King's College London

University of London

Financial Statements

for the year to 31 July 2007

Contents

Committee membership

Council 2006-07

Ex officio:

Professor Richard Trainor FKC *[Principal]*
Professor Keith Hoggart FKC
Professor Robert Lechler FKC
Professor Sir Lawrence Freedman FKC
Professor Phil Whitfield FKC
Mr Harry Musselwhite FKC

Appointed (Lay) Members:

Mr Paul Allison *(to 31 July 2007)*
Mr Adam Boulton
The Rt Rev Dr Tom Butler, Bishop of Southwark
Mrs Blondel Cluff
Mr Patrick Disney
The Marquess of Douro MA OBE DL *[Chairman from 1 October 2007]*
Professor Charles Easmon CBE *(to 31 July 2007)*
Professor Trevor Jones CBE FRSC FKC *[Vice-Chairman]*
Mrs Isabelle Laurent
Mr Andrew Leung
Sir Michael Pakenham KBE CMG
Mrs Olga Polizzi CBE FKC *[Vice-Chairman]*
Mr David Potter FKC *[Treasurer to 22 November 2007]*
Mr David Price
The Baroness Rawlings FKC *[Chairman to 30 September 2007]*
Mr Steven Rhodes AKC
Mr Jamie Ritblat
Mr Duncan Selbie
Mr Rory Tapner *(from 1 October 2007)* *[Treasurer from 23 November 2007]*
His Hon Judge Toulmin CMG QC FKC
Ms Fields Wicker-Miuirin OBE
Veena, Lady Williams of Mostyn

Elected Members:

Academic:

Professor Paul Ciclitira
Professor Chris Hamnett
Professor Simon Howell
Dr Mark Miodownik
Ms Angela Parry
Dr Stewart Paterson
Professor Tom Sanders *(to 31 July 2007)*
Dr Mike Slade

Students of the College:

Mr Daryn McCombe *(to 31 July 2007)*
Mr Adam Farley
Ms Jo Williams
Mr Tom AbouNader *(from 1 August 2007)*

Not members of the academic staff:

Mr Ken Bromfield *(to 12 October 2007)*
Ms Pauline Walker

Finance Committee 2006-07

Mr David Potter FKC *[Chairman to 22 November 2007]*
Mr Rory Tapner *[Chairman from 23 November 2007]*
Professor Richard Trainor *[Principal]*
Mr Harry Musselwhite FKC *(to 2 October 2006)*
Mr Ian Creagh *(from 3 October 2006)*
Mr Brian Gilchrist *(until 17 December 2006)*
Professor Simon Howell *(from 20 March 2007)*
Mr Michael Kier
Mr Stephen Large
Mrs Isabelle Laurent
Mr David Price
Mr Michael Rogers *(deceased 20 March 2007)*

Audit Committee 2006-07

Ms Fields Wicker-Miuirin OBE *[Chairman]*
Mr Patrick Disney *[Vice-Chairman]*
Mr Andrew Neill
Professor Stephen Challacombe
Professor Chris Hamnett

Investments (Sub)-Committee 2006-07

Mr David Price *[Chairman]*
Mr David Potter FKC *(to 22 November 2007)*
Mr Rory Tapner *(from 23 November 2007)*
Mr Michael Rogers *(deceased 20 March 2007)*
Mr Mark Laurence *(from 19 June 2007)*
Mr Patrick Johns *(from 19 June 2007)*
Mr Stephen Large
Mr Keith Jeremiah

Report of the Treasurer & Director of Finance on the Accounts for the year ended 31 July 2007

Scope of the Financial Statements

The Financial Statements presented to the Council comprise the consolidated results of the College and its subsidiary undertakings, King's College London Business Ltd (formerly trading as KCL Enterprises Ltd), Closeworld Ltd, College Facilities Ltd, Doublerace Ltd and KCL Library and Archive Services Ltd.

King's College London Business Ltd undertakes activities associated with the promotion of research contracts, intellectual property rights and other marketable activity which, for legal or commercial reasons, are more appropriately channelled through a limited company. Taxable profits of King's College London Business Ltd are gift aided back to the College.

KCL Library and Archive Services Ltd provided library and related services to parts of the College. The company ceased trading at 31 July 2007; further details are provided later in this report. The remaining subsidiary companies are associated with the delivery of major building projects, related services and letting activity.

