 2006 there were over 2,500 retail and catering products available from more than 260 different companies. At the same time the nature of some retailers' engagement with Fairtrade has changed significantly so that the Foundation is now beginning to see them move beyond compliance with the standards to active commitment to Fairtrade. For example in March 2006, Marks & Spencer switched all their tea and coffee to Fairtrade.

Although no new major category of Fairtrade products was launched in 2006, the Foundation, together with international colleagues at FLO and other interested organisations, has been conducting feasibility studies in a number of areas, including cosmetics and gold.

- To maintain the current growth in awareness of Fairtrade and increase the active purchasing of Fairtrade products:

The Foundation monitors awareness of Fairtrade chiefly through an annual consumer survey undertaken by leading market research company TNS in the spring of each year. In 2006 the survey showed that 52% of the adult population could identify the FAIRTRADE Mark, more than double the level of three years previous, with this high level of recognition spread across all age groups.

Fairtrade Fortnight ran from 6 - 19 March with a theme of "Make Fairtrade Your Habit", recognising that while 40% of shoppers have bought Fairtrade products increasing the regularity of their purchasing and getting them to try other Fairtrade products has significant potential to increase the overall sales of Fairtrade. Around 10,000 activities took place throughout the UK – in workplaces, clubs, universities, cafes and restaurants, shops and supermarkets, churches and other venues – to explain how a small change in shopping habits brings big changes for farmers and their communities in developing countries. Growers toured the UK – two banana farmers from the Windward Islands, two cocoa farmers from Ghana, a wine grower from Chile, a cotton producer from India and a tea producer from Uganda – taking part in conferences, fairs and other events. A celebrity photo exhibition at the.gallery@oxo, London, also entitled Make Fairtrade Your Habit and sponsored by the Co-operative Group, showed high profile celebrities coming together to reveal their Fairtrade shopping habits as they had fun with a wide range of Fairtrade products in a series of photographs by Trevor Leighton.

In order to encourage organisations and businesses to switch to Fairtrade products, in October the Foundation launched its "Fairtrade at Work" campaign. To mark the start of the campaign, BT announced its switch to Fairtrade coffee to its 9,000 staff. Promotional materials, including posters and information leaflets, supporting people to make the switch were made available and a specific website, [www.fairtradeatwork.org.uk](http://www.fairtradeatwork.org.uk), has been created to act as an information hub with case studies explaining how and why businesses and organisations have made the switch to Fairtrade products.

The grassroots support for Fairtrade is demonstrated by the increasing numbers of local groups applying for Fairtrade status – by the end of the year 217 towns, 40 universities, over 3,000 churches and 30 synagogues had successfully reached the goals to achieve their awards. The Foundation, in close collaboration with other agencies, is now embarking on a scheme for schools with funding from the Department for International Development (DFID) and the Allan & Nesta Ferguson Trust amongst others. The Fairtrade Towns initiative, which has been partially funded by DFID for the last three years, commenced a new stage this year with a three year grant from the European Commission (EC) which will enable learning from the Fairtrade Towns programme to be shared with other countries in a new project, Fairtrade Towns in Europe. The EC grant covers 75% of the costs of the project which the Fairtrade Foundation is running with France and Belgium as partners. An international conference hosted by the Fairtrade Foundation was held in London last November and was attended by around 70 delegates from across Europe and North America as the first stage in sharing best practice. The partner organisations will go on to develop their programmes and will also host a conference each in years 2 and 3 to continue the dissemination of information about Fairtrade Towns and the different models for implementing awareness raising amongst local communities.

The Foundation's media team has been increased during the year to cope with the ever-increasing interest in the press and while the overwhelming amount of coverage is positive, the Foundation also has to be prepared to answer more sceptical press articles.

## Report of the Trustees

- To invest new resources in strengthening our systems both at the Foundation and internationally:

The growth of Fairtrade in recent years has put significant strain on the organisation and the Trustees are committed to ensuring appropriate investment is made in the Fairtrade model, systems and staff to ensure they are all equipped to cope with the potential growth that lies ahead.

This includes a number of major changes in IT systems over the coming years, the first of which was the introduction of a contacts management system which went live in December 2006. In its first stages of rollout this has enabled us to have better management of our individual supporters and online ordering, and in 2007 the system is being rolled out to cover other contacts of the organisation.

With many new staff in a rapidly growing organisation, the induction, training and development of staff is key to ensuring success in our overall objectives. A range of training courses on management skills has been developed during the year with the first round of delivery taking place in the final quarter of the year. However the Trustees are aware that there is enormous pressure on staff from the Foundation's growth and are monitoring this situation with particular emphasis.

The Trustees have also set a goal of strengthening the Foundation's relations with producer groups, and the section below on Structure, Management and Governance highlights some of the steps taken to bring producers into the governance of the Foundation. In addition the Foundation has developed much closer links with the African Fairtrade Network, providing financial support for the development of their own strategic plan during the year and is currently seeking funding to allow them to begin its implementation. The Foundation has also established a new staff team - Policy and Producer Relations - to ensure that this area of work has a focus and dedicated resources.

In FLO, the Foundation has worked hard to ensure that the constitution was amended so that the three regional producer groups for Africa, Latin America & Caribbean and Asia, are now owners of FLO along with the national labelling initiatives. Ian Bretman, the Foundation's Deputy Director, was elected to the Board of FLO and is playing a lead role in the development of FLO's strategic plan.

## Plans for 2007 and Beyond

During 2007 both the Fairtrade Foundation and FLO are due to conduct major strategic reviews to set the agenda for Fairtrade globally for the next five years. The growth seen in the UK market for Fairtrade over recent years is also being seen in other countries and one of the key challenges to the whole Fairtrade system is how it develops to meet this substantial demand in a way that continually ensures greater benefits to producers.

Clearly the successful conclusion of these reviews is one of the key aims for 2007. In addition, the Board has set three goals for the Foundation in line with the existing strategic plan. These are :

- To ensure the UK market delivers greater benefits to a greater number of producers, ensuring growth with integrity.
- To enhance the credibility and effectiveness of the Fairtrade system.
- To enhance the effectiveness of the Fairtrade Foundation as an organisation.

## Financial Overview of 2006

Incoming resources for the year increased by 33% to just over £3.5 million with an increase in all main income streams. Licence fees, paid by companies carrying the FAIRTRADE Mark on their products, are the principal source of income (now representing 74% of income) and grew by 44% to over £2.6 million. This increase is affected by the reduction in licence fee rates introduced in April 2005 to ensure that the costs of Fairtrade system do not become a barrier to new companies and producers coming in to the system. Taking into account this change, the underlying increase in licence fees is closer to the increase in retail sales value of 49%.

Grant income rose by a lower rate of 17%. There is always a cyclical nature to grant funding and as grants come to an end it can be a challenge to identify new funders for existing projects. Despite this the Foundation is pleased to have successfully obtained new grants from the European Commission towards the Fairtrade Towns initiative and from DFID for the Fairtrade Schools project which is also supported by the Allan & Nesta Ferguson Trust and The Blandford Lake Trust.