Results for the Year

Total income for the year increased by 5.2% to £408.2m *(2005/06 £388.0m)*. Total expenditure for the year increased by 7.9% to £405.9m *(2005/06 £376.0m)*, giving a surplus on normal operations of £2.3m *(2005/06 £12.0m)* as follows:

	2006/07 £000	2005/06 £000
Income	408,168	387,951
Expenditure	(405,887)	(375,961)
Surplus on normal operations	2,281	11,990
Taxation	(1)	(1)
Surplus after depreciation of assets at cost and tax	2,280	11,989

The results for the year are consistent with management's expectations and can be further analysed as follows:

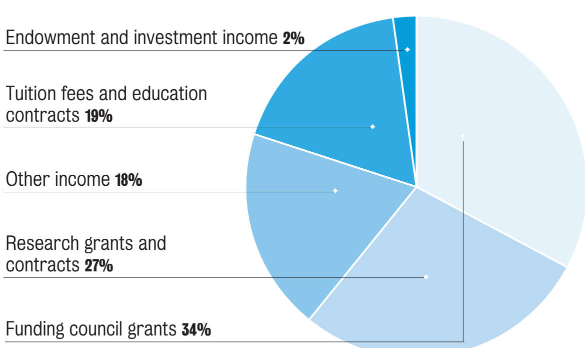
	2006/07 £000	2005/06 £000
Surplus on operating activities	299	5,145
Impact on FRS 17	(171)	151
Surplus on departmental activities	2,153	3,919
Other non-recurring gains	-	2,775
Surplus on normal operations	2,281	11,990
Surplus as a % of total income	0.6%	3.1%

The £0.299m surplus for the year on operating activities is consistent with a break-even budget and the College's forward financial forecasts. This is after accounting for additional investment in new academic appointments, scholarships and supporting infrastructure including marketing, commercial support and fundraising. The investment is largely recurrent in nature with consequent reduction in the reported surplus with the return on investment expected in future years.

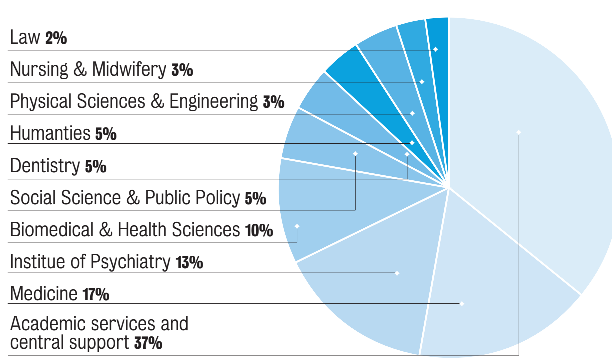
The operating surplus also reflects the provision made for the new pay framework, the implementation costs of which will be backdated to 1 August 2006. There is also an FRS17 charge to operating income of £0.171m for the year.

Most of the surplus for the year relates to a £2.1m surplus of income over expenditure on departmental activities credited to departmental reserves, which increased to £34.6m as at 31 July 2007.

Income



Expenditure



An analysis of the College's income by funding source together with a breakdown of expenditure by the Schools of the College is given on page 4.

An analysis of student load, which increased by 1.5% compared with 2006, and total staff, which increased by 1% from 2006 levels, is given on page 5.

KCL Library and Archive Services Ltd

The above company is a controlled charitable subsidiary company of the College established in 2001 for the purposes of operating the Maughan Library for the benefit of the College. The main reason for operating the Maughan Library through the library company structure was to minimise the College's tax liabilities, particularly VAT on refurbishment costs.

The use of library companies is not uncommon in the university sector and at the time was regarded as acceptable tax planning. However, following a VAT Tribunal case in 2006 involving the University of Ulster, the liability of the supplies being made between the library company and the university were called into question. Following the Tribunal decision HMRC challenged all universities who had similar arrangements in place.

After taking advice from tax counsel the College decided to accept a settlement offer from HMRC to resolve this challenge. The total cost to the College of accepting the settlement was £2.6m, of which £1.9m is payable over the next four years. The College has accounted for this as a capital item in the Financial Statements.

Capital Projects

During the year the College made further progress towards achieving its estates strategic aims, investing some £40.9m (2005/06 £36.4m) in buildings and equipment replacement and renewal.

Overall the capital programme is progressing well, with most projects to time and budget. The new James Black Centre at Denmark Hill was completed and officially opened in January 2007 by the Princess Royal, Chancellor of the University of London.

The second-phase redevelopments of the Strand Campus and the Institute of Psychiatry main building at Denmark Hill both made good progress during the year. Similarly the programme of laboratory refurbishments and upgrades at the Guy's and St Thomas' Campuses progressed well, with a new state of the art research facility for medical imaging opening shortly after the year end.