We would particularly like to thank The Shell Foundation, Oxfam, CAFOD and other charitable trusts which have provided new support for a variety of projects as well as The Four Acre Trust, The John Ellerman Foundation, The Rufford Maurice Laing Foundation and The Beatrice Laing Trust which have all provided a second year of invaluable support to Fairtrade activities. We are very grateful for the DFID, Comic Relief and the Foundation's member organisations for multi year grants which continue to support core work and important projects.

Donations and miscellaneous income rose, partially from the £30,000 sponsorship from Co-operative Group for the photographic exhibition that was produced for Fairtrade Fortnight. The decrease in income from sales of promotional items is chiefly due to a decision to no longer charge for some materials provided in support of Fairtrade Fortnight.

This overall increase in income has allowed a considerable increase in resource allocations determined by the strategic plan. While the Foundation has invested resources in all areas of our work, the key direction has been to increase the resourcing of the Commercial Relations team that works with our licensee companies and major retailers and seeks to bring new products to market, and of our Certification team that ensure compliance with Fairtrade standards in the UK section of the supply chain.

Overall there were net incoming resources of £373,000 which led to an increase in total funds from £994,000 to £1,367,000. This net income is higher than the Trustees had envisaged and reflects the difficulty in predicting level of licence fee income at times of such rapid growth. Of the £1,367,000 reserves, £112,000 relates to restricted funds where there are precise donor requirements over how these monies can be spent, and a further £169,000 has been designated by the Trustees for specific purposes. This leaves £1,086,000 of unrestricted funds, which as noted below is above the level of funds which the Trustees currently feel the Foundation needs to retain as reserves and accordingly a deficit budget has been approved for 2007. Trustees believe that this will enable additional resources to be used to meet the strategic objectives more rapidly.

### **Investment Policy and Performance**

The Memorandum of Association allows the Foundation to invest money not immediately required as the Trustees think fit. The Board's investment policy rules out speculative investment and requires that funds expected to be needed within a twelve-month period be held in cash or on deposit with immediate or short-term notice access. It allows funds likely to be held for longer to be placed in low-risk investments and requires that there is no exposure to unrecoverable taxation. The policy also requires that no investment shall be made which is likely to damage the Foundation's interests by offending the ethics of current and potential stakeholders.

In the recent past the Foundation, because of its low level of free reserves, has restricted investment to on-call cash deposit accounts. The Board has an investment policy that allows cash to be invested in short-term cash deposits of up to six months with criteria in place to determine the financial and ethical exposure of these deposits. The Trustees believe this approach to its investments is an appropriate way for the charity to hold these funds.

### **Risk Management**

The Trustees undertake a detailed review of risks facing the Fairtrade Foundation at least once a year and it is an integral part of the operational management undertaken by the senior management team. The Trustees believe that through this process the full spectrum of risks faced by the charity has been identified, quantified and, where appropriate, action taken on a continuing basis to mitigate those risks. Many of these risks are commercial external ones and reflect the fact that the Fairtrade Foundation is just one actor within the Fairtrade system. The Trustees have carefully considered these risks and identified appropriate strategies for the Foundation to pursue to ensure the risks are minimised.

## **Report of the Trustees**

In addition there is a range of internal risks which are addressed by periodic reviews of internal controls and improvements in systems designed to minimise such risks.

### **Reserves Policy**

The Trustees review the reserves policy as a part of the overall risk management of the Foundation. The target level of unrestricted reserves is reviewed at regular intervals as part of the annual planning cycle. For each of the significant identified risks where there would be financial implications should that risk occur, the potential financial impact is considered together with the likelihood of that event occurring. Taking all these risks into consideration, the Trustees believe that the current appropriate range of unrestricted reserves for the Foundation is between £690,000 and £780,000.

At 31 December 2006 the level of reserves (£1,086,000) was above this target range and accordingly the Trustees have set a deficit budget for 2007 to invest this surplus in the future growth of Fairtrade and in order more rapidly to achieve the strategic plan for the organisation. The Trustees will continue to review the appropriate level of reserves, in particular as part of the strategic planning process that will be carried out during 2007, so that the Foundation continues to maintain the appropriate level of financial security required for the challenges of the years ahead.

## **Structure, Governance and Management**

### **The Organisation of the Charity**

The Foundation is a company limited by guarantee and a charity registered in England and Wales. It is governed by its Memorandum and Articles of Association as adopted on 2 July 1992 and subsequently amended on 25 January 1994, 20 May 2003, 15 July 2005 and 30 June 2006. The organisation was initially founded in 1992 by CAFOD, Christian Aid, Oxfam, Traidcraft Exchange, and the World Development Movement, with the National Federation of Women's Institutes joining shortly afterwards – these organisations are known collectively as the Founder Members. In 2003 membership was opened up to enable other organisations to participate in the governance of the Foundation and to share their expertise and experience with us. Organisations applying for membership are expected to have either a strong development or consumer focus, and to contribute to the promotion of Fairtrade, for example amongst their own supporters, and, when appropriate, to contribute financially. Since 2003 seven organisations have joined as members and a full list of member organisations is given on page 30.

### **Trustee Appointment and Induction**

The Board can comprise up to 12 Trustees who are appointed by the following process determined by the Articles of Association. Up to four positions are available to be elected by the six Founder Members and a further four positions available for election from the full membership. Formal elections take place at the Annual General Meeting held in the summer each year where one third of the elected Board stand down by rotation. Elected Board members have the power to co-opt other Trustees so long as the total number of Trustees does not exceed 12.

All Trustees are elected or co-opted for a three-year term with those co-opted subject to a six-month initial probationary period. Trustees can serve for up to two three-year terms before they are required to stand down. After a period of one year, Trustees become eligible for re-appointment again.

In filling the places available for co-option the Trustees review the skills already present on the Board and identify the key skill gaps that exist as part of drawing up the specification for potential Trustees. Although co-opted appointments will often be through searches of known individuals, the Board does from time to time consider external advertisements as a way of attracting the fullest range of candidates.



A key organisational goal for 2006 was to strengthen the Foundation's links with producer groups and as part of this process the Board has sought to bring producer representatives on to the Board. In June 2006 Silver Kasoro from Mabale Growers Tea Factory in Uganda was co-opted onto the Board, and in March 2007 Merling Preza from Prodecoop in Nicaragua was elected on to the Board. The introduction of these two new Board members has brought the issues and concerns of producers to the wider discussions of the Foundation, and at the same time enabled these producers to gain a better understanding of the Fairtrade market in the UK. They are both also in a position to raise issues and feedback discussions to a much wider groups of producers through the regional producer groups. Silver Kasoro has a formal reporting process to the African Fairtrade Network and Merling Preza is the Vice President of the CLAC ((Latin American and Caribbean Network of Small Fairtrade Producers). On his appointment Silver commented: "Through my new role I hope to bring the perspective of African producers to the highest level in the Foundation's discussion and planning processes. I also hope to share useful insights on the developments in the UK with the wider networks of Fairtrade producers I represent."

All new Trustees receive an induction pack which contains information on the history of the organisation, governance and operational structures, minutes of Trustee meetings for the previous year, relevant budgets and accounts, and Charity Commission publications on Trustee responsibilities. When a number of new Trustees start at a similar time, especially when they do not have the detailed knowledge of Fairtrade that some Trustees possess, induction days are held to enable them to meet members of staff and to hear more about operational plans and priorities of the Foundation. In addition, Trustees are invited to a wide range of events, for example the launch of Fairtrade Fortnight and other promotional events, licensee meetings, and other stakeholder events, so that they have a wide exposure to the various stakeholders in the Foundation. Should the appropriate opportunity arise Trustees may sometimes visit producer groups to see at first hand the impact of Fairtrade.

### **Trustee Meetings and Board Sub Committees**

The Board meets at least five times a year and has overall responsibility for the policy and strategic management of the Foundation. The main tasks of the Board are:

- Setting and maintaining the Foundation's vision, missions and values and in particular agreeing and approving the strategic plan.
- Ensuring strong links with the member organisations and the Fair Trade movement.
- Contributing creatively to the development of the Foundation, including fostering relationships with major licensees.
- Developing the Foundation's policies on trade justice and other means of poverty reduction related to the Foundation's core activity.
- Agreeing and monitoring major policies and programmes (e.g. annual plans and budgets).
- Supporting and appraising the Executive Director, and approving staffing and remuneration policies.
- Reviewing reports and management accounts to ensure that the Foundation's performance is in line with its policies and programmes, that it is managing any risks correctly and taking any remedial action needed.

The Board has two sub committees: the Executive Committee and the Certification Committee.

## Report of the Trustees

The Executive Committee consists of three Board members and a specialist adviser on personnel issues and meets up to five times a year:

- To monitor progress on major issues between Board meetings.
- To consider any matter specifically referred to it by the Board.
- To give first consideration to papers on strategic issues before they are submitted to the full Board.
- To undertake the functions of a finance committee, including:
  - Reviewing drafts of financial policies, budgets and annual accounts before they go to the Board for formal approval.
  - To meet annually with the external auditors and to receive their management letter.
  - To authorise amendments to the budget in accordance with the overall budgetary authorities agreed by the Board.

The Certification Committee comprises six members – two members are appointed by the Board (of whom at least one must be a Trustee), two external experts from relevant fields of experience and two members of staff not involved with day-to-day certification work. With the expansion of Fairtrade over the last few years the Committee has increased the number of times it meets from four to six. The Committee meets:

- To decide which licensees are subject to annual audit and spot check.
- To receive and consider annual audit and spot check reports, including identifying actions required by licensees to maintain the standards required of them.
- To approve, as appropriate, an inspector's recommendation to issue, maintain or withdraw a licensee's certificate of compliance.

Minutes of Executive and Certification Committee meetings are reported to the subsequent full Board meeting so that all Trustees are informed of significant issues discussed at a sub committee level.

## Operational Management

A scheme of delegation is in place which devolves day-to-day operational management of the Foundation to the Executive Director who is supported by a senior management team consisting of a Deputy Director, Head of Commercial Relations, Head of Communications, Head of Policy and Producer Relations, Head of Certification, and Head of Finance and Resources. The position of Head of Policy and Producer Relations is a newly created post as part of the process of building better linkages with producers and a team of seven staff was set up at the end of the year through transferring staff from existing teams.

## Trustees' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice applicable to charities.

Company law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of its results for that period.

In preparing those financial statements, the Trustees are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Comply with applicable accounting standards subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees have overall responsibility for ensuring that the charity has an appropriate system of controls, financial and otherwise. They are also responsible for maintaining proper accounting records which

disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Acknowledgements

The stakeholder base of the Foundation is wide and varied – from the millions of consumers who buy FAIRTRADE Mark products every week; the Foundation's licensee companies who produce commercial products; the retailers, who are increasingly recognising the importance of the principles of Fairtrade in their businesses; supporters and NGOs who organise events and lobby organisations to stock Fairtrade goods; the staff and volunteers at the central office; and most importantly the producer groups around the world for whom Fairtrade is playing such a critical role.

Visiting producers helps bring home to us the real impact that Fairtrade is having. In November I visited a group of farmers in India, who were growing Fairtrade organic cotton destined for the UK market. Their sense of optimism was palpable. On the day of my visit, the farmers took delivery of their first set of electronic weighing scales, which they had paid for from the Fairtrade premium. This simple change means that, for the first time, the farmers will know exactly how much cotton they have grown, and therefore how much they should be paid for their crop. This puts them in a situation of more control over their trading than they have known before.

The Foundation thanks all its partners and in particular the volunteers, from the individuals who help support staff across all departments, to Trustees, our patron George Alagiah, and our celebrity volunteers. The successes of the Fairtrade Foundation demonstrated in this report and accounts represent the hard work and determination of all these stakeholders.

**This report was approved by the Trustees on 17 May 2007 and signed on their behalf.**

Mike Gidney

Chair of the Board  
The Fairtrade Foundation

17 May 2007

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE FAIRTRADE FOUNDATION

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We have audited the financial statements of The Fairtrade Foundation for the year ended 31 December 2006 which comprise the Statement of Financial Activities, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of trustees and auditors

As described in the Statement of Trustees' Responsibilities the charity's trustees are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Trustees are also directors of The Fairtrade Foundation for the purposes of company law.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Trustees' Report is consistent with the financial statements. We also report to you if, in our opinion the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and other transactions is not disclosed.

We read the Trustees' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31 December 2006 and of its incoming resources and application of resources in the year then ended, including its income and expenditure;
- the financial statements have been properly prepared in accordance with the Companies Act; and
- the information given in the Trustees report is consistent with the financial statements.

**haysmacintyre**  
**Registered Auditors**

17 May 2007

**Fairfax House**  
**15 Fulwood Place**  
**London**  
**WC1V 6AY**

# The Fairtrade Foundation

## Statement of Financial Activities for the year to 31 December 2006 (including Income and Expenditure Account)

	Notes	2006		2005	
		Unrestricted £	Restricted £	Total £	Total £
<b>Incoming resources</b>					
<i>Incoming resources from generated funds</i>					
Donations and miscellaneous income	2	135,284	-	135,284	111,123
Grants receivable	3 & 4	100,000	606,472	706,472	606,368
Interest received	5	21,640	2,000	23,640	23,742
<i>Incoming resources from charitable activities</i>					
Licence fees	6	2,648,374	-	2,648,374	1,839,037
Sale of promotional items	7	48,436	-	48,436	88,930
<b>Total incoming resources</b>		<b>2,953,734</b>	<b>608,472</b>	<b>3,562,206</b>	<b>2,669,200</b>
<b>Resources expended</b>					
Cost of generating voluntary income	8	84,093	28,800	112,893	53,343
<i>Charitable Expenditure</i>					
Certification, licensing and product development	9	1,369,476	375,800	1,745,276	1,277,493
Public education and awareness	10	1,103,053	185,586	1,288,639	1,041,771
Total charitable expenditure		2,556,622	590,186	3,146,808	2,319,264
Governance costs	11	42,158	-	42,158	34,927
<b>Total resources expended</b>		<b>2,598,780</b>	<b>590,186</b>	<b>3,188,966</b>	<b>2,407,534</b>
<b>Net income / (expenditure) before transfers</b>	13	<b>354,954</b>	<b>18,286</b>	<b>373,240</b>	<b>261,666</b>
Transfers between funds		(46,399)	46,399	-	-
<b>Net income / (expenditure) after transfers</b>		<b>308,555</b>	<b>64,685</b>	<b>373,240</b>	<b>261,666</b>
Fund balances brought forward		945,918	47,623	993,541	731,875
<b>Fund balances carried forward</b>	18-21	<b>1,254,473</b>	<b>112,308</b>	<b>1,366,781</b>	<b>993,541</b>

There were no recognised gains or losses for 2006 or 2005 other than those included in the Statement of Financial Activities.