The College is at an advanced stage of planning and design development for the new Cicely Saunders Institute of Palliative Care at Denmark Hill, and anticipates works commencing in early 2008. The College also made good progress towards its fundraising target for the proposed Clinical Neuroscience Institute in conjunction with King's College Hospital NHS Foundation Trust, and further developed its plans for new clinical research facilities on all three clinical campuses.

The College continues to work on a funding package for the Honor Oak Park sports ground improvements and is considering proposals for a phased redevelopment of the site. Finally, the College exchanged contracts in November 2007, with Barratt Homes for the sale of the south side Hampstead Campus, which will provide the College with new student accommodation together with a cash consideration to finance further improvement in the College's residential stock.

Cash Reserves and Long-Term Liabilities

Cash inflow from operating activities during the year was £10.5m (2005/06 £17.1m), with year end cash balances increasing to £83.8m (2005/06 £68.9m).

The College's cash balances are managed by money brokers Royal London. The College also has arrangements in place with its principal bankers, the Royal Bank of Scotland, to manage the daily fluctuations on its current account.

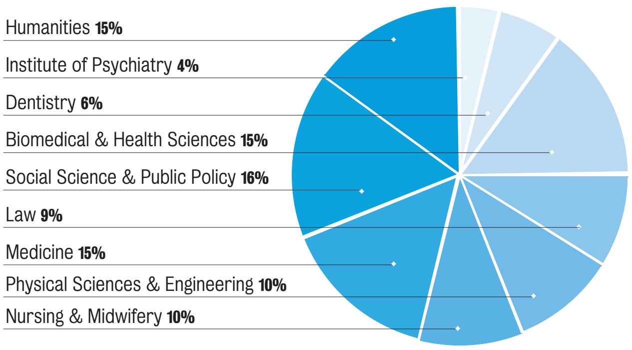
The College's Treasury Management policy is reviewed annually by the Finance Committee, which limits deposits to £10m to any one counterparty and Moody's credit rating of AA/P1 or better. The College monitors investment performance monthly.

There were no changes to the College's borrowing levels during the year, with net debt reducing to £28.6m (2005/06 £49.9m) as a result of the increase in cash balances.

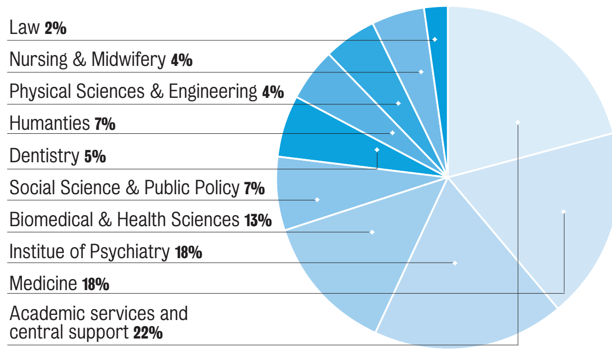
Pensions

The FRS17 pension deficit reported in the FPS and LGPS

Student Load



Staff



pension schemes was eliminated during the year. The Financial Statements as at 31 July 2007 report a combined pension asset of £0.163m compared with a net pension liability of £9.537m the previous year.

The main reason for this improvement relates to changes in actuarial assumptions in the FPS scheme, in particular the age from which deferred members can draw unreduced pension. However there is some uncertainty around this, with the Scheme Trustee of the view that deferred members can retire with unreduced pension from age 60, whereas the College's legal advisors have advised it is age 65. As it is a closed scheme with a high proportion of deferred members, this has a significant impact on the scheme valuation.

The College and the Scheme Trustee have agreed to go to independent legal counsel for a definitive ruling on the matter; however, for the purpose of the FRS17 valuation the scheme actuary has applied the College's interpretation of the rules relating to deferred members, which is consistent with the legal advice received by the College.

Endowment Assets and Investment Performance

The College's long-term objective is to move to a 'total return' basis of investment, although this will take a number of years given the need first to establish an adequate investment cushion, the Unapplied Total Return available to finance expenditure.

After the year end the College received a draft order from the Charity Commission setting out the basis on which the Unapplied Total Return can be used for the charitable purposes of the College. The draft order is being considered by the College and its advisors.

In the meantime the College has adopted an intermediate position which moves it towards a total return investment mix but ensures the need for income is satisfied within a more diversified portfolio.

The Investment Sub-Committee met regularly during the year to review performance of the investment managers with regular re-balancing of the portfolio to maintain the diversification benefits of the asset allocation strategy. The Committee also undertook a self assessment and took steps to further strengthen its own performance by appointing two additional members with investment expertise.

At the end of the year the market value of investments increased to £119.4m (2005/06 £111.8m), including £0.3m new capital received from benefactors. The total return achieved by the investment managers was 9.4%, including income yield of 3%, in line with the College's investment objective although the portfolio slightly underperformed the benchmark.

Conclusion

These are a pleasing set of results although the financials do not adequately reflect the significant academic gains and achievements during the year.

The surplus of £2.3m is modest indeed for an institution of King's standing and ambition, however whilst surpluses generate the cash necessary for investment it is the wise strategic investment of cash that will determine future sustainability. The College's new Strategic Plan, published earlier this year, provides the strategic framework against which the College has identified its priorities for investment.

The first priority has been to invest in new academic appointments, and this is largely complete although the College will seize opportunities to further strengthen the academic mission of the College as such opportunities present themselves.

The second priority has been investment in administrative infrastructure, including improved support for students. The next phase of investment will target the College estate.

The investment priorities have and will continue to depress the reported surplus in the early years of the Strategic Plan as the investment is largely recurrent in nature the benefits of which will flow through in future years to finance further improvements in the estate.

Looking ahead it is obvious that increasing the resource base of the College is crucial to the success of the Strategic Plan, and therefore the College has set itself some challenging targets to both grow and diversify income streams. In particular the College is aiming to generate significant additional income from full fee-paying students both postgraduate and overseas, fundraising, commercialisation, knowledge transfer, and efficiency gains, particularly improved utilisation of the physical estate.

The College, unlike many Universities, has achieved consistent surpluses for reinvestment but they are not enough to maintain and foster the development of the College in the heart of one of the most expensive capital cities in the world.

The College has a management and governance regime that should enable Government to relax its control and oversight to enable resources to be directed solely at our mission to educate and research in the service of society.

Government will not (and perhaps should not) be the funder of last resort. The College must reinforce its efforts to capture the fruits of the explosion of wealth in the UK in recent years and be unstinting and unapologetic about seeking significant increases in benefaction and patronage.

Finally, on behalf of the whole College we would like to express our thanks and gratitude to David Potter, who has recently retired as Treasurer. David has made an immense contribution to the financial well being of the College, including the former United Medical and Dental Schools of Guy's and St Thomas', overseeing the transformation and improvement in the College, its finances and estate following the various mergers of the late 1990's. David's role has stretched beyond the financial and he has involved himself fully in all aspects of College life, providing wise counsel to the Principal and Council as well as insight, warmth and a sense of humour. We wish David well and know he will remain a friend and ardent supporter of the College from afar.

Rory Tapner	Stephen Large
Treasurer	*Director of Finance*

Corporate governance

The following statement is provided to enable readers of the financial statements of the College to obtain a better understanding of the governance and legal structure of the College.

The College endeavours to conduct its business:

(a) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness; integrity; objectivity; accountability; openness; honesty; leadership) and

(b) in the light of the guidance to universities that has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities in England and Wales.

The College is an independent corporation whose legal status derives from a Royal Charter originally granted in 1829. Its objects, powers and framework of governance are set out in the Charter and supporting Statutes.

The Charter and Statutes require the College to have two bodies, the Council and the Academic Board, each with clearly defined functions and responsibilities, to oversee and manage its activities.

The Council is the executive governing body responsible for the finance, property, investment and conduct of all affairs of the College including the strategic direction of the institution. The Council comprises lay members, from whom its Chairman and Vice Chairman must be drawn, but also included in its membership are representatives of the staff of the College and the student body. None of the lay members receives any payment, apart from the reimbursement of expenses, for the work that they do for the College.

The Academic Board is the academic authority of the College and draws its membership mainly from the academic staff and the students of the institution. It is the body responsible for the academic work of the College in teaching, examining and research.

Although the Council meets at least three times each academic year, most of its detailed business is handled by committees, in particular an Amenities Committee, an Audit Committee, an Estates Strategy Committee, a Finance Committee, Remuneration Committees, a Safety Policy Committee and a Staffing Policy Committee. Each of these committees is formally constituted with written terms of reference and specified membership, including a significant proportion of lay members, from whom its Chairman is drawn; each reports regularly to the Council.

The Finance Committee *inter alia* recommends to Council the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Remuneration Committees determine the annual remuneration of professorial and senior administrative staff.