The Notes on pages 14 to 28 form part of these Financial Statements.

# The Fairtrade Foundation

## Balance Sheet as at 31 December 2006

	Notes	2006		2005	
		£	£	£	£
<i>Fixed assets</i>					
Tangible assets	15		98,745		41,993
<b>Current assets</b>					
Closing stock of promotional items		47,119		16,743	
Debtors	16	1,574,012		921,796	
Cash at bank and in hand		591,394		741,060	
		<b>2,212,525</b>		<b>1,679,599</b>	
<b>Creditors</b>					
Amounts falling due within one year	17	(944,489)		(728,051)	
<b>Net current assets</b>			1,268,036		951,548
<b>Net assets</b>			<b>1,366,781</b>		<b>993,541</b>
<b>Funds</b>					
Restricted funds	18	112,308		47,623	
<b>Total restricted funds</b>			<b>112,308</b>		<b>47,623</b>
Unrestricted – designated	19	168,745		111,993	
Unrestricted	20	1,085,728		833,925	
<b>Total unrestricted funds</b>			<b>1,224,473</b>		<b>945,918</b>
<b>Total funds</b>	21		<b>1,366,781</b>		<b>993,541</b>

Approved by the Board of Trustees on 17 May 2007 and signed on its behalf.

Mike Gidney  
Chair of the Board

17 May 2007

The Notes on pages 14 to 28 form part of these Financial Statements.

# The Fairtrade Foundation

## Notes to the Financial Statements

### for the year to 31 December 2006

#### 1 Accounting Policies

##### 1.1 Basis of preparation of accounts

The accounts are prepared under the historical cost convention and include the results of the charity's operations which are described in the Trustees' Report and all of which are continuing.

The accounts have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2006), the Companies Act 1985 and *Accounting and Reporting by Charities: Statement of Recommended Practice* issued in 2005 (SORP 2005).

The charity has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cashflow statement.

##### 1.2 Company status

The charity is a company limited by guarantee. In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member.

The Charity is the UK member of Fairtrade Labelling Organisations International (FLO).

##### 1.3 Fund accounting

**Restricted funds** arise from grants and donations given to the Foundation for specific areas and activities of the Foundation's work in furthering its objects and are complemented by further amounts transferred from the unrestricted funds of the Foundation. The aim and use of each material restricted fund is set out in the Notes to the Financial Statements.

**Designated funds** comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the Notes to the Financial Statements.

**Unrestricted funds** provide the general funds of the Foundation and arise from surpluses of income over expenditure from funds granted or donated to the charity, which may be used at the discretion of the Trustees.

##### 1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets are included where the cost price exceeds £250.

Depreciation is provided at rates between 25% and 33% calculated to write off the cost of fixed assets over their useful lives on a straight line basis starting in the year of acquisition.

##### 1.5 Incoming resources

Income from donations and miscellaneous income is included when received or when invoiced, whichever is the earlier.

Grant income is accounted for on a receivable basis where the Foundation has an agreed grant contract with a donor once expenditure has been incurred. The exception is that where donors specify that grants must be used in future accounting periods then the income is deferred until those periods.

Income from the sale of promotional merchandise is included when received or when invoiced, whichever is the earlier.

Licence fee income is included in the period to which it relates – provided the amount is known with reasonable certainty and it is prudent to assume there will be no default.

## Notes to the Financial Statements

Volunteers provide invaluable support to the Foundation. Volunteer supporters run local events to promote knowledge of the FAIRTRADE Mark in their communities. It is estimated that nearly 10,500 local events took place during Fairtrade Fortnight 2006. These events, and others throughout the year, depend heavily on the input of an unknown number of local volunteers.

In addition, over 100 volunteers helped in the Fairtrade office at some time during the year and provided an estimated 3,200 days of time to the organisation.

All this voluntary work is of great assistance to the Foundation, but, for accounting purposes, it is not valued within these financial statements.

### 1.6 Resources expended

All expenditure is included on an accruals basis. All costs have been attributed to one of the categories of resources expended in the Statement of Financial Activities (SOFA) and include a proportion of the support costs as detailed in Note 12. Support costs are apportioned on the basis of staff time spent on different activities and the demands each activity makes on central support resources.

**Fundraising costs** include all costs incurred in raising funds from, and reporting back to, government, European Commission, charitable trusts and foundations as well as other donors.

**Costs of activities in pursuit of charitable objects** include all costs incurred in seeking to achieve the charity's charitable purposes and incorporate the costs of administering the FAIRTRADE Mark.

**Governance costs** include costs attributable to the governance of the charity and include costs in order to ensure compliance with constitutional and statutory requirements.

### 1.7 Pensions

All permanent staff employed by the Foundation are eligible for membership of the defined contribution occupational pension scheme operated by the Pensions Trust. The scheme is contributory (staff paying 5% of salary and the Foundation 10% of salary). Alternatively, the Foundation contributes 10% of salary to approved pension schemes nominated by eligible staff provided the staff member contributes at least 5% of salary.

### 1.8 Value Added Tax

The charity is registered for VAT. In common with many other registered charities, the Fairtrade Foundation is unable to fully recover input VAT. During the accounting period, the total irrecoverable VAT suffered by the charity was £29,886 (2005 - £30,030).

This irrecoverable VAT is included in the appropriate categories of expenditure within the SOFA.

### 1.9 Taxation

The charitable company is exempt from corporation tax on its charitable activities.

### 1.10 Stocks

Stock of merchandise is included in the accounts at the lower of cost and net realisable value.



## 2 Sponsorship, Donations and Miscellaneous Income

	2006 £	2005 £
Sponsorship	39,543	30,000
Donations and miscellaneous income	95,741	81,123
<b>Total</b>	<b>135,284</b>	<b>111,123</b>

Sponsorship of £30,000 was received during the year from the Co-operative Group in relation to the photography exhibition that was held during Fairtrade Fortnight 2006 in London and subsequently toured round venues in the UK.

## 3 Grants Receivable

### 3.1 Unrestricted member grants

	2006 £	2005 £
Oxfam	25,000	42,000
CAFOD	18,000	22,000
Christian Aid	10,000	30,000
SCIAF	3,000	3,000
Shared Interest Foundation	500	500
<b>Total</b>	<b>56,500</b>	<b>97,500</b>

Members are not required to make grants but normally when they do they are for unrestricted funding. In addition some members make additional grants for specific purposes which are accounted for under restricted funds.