The Audit Committee is responsible for meeting, at least once annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors, to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. They receive and consider reports from the Higher Education Funding Council for England and the Training and Development Agency for Schools as they affect the College's business and monitor adherence with the regulatory requirements. They also approve comprehensive Financial Regulations for the conduct of the financial affairs of the College and review the College's annual financial statements together with the accounting policies.

The principal academic and administrative officer of the College is the Principal, who is responsible to the Council for securing the implementation of the decisions of the Council and maintaining and promoting the efficiency and good order of the College. The Principal is also, under the terms of the formal Financial Memorandum between the College and the Higher Education Funding Council, the designated Accounting Officer of the College and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

The Statutes of the College specify that the College Secretary should act as Secretary of the Council and the Academic Board, and any enquiries about the constitution and governance of the College should be addressed to the College Secretary.

Full statement of internal control

The Council, as the governing body of the College, has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which the Council is responsible, in accordance with the responsibilities assigned to the governing body in the charter and statutes and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the 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 the principal risks; to evaluate the nature and extent of those risks; and to manage them efficiently and effectively. This process was in place for the year ended 31 July 2007 and up to the date of the approval of the financial statements, and accords with HEFCE guidance.

The Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- The Council considers the plans and strategic direction of the College on an annual basis.
- The Council has delegated to the Audit Committee responsibility for reviewing the effectiveness of internal control systems and the risk management process.
- The Council receives periodic reports from the Chairman of the Audit Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from vice-principals and other managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Audit Committee reports to Council its findings in respect of the effectiveness of the risk management process. This is informed by the categorisation of risks and the maintenance of a College-wide risk register.
- The Audit Committee receives regular reports from the head of internal audit on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The Principal's central team is the focal point within the College for the enhancement of the risk management process and receives regular reports from heads of schools and departments in support of this.
- The business planning process requires heads of schools and departments to identify and keep up-to-date the record of risks facing the College and to report on internal control activities.
- A programme of risk awareness training is underway.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.
- A research project aimed at enhancing management decision-making in the area of risk management through the development of practices at the operational level is underway and is actively seeking to embed risk management into all of the College's activities.

The College has an internal audit department, which operates to standards defined in the HEFCE Code of Practice on Audit and Accountability and which was last reviewed for effectiveness by the HEFCE Audit Service in December 2003. The internal audit department Submits regular reports to the Audit Committee that include the head of internal audit's independent opinion on the adequacy and effectiveness of the College's system of internal control, together with recommendations for improvement.

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2007 was informed by the Audit Committee, the work of the internal audit department and the executive managers within the College who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Responsibilities of the College Council

In accordance with the Royal Charter, the Council of King's College London is responsible for the administration and management of the affairs of the College; it requires audited financial statements to be presented for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Statement of Recommended Practice: Accounting for Further and Higher Education (2003) and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum and of the Funding Agreement agreed between the Higher Education Funding Council for England and Training and Development Agency for Schools respectively and the Council of the College, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and Training and Development Agency for Schools are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and the Funding Agreement with these bodies;
- ensure that professional financial management is in place in terms of numbers of staff and their quality;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic and non-academic performance and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee;
- a professional independent internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Council and whose head provides the Council with a report on internal audit activity within the College and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control. Any system of internal financial control can, however, only provide reasonable, not absolute, assurance against material misstatement or loss.

Independent auditors' report to the Council of King's College London

We have audited the Group and College financial statements (the 'financial statements') of King's College London for the year ended 31 July 2007 which comprise the consolidated Income and Expenditure Account, the consolidated and College Balance Sheets, the consolidated Cash Flow Statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the College. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it 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 Council, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the College Council and the Auditors

The College Council is responsible for preparing the Treasurer's Report and the consolidated financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003), applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 9.

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 Statement of Recommended Practice: Accounting for Further and Higher Education (2003). We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and the Training and Development Agency for Schools. We also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements, if the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. 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 College Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and College'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 UK Generally Accepted Accounting Practice, of the state of affairs of the College and the group as at 31 July 2007 and of the group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (2003);
- in all material respects, income from the Higher Education Funding Council for England, and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2007 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2007 has been applied in accordance with the College's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and the funding agreement with the Training and Development Agency for Schools.

KPMG LLP
Chartered Accountants
Registered Auditor
1 Forest Gate, Brighton Road, Crawley, West Sussex RH11 9PT
4 December 2007

Statement of principal accounting policies

1. Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education (2003) (SORP) and applicable Accounting Standards.