### 3.2 Other unrestricted grants

	2006 £	2005 £
The John Ellerman Foundation	20,000	20,000
The Rufford Maurice Laing Foundation	20,000	20,000
The Ajahma Charitable Trust	-	10,000
The Beatrice Laing Trust	2,000	2,000
Miss KM Harbinson's Charitable Trust	-	1,900
Mrs FB Laurence Charitable Trust	-	1,000
Other grants under £1,000	1,500	-
<b>Total</b>	<b>43,500</b>	<b>54,900</b>
<b>Total unrestricted</b>	<b>100,000</b>	<b>152,400</b>

## Notes to the Financial Statements

### 4 Restricted Grants

	2006		2005	
	£	£	£	£
<b>Public education and awareness projects</b>				
<i>Fairtrade Towns and Faith Groups (4.1.1)</i>				
European Union	61,752	-	-	-
DFID	8,421	-	43,489	-
Methodist Relief and Development Fund	6,300	-	12,600	-
The Austin & Hope Pilkington Trust	-	-	1,000	-
Others (under £1,000)	-	<b>76,473</b>	250	<b>57,339</b>
<i>Fairtrade Future (4.1.2)</i>				
DFID	-	<b>47,307</b>	-	<b>39,479</b>
<i>Fairtrade Schools (4.1.3)</i>				
Allan & Nesta Ferguson Trust	20,794	-	-	-
DFID	16,412	-	-	-
Blandford Lake Trust	1,000	-	-	-
Others	5,000	<b>43,206</b>	-	-
<i>Fairtrade Fortnight (4.1.4)</i>				
Shared Interest Foundation	5,100	-	-	-
Methodist Relief and Development Fund	5,000	-	10,000	-
United Reformed Church	2,000	-	2,000	-
CAFOD	-	-	8,000	-
The Rowan Charitable Trust	-	-	3,000	-
Others (under £1,000)	2,100	<b>14,200</b>	500	<b>23,500</b>
<i>Trade Justice Movement Support Project (4.1.5)</i>				
CAFOD	5,000	-	5,000	-
Co-operative Bank	-	<b>5,000</b>	5,000	<b>10,000</b>
<i>Database Development (4.1.6)</i>				
Four Acre Trust	-	-	-	<b>20,000</b>
<i>Cotton promotion (4.1.7)</i>				
The Funding Network	-	<b>1,000</b>	-	<b>11,769</b>
<i>Banana Campaign (4.1.7)</i>				
United Reformed Church	-	-	-	<b>1,726</b>
<i>Other awareness grants</i>	-	<b>1,000</b>	-	-
<b>Total public awareness and education</b>		<b>188,186</b>		<b>163,813</b>

## 4 Restricted Grants – continued

	2006		2005	
	£	£	£	£
<b>Business and product development</b>				
<i>Fairtrade Future (4.1.2)</i>				
DFID		<b>168,650</b>		<b>115,161</b>
<i>Enlarging the Fairtrade Product Range (4.1.8)</i>				
Comic Relief	100,895		13,929	
Shell Foundation	5,500		-	
CAFOD	5,000		-	
SMB Trust	1,500		-	
Stephen Clark 1965 Trust	1,000		-	
DFID	-		62,615	
The Hilden Charitable Fund	-		5,000	
Others (under £1,000)	450	<b>114,345</b>	508	<b>82,052</b>
<i>Producer Liaison and Support (4.1.9)</i>				
Oxfam GB	25,838		-	
The Rufford Maurice Laing Foundation	20,000		20,000	
Four Acre Trust	17,725	<b>63,563</b>	33,621	<b>53,621</b>
<i>Fairtrade at Work/Out of Home Project (4.1.10)</i>				
DFID	22,528		16,269	
The Rooflight Company	10,000		-	
The Jane Hodge Foundation	2,000		-	
WF Southall Trust	2,000		-	
Others (under £1,000)	1,400	<b>37,928</b>	-	<b>16,269</b>
<i>Certification Inspector Training (4.1.11)</i>				
Four Acre Trust		<b>5,000</b>		<b>16,552</b>
<b>Total business and product development</b>		<b>389,486</b>		<b>283,655</b>
<b>Fundraising</b>				
<i>Fairtrade Future – DFID (4.1.2)</i>		<b>28,800</b>		<b>6,500</b>
<b>Total restricted grants</b>		<b>606,472</b>		<b>453,968</b>

## 4.1 Explanatory Notes

## 4.1.1 Fairtrade Towns and Faith Groups Programme

This project is to support the growing grass roots movement of individuals and local organisations striving to make their towns and churches “Fairtrade” by achieving local goals on awareness and availability of Fairtrade. The programme is funded by Methodist Relief and Development Fund, and, until April 2006 by DFID. From April 2006 the programme has also been funded by the European Commission. This new funding has allowed the Foundation to widen the campaign to Europe and is being delivered in conjunction with Max Havelaar France and Max Havelaar Belgium. In 2006 the programme included a conference for Fairtrade Town campaign groups from across Europe.

## Notes to the Financial Statements

### 4.1.2 Fairtrade Future

This grant from DFID of £750,000 runs for three years from 2005 and comprises three elements of investment in the Fairtrade Foundation's future – support to the policy and communications work, support to the work of the organisation in bringing new companies and products into Fairtrade, and to fundraising in supporting the Foundation to become more financially sustainable. The three elements are shown within the appropriate functional headings above, but comprise a single grant. Total expenditure against the grant during 2006 was £244,757 (2005 - £161,141).

### 4.1.3 Fairtrade Schools

The Fairtrade Schools project aims to build awareness of Fairtrade and its associated development issues by implementing a national 'Fairtrade status' award scheme for schools. The scheme will be conducted both regionally and UK wide from primary to sixth form level and will encourage a whole school approach to Fairtrade, involving all members of the school, visitors, the wider community and other local schemes. DFID is providing funding for the project over the next three years, and further significant funding has been received from The Allan & Nesta Ferguson Trust and other funders noted above.

### 4.1.4 Fairtrade Fortnight

Fairtrade Fortnight takes place in March each year and is the Foundation's main awareness campaign. Supermarkets, major development charities, churches, National Federation of Women's Institutes members and thousands of supporters around the country promote Fairtrade during this period. Grant funding was provided by the funders listed in Note 4 above.

### 4.1.5 Trade Justice Movement Support

A grant from CAFOD was received to enable the Foundation to provide facilities for the Trade Justice Movement (TJM). This is a coalition working to redress the terms of trade in favour of producers who are disadvantaged by current rules.

### 4.1.6 Database Development

Four Acre Trust provided funding in 2005 of £20,000 towards the development of the Foundation's supporter database to enable better targeted communication with our growing number of supporters. The database has been implemented during 2006 and became operational in December 2006. The grant is being amortised over a four year period.

### 4.1.7 Other Communications

Grants were also received in the year from The Funding Network towards the public launch of Fairtrade certified cotton. In addition in 2005 funding was received from the United Reformed Church towards a public campaign in relation to changes in the EU banana trade regime.

### 4.1.8 Enlarging the Fairtrade Product Range

This range of projects are designed to develop new Fairtrade products to extend the reach of Fairtrade labelling to new producers in the developing world, and to investment in further development of existing products. Significant funding is received from Comic Relief, with a specific focus on African producers. Other funding received in 2006 included £25,838 from Oxfam GB to undertake a review of coffee pricing, and £5,500 from the Shell Foundation for a review of the Fairtrade tea model. CAFOD and other funders have also contributed to an initial study on the potential for Fairtrade gold.

### 4.1.9 Producer Liaison and Support

Oxfam GB provided funding to enable producers to fully participate in a strategy workshop for coffee which included a review of coffee pricing. Funding has also been received from Four Acre Trust and The Rufford Maurice Laing Foundation to provide support to banana producers in the Windwards Islands and flower farmers in Kenya respectively. The majority of this funding is disbursed via FLO eV.

**4.1.10 Fairtrade At Work/Out of Home Project**

This project, funded predominantly by DFID, seeks to expand the demand for Fairtrade in the catering, hotel, and restaurant sectors by raising awareness both among suppliers and customers. In the autumn of 2006 a range of activities took place including the launch of new materials and a dedicated micro website.

**4.1.11 Certification Inspector Training**

Four Acre Trust have provided funding to enable two training courses for inspectors based in the developing world that are a critical part of maintaining the high standards of Fairtrade as the movement expands. This funding is disbursed via FLO-Cert.

**5 Interest Received**

This is interest receivable on cash deposits. £2,000 was attributable to restricted funds held pending disbursement where the donor has requested that interest be credited to the restricted fund. (2005 - £nil). The Foundation holds no other investments.

**6 Licence Fees**

The Foundation receives licence fees from companies marketing products carrying the Foundation's FAIRTRADE Mark which is the independent consumer guarantee of a better deal for Third World producers. The fees cover the costs of monitoring and audit to ensure compliance with Fairtrade standards and contribute to the costs of public education and awareness raising work. Monitoring and audit of UK licensees is undertaken directly by the Foundation, while producer and trader certification is the responsibility of FLO-Cert, who receive a proportion of the Foundation's licence fee income to pay for this activity.

**7 Sale of Promotional Items**

To help promote Fairtrade, the Foundation sells a range of promotional items to supporters. All display the FAIRTRADE Mark prominently and help promote the Fairtrade message at supporter events around the country. As their sale contributes directly to the promotion of the Fairtrade message it is judged that the activity qualifies as primary purpose trading. These promotional items are sold on to supporters to cover the costs of production, processing and a contribution to overheads. The activity is seen not so much as a device to raise funds but rather to raise profile and awareness whilst covering costs. For this reason the cost of these items is included in the SOFA but as part of charitable expenditure to promote public awareness.

**8 Costs of Generating Funds**

Covers the cost of staff taking part in fundraising through contacts with potential grantmaking bodies including government departments, the European Commission, and charitable trusts and foundations. No fundraising events or other fundraising activities have been organised during the period. A proportion of office services and occupancy costs are allocated to the activity. In 2006 the Foundation has increased the level of staffing allocated to fundraising in order to increase and diversify the level of grant support and also to look at raising funds from individuals.

	2006	2005
	£	£
Staff costs	63,116	26,955
Direct costs	13,366	5,375
Allocation of support costs	36,411	21,013
<b>Total costs of generating funds</b>	<b>112,893</b>	<b>53,343</b>

## 9 Certification, Licensing and Product Development Costs

This category includes the costs of :

- Certification costs including the monitoring and audit of supply chains, both in the UK and internationally, of products licensed to carry the Mark, including fees payable to FLO-Cert.
- Establishing and maintaining licence agreements and relationships with companies producing and distributing Fairtrade products and major retailers.
- Fees paid to FLO eV for its functions in setting the international framework and co-ordination of Fairtrade including the setting and development of Fairtrade standards, supporting producers and traders to match supply and demand, and supporting smallholders and workers participating in Fairtrade.
- Developing new products, including the establishment of supply chains and assisting new producers to enter Fairtrade.

	2006	2005
	£	£
<b>Direct costs</b>		
International fees paid to FLO eV*	523,820	460,683
International monitoring fees paid to FLO-Cert*	103,025	90,717
UK monitoring fees**	27,367	20,444
Other direct costs of monitoring	10,437	5,993
Licensing and marketing costs	101,138	57,871
New product and standard development	63,648	86,666
<b>Total direct costs</b>	<b>829,435</b>	<b>722,374</b>
<b>Indirect costs</b>		
Staff costs	586,953	327,992
Allocation of support costs	328,888	227,127
<b>Total indirect costs</b>	<b>915,841</b>	<b>555,119</b>
<b>Total certification, licensing and product development</b>	<b>1,745,276</b>	<b>1,277,493</b>

\* £132,862 (2005 - £127,394) of the fees paid to FLO eV and £18,000 (2005 - £54,397) of the fees paid to FLO-Cert (£54,397) is financed from restricted funding where the Foundation has raised funds for work undertaken directly by FLO.

\*\* These fees are paid to an independent external company who audit licensee records and allow us to provide the assurance that goods sold with the endorsement of the FAIRTRADE Mark comply with the stated criteria.

## 10 Public Education and Awareness

Activities funded to promote knowledge and awareness of the FAIRTRADE Mark and the need for Fairtrade in the interests of disadvantaged producers.

	2006	2005
	£	£
<b>Direct costs</b>		
Fairtrade Fortnight	227,777	128,950
Promotional merchandise	101,291	100,610
Fair Comment newsletter	93,250	65,526
Fairtrade Towns and Faith Groups programme	70,795	35,346
Media costs	39,488	58,280
Supporter materials	37,046	59,346
Advertising and events	15,153	18,536
Consumer surveys	10,756	15,200
Fairtrade Schools programme	10,270	-
Mark development	-	32,551
Other communications costs	28,436	14,794
<b>Total direct costs</b>	<b>634,262</b>	<b>529,139</b>
<b>Indirect costs</b>		
Staff costs	417,438	299,787
Allocation of support costs	236,939	212,845
<b>Total indirect costs</b>	<b>654,377</b>	<b>512,632</b>
<b>Total public education &amp; awareness costs</b>	<b>1,288,639</b>	<b>1,041,771</b>

### Fairtrade Fortnight

Fairtrade Fortnight, which takes place in the first two weeks of March each year, is the main focus of the Foundation's public awareness work. Supermarkets, major development charities, churches, National Federation of Women's Institutes members and thousands of supporters around the country promote Fairtrade during this period. Direct grant funding for the Fortnight of £14,200 (2005 - £23,500) was provided by the funders listed in Note 4 above, of which £6,700 was utilised against the 2006 events, together with £12,000 of funding provided in 2005. The remaining £7,500 has been carried forward for 2007 costs.

The total direct expenditure in the year on Fairtrade Fortnight was £227,777 (2005 - £128,949) which is analysed below.

	2006	2005
	£	£
<b>Direct costs</b>		
Materials	156,666	116,643
Events and advertisements	52,328	8,008
Producer visits	8,533	2,781
Other costs	10,250	1,017
<b>Total direct costs</b>	<b>227,777</b>	<b>128,949</b>
<b>Funded by</b>		
Direct grant support (see Note 4)	18,700	20,500
Unrestricted funding	209,077	108,449
<b>Total direct costs</b>	<b>227,777</b>	<b>128,949</b>

£114,862 (2005 - £103,920) of direct costs relating to Fairtrade Fortnight 2007 were incurred during the year. These have been treated as a prepayment (Note 16) and carried forward to 2007.

## Notes to the Financial Statements

### 11 Governance

Activities to enable the Foundation to function as a registered charity and a company registered in England and Wales.

	2006	2005
	£	£
<b>Direct costs</b>		
Trustee expenses	8,454	1,841
Audit fees	5,974	5,690
Board & AGM meeting costs	4,585	1,516
Legal fees	30	2,485
Board recruitment advertising	-	1,740
<b>Total direct costs</b>	<b>19,043</b>	<b>13,272</b>
<b>Indirect costs</b>		
Staff costs	15,223	13,120
Allocation of support costs	7,892	8,535
<b>Total indirect costs</b>	<b>23,115</b>	<b>21,655</b>
<b>Total governance costs</b>	<b>42,158</b>	<b>34,927</b>

### 12 Support Costs

Support costs comprise the general office costs of the organisation together with the central finance, IT and personnel functions. These costs are allocated to other cost headings on the basis of office space allocation and use of central service functions.

	2006	2005
	£	£
Staff costs	157,712	118,862
Office rent	135,755	100,272
Telephone, stationery, postage and photocopying	80,113	60,893
Rates and other occupancy costs	46,561	47,435
Information technology costs	43,032	28,775
Depreciation	41,253	19,361
Staff recruitment	31,897	22,644
Volunteer costs	23,712	16,433
Staff training and development	21,629	9,177
Staff travel	8,920	8,959
Insurance	2,631	2,094
Bank charges	2,023	2,820
Consultancies	-	12,863
Legal costs	-	2,219
Other office costs	5,979	5,422
Other support costs	8,913	11,191
<b>Total support costs</b>	<b>610,130</b>	<b>469,520</b>
<b>Allocated</b>		
Certification, licensing and product development	328,888	227,127
Public education and awareness	236,939	212,845
Cost of generating funds	36,411	21,013
Governance	7,892	8,535
<b>Total support costs</b>	<b>610,130</b>	<b>469,520</b>



**13 Net Income for the Period**

Net income for the period is stated after charging.

	2006	2005
	£	£
Depreciation of fixed assets	41,253	19,361
Audit fees	5,974	5,690
Other services provided by auditors	-	-

**14 Staff Costs and Trustees Remuneration**

No remuneration was paid to Trustees in the year. Travel expenses in carrying out the functions of the Foundation are reimbursed to Trustees who are not otherwise able to claim. £8,454 (2005 - £1,841) was reimbursed to five Trustees (2005 – four Trustees). The increase from 2005 is due to the appointment in June 2006 of producer representatives to the Board of the Foundation. The Foundation meets the airfare, hotel and subsistence costs of the producer representatives when they attend Board meetings in the UK.

No employee earned more than £60,000 per annum.

	2006	2005
	£	£
Wages and salaries	1,065,185	666,981
Social Security costs	111,870	68,925
Pension contributions	58,832	43,262
Agency staff	4,555	7,548
<b>Staff costs</b>	<b>1,240,442</b>	<b>786,716</b>
<b>Staff recruitment costs</b>	<b>31,897</b>	<b>21,450</b>

The average monthly number of full time equivalent staff employed by the Foundation during the year was as follows:

	2006	2005
Directorate	2	1
Commercial Relations and Product Development	13	7
Certification	4	2
Communications	12	10
Fundraising	2	1
Support and administration	5	4
<b>Total</b>	<b>38</b>	<b>25</b>

## Notes to the Financial Statements

### 15 Tangible Fixed Assets

#### Office equipment, fixtures and fittings

	£	£
<b>Cost at 1 January 2006</b>		<b>82,837</b>
Add – additions	98,005	
Less – disposals	(11,200)	
<b>At 31 December 2006</b>		<b>169,642</b>
<b>Depreciation at 1 January 2006</b>		<b>40,844</b>
Less – accumulated depreciation on disposals	(11,200)	
Add - charge for period	41,253	
<b>At 31 December 2006</b>		<b>70,897</b>
<b>Net book value at 1 January 2006</b>		<b>41,993</b>
<b>Net book value at 31 December 2006</b>		<b>98,745</b>

### 16 Debtors due within one year

	2006	2005
	£	£
Licence fees *	1,193,693	588,191
Grants receivable	160,060	124,027
Prepayments in relation to Fairtrade Fortnight	114,862	103,920
Other income receivable	33,198	24,530
Deposit on premises	27,594	20,000
Other trade debtors	15,745	23,817
Sponsorship monies due	-	30,000
Other prepayments and sundry debtors	28,860	7,310
<b>Total debtors due within one year</b>	<b>1,574,012</b>	<b>926,799</b>

\* Licence fees are invoiced in arrears once the licensee's quarterly returns have been received and verified. Fees invoiced in 2006 outstanding at the year end totalled £138,695 (2005 - £65,039) with the remaining £1,054,998 (2005 -£523,152) of the debtor balance, representing a provision for fees relating to 2006 sales to be invoiced during 2007.

### 17 Creditors – amounts falling due within one year

	2006	2005
	£	£
Fees due to FLO	569,304	450,044
Trade creditors	160,497	109,720
Other creditors and accruals	118,378	71,431
VAT payable	58,429	74,137
Social Security and other taxes	37,881	22,719
<b>Total creditors due within one year</b>	<b>944,489</b>	<b>728,051</b>

## 18 Restricted Funds

	Balance at January 2006	Incoming	Outgoing	Transfer from Unrestricted	Balance at December 2006
	£	£	£	£	£
<b>Public awareness and education</b>					
<u>Fairtrade Towns</u>					
European Commission	-	63,752	58,927	7,619	12,444
DFID	-	8,421	18,713	10,292	-
Other	6,300	6,300	6,300	-	6,300
<b>Total</b>	<b>6,300</b>	<b>78,473</b>	<b>83,940</b>	<b>17,911</b>	<b>18,744</b>
<u>Fairtrade Schools</u>					
DFID	-	16,412	16,412	-	-
Other	-	26,794	7,504	-	19,290
<b>Total</b>	<b>-</b>	<b>43,206</b>	<b>23,916</b>	<b>-</b>	<b>19,290</b>
Fairtrade Fortnight	12,000	14,200	18,700	-	7,500
TJM Support	2,500	5,000	5,000	-	2,500
Fairtrade Futures	-	47,307	47,307	-	-
Database Development	18,891	-	4,723	-	14,168
Other	-	2,000	2,000	-	-
<b>Sub total</b>	<b>39,691</b>	<b>190,186</b>	<b>185,586</b>	<b>17,911</b>	<b>62,202</b>
<b>Business and product development</b>					
<u>Expanding the Fairtrade Product Range</u>					
Comic Relief	-	100,895	70,989	-	29,906
Other	-	13,450	13,250	-	200
<b>Total</b>	<b>-</b>	<b>114,345</b>	<b>84,239</b>	<b>-</b>	<b>29,906</b>
<u>Fairtrade at Work/Out of Home</u>					
<u>Project</u>					
DFID	-	22,528	46,016	23,488	-
Other	-	15,400	15,400	-	-
<b>Total</b>	<b>-</b>	<b>37,928</b>	<b>61,416</b>	<b>23,488</b>	<b>-</b>
Fairtrade Futures	-	168,650	168,650	-	-
Producer Liaison and Support	7,932	63,563	51,495	-	20,000
Certification Inspector Training	-	5,000	10,000	5,000	-
<b>Sub total</b>	<b>7,932</b>	<b>389,486</b>	<b>375,800</b>	<b>28,488</b>	<b>50,106</b>
<b>Fundraising</b>					
Fairtrade Futures	-	28,800	28,800	-	-
<b>Total restricted</b>	<b>47,623</b>	<b>608,472</b>	<b>590,186</b>	<b>46,399</b>	<b>112,308</b>

## 19 Designated Funds

	Balance at January 2006	Used in year	New allocations	Balance at December 2006
	£	£	£	£
Office relocation and expansion	70,000	-	-	70,000
Non-cash assets	41,993	-	56,482	98,745
<b>Total designated funds</b>	<b>111,993</b>	<b>-</b>	<b>56,482</b>	<b>168,745</b>

### Office relocation / expansion fund

With the continued growth of the Foundation there is continuing pressing need on office accommodation. The reserve is set aside to fund work on developing the Foundation's offices and to provide monies for the cost of a potential move from the current offices, including dilapidations that would be payable at the end of the lease in Baldwin's Gardens.

### Non-cash asset fund

This fund represents the depreciated cost of fixed assets used by the Foundation in its work.

## 20 Unrestricted Funds

Funds sufficient to permit the charity to continue in operation in the short term while corrective measures are made to operations in the light of any of the risks with a financial impact occurring. The Trustees reviewed these risks in December 2006 at the same time as considering the 2007 budget and estimated that an appropriate range for these reserves was between £690,000 and £780,000 at that date. As at the balance sheet date the level exceeded this range the Trustees accordingly set a deficit budget for 2007 utilising these surplus funds in line with the organisations strategic plan.

## 21 Analysis of Fund Balances held on 31 December 2006

	Unrestricted	Designated	Restricted	Total
	£	£	£	£
Tangible fixed assets	-	98,745	-	98,745
Current assets	1,870,157	70,000	272,368	2,212,525
Current liabilities	(784,429)	-	(160,060)	(944,489)
<b>Fund balances at 31 December</b>	<b>1,085,728</b>	<b>168,745</b>	<b>112,308</b>	<b>1,366,781</b>

## 22 Financial Commitments under Operating Leases

At 31 December the charity had annual commitments under operating leases as follows:

	2006	2005
	£	£
<b>Land &amp; buildings</b>		
Expiry date within 1 year	80,000	-
Expiry date between 1 and 2 years	49,619	80,000
<b>Computer equipment</b>		
Expiry date within 1 year	-	8,480
<b>Total</b>	<b>129,619</b>	<b>88,480</b>

## 23 Share Capital

The Fairtrade Foundation is a company limited by guarantee and with no share capital. Each member is liable to contribute a sum not exceeding £1 in the event of the company being wound up.

## 24 Related Parties

The Fairtrade Foundation is one of the 21 National Labelling Initiatives that are members of Fairtrade Labelling Organisation ev, the umbrella organisation based in Germany that is responsible for the international standards that underpin Fairtrade and, through its subsidiary FLO Cert, for certifying adherence to the standards by producers. As a National Labelling Initiative the Fairtrade Foundation pays membership fees to FLOev and FLO Cert and also sources external funds for FLO's work from third party donors. Details of the fees paid to FLOev and FLO Cert are given in note 9.

As explained in the Structure, Governance and Management section of the Trustees' report, up to eight Trustees are appointed by the members of the Fairtrade Foundation. Three of the Trustees, Rosemary Byrde (Oxfam), Cathy Keable Elliot (CAFOD) and Peter Lockyer (Christian Aid) are employees of member organisations that have provided grant support to the Foundation in the course of the year. Details of the grants provided are listed in notes 3 and 4.

During the year the Fairtrade Foundation decided to strengthen its links with producers, which included seeking Trustees as representatives of regional Fairtrade producer groups. Accordingly Silver Kasoro, from the African Fairtrade Network, and Merling Preza, from the CLAC (Latin American and Caribbean Network of Small Fair Trade Producers) have been appointed to the Board of the Foundation. Silver Kasoro is a director and board member of Mabale Growers Tea Factory and Merling Preza the General Manager of Prodecoop and both organisations are producer groups who, as part of the Fairtrade system, are subject to certification inspections from, and pay associated fees to, FLO Cert.

## Reference And Administrative Information

# The Fairtrade Foundation

## Reference and Administrative Information

### Legal status

A company without share capital limited by guarantee registered number 2733136

### Registered charity number

1043886

### Registered address

Room 204  
16 Baldwin's Gardens  
London EC1N 7RJ

### Patron

George Alagiah

### Directors/Trustees

Rosemary Byrde *	
Jez Frampton	until 27 September 2006
Mike Gidney * (Chair)	
Lynne Gregory ACA (Treasurer) *	
Cathy Keable Elliott	until 20 December 2006
Silver Kasoro Atwoki	from 30 June 2006
Janice Langley **	
Peter Lockyer	until 29 November 2006
Ed Mayo	
Sue Osborne	
Merling Preza	from 16 March 2007
Bert Schouwenburg	
Nabilai Suma **	

\* Member of Executive Committee

\*\* Member of Certification Committee

### Senior Management

Harriet Lamb CBE	(Director)
Ian Bretman	(Deputy Director)
Barbara Crowther	(Head of Communications)
Chris Davis	(Head of Policy and Producer Relations)
Martin Hill	(Head of Commercial Relations)
Ron Hinsley	(Head of Certification)
Martin Tyler	(Head of Finance and Resources)

### Company Secretary

Martin Tyler

**Member Organisations**

Banana Link  
CAFOD #  
Christian Aid #  
Methodist Relief and Development Fund  
National Federation of Women's Institutes #  
Nicaragua Solidarity Campaign  
Oxfam #  
People & Planet  
Scottish Catholic International Aid Fund (SCIAF)  
Shared Interest Foundation  
Traidcraft Exchange #  
United Reformed Church  
World Development Movement #

# indicates founder member status

**Bankers**

CafCash Ltd  
Kings Hill  
West Malling  
Kent  
ME19 4TA

The Co-operative Bank  
King's Valley  
Yew Street  
Stockport  
Cheshire  
SK4 2JU

Triodos Bank NV  
Brunel House  
11 The Promenade  
Bristol  
BS8 3NN

HSBC  
31 Holborn Circus  
London  
EC1N 2HR

**Solicitors**

Bates, Wells and Braithwaite  
2-6 Cannon Street  
London  
EC4M 6YH

**Auditors**

haysmacintyre  
Fairfax House  
15 Fulwood Place  
London WC1V 6AY