2. Basis of consolidation

The consolidated financial statements consolidate the financial statements of the College and all its subsidiary undertakings for the financial year to 31 July.

The consolidated financial statements do not include those of the King's College London Students' Union, in which the College has no financial interest and no control or significant influence over policy decisions.

3. Recognition of income

Income from General and Specific Endowments, Research Grants, Contracts and Other Services Rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits is credited to the Income and Expenditure Account on a receivable basis.

4. Pension schemes

The two principal pension schemes in which the College participates are the Universities Superannuation Scheme (USS), and the Superannuation Arrangements of the University of London (SAUL). The schemes are defined benefit schemes which are externally funded and contracted out of the Second State Pension. The schemes are valued every three years by professionally qualified and independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes, and are accounted for on the basis of charging the cost of providing pensions over the period during which the College benefits from the employees' services.

The College fully adopted accounting standard FRS17 Retirement Benefits during the year ended 31 July 2006. Previously the transitional disclosures of that standard were followed. The impact of the standard is reflected throughout the financial statements.

The difference between the fair value of the assets held in the College's defined benefit pension schemes and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the College's balance sheet as a pension scheme asset or liability. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme liability arising from factors other than cash contribution by the College are charged to the income and expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS17 Retirement Benefits.

5. Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6. Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

7. Land and buildings

Land and buildings are stated at cost. Buildings are depreciated over their expected useful lives of 50 years, and 100 years in respect of new build property, and leasehold land over the life of the lease.

In respect of the new property, where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings. Freehold assets during the course of construction are not depreciated.

8. Furniture and equipment

Furniture and equipment, including computers and software, costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other furniture and equipment is capitalised.

Capitalised furniture and equipment, including motor vehicles, is stated at cost and depreciated over its expected useful life of 5 years. Capitalised leased equipment, is stated at cost and depreciated over its expected useful life of 15 years.

Where furniture and equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a grant received in advance and released to income over the expected useful life of the equipment.

9. Investments

Endowment Asset Investments are included in the Balance Sheet at market value. Current Asset Investments are included at the lower of cost or net realisable value.

10. Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the College's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

11. Maintenance of premises

The College has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of routine corrective maintenance is charged to the Income and Expenditure Account as incurred.

12. Taxation status

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax.

The College's subsidiary companies are subject to corporation tax and VAT in the same way as any other commercial organisation. However, no provision has been made for deferred tax on the grounds that the taxable profits of the subsidiary companies are gift aided back to the College.

13. Related party transactions

The College has taken advantage of the exemption that is conferred by Financial Reporting Standard Number 8, Related Party Disclosures, which allows it not to disclose transactions with Group undertakings that are eliminated on consolidation.

14. Endowments

Endowment income from investments that has not been transferred to the College's Income and Expenditure Account is shown as unexpended endowment income under creditors.

15. Provisions

Provisions are recognised when the College has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Consolidated Income and Expenditure Account

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Income			
Funding Council grants	1	137,747	127,824
Tuition fees and education contracts	2	76,274	68,384
Research grants and contracts	3	109,926	110,637
Other income	4	75,363	73,089
Endowment income and interest receivable	5	8,858	8,017
Total income		408,168	387,951
Expenditure			
Staff costs	6	251,268	237,541
Depreciation	11	19,092	14,828
Other operating expenses	7	125,626	113,700
Interest payable	8	9,901	9,892
Total expenditure	10	405,887	375,961
Surplus on ordinary activities		2,281	11,990
Taxation	9	1	1
Surplus after depreciation of assets at cost and tax		2,280	11,989

The consolidated income and expenditure of the College and its subsidiaries relates wholly to continuing operations.

There is no difference between the surplus stated above and the historical cost equivalent.

Statement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Surplus after depreciation of assets at cost and tax		2,280	11,989
Change in value of endowment asset investments	*20*	6,698	8,115
Endowment income movement for the year	*20*	450	366
New endowments	*20*	470	367
Actuarial gain/(loss) on pension schemes	*29*	9,871	(5,052)
Decrease in unexpended endowment income	*15*	(111)	(315)
Total recognised gains relating to the year		19,658	15,470
Prior year adjustment	*31*	-	(4,329)
Total gains recognised since the last annual report		19,658	11,141

Reconciliation

Opening reserves and endowments	250,050	234,580
Prior year adjustment	-	4,329
Total recognised gains for the year	19,658	11,141
Closing reserves and endowments	269,708	250,050

Consolidated and College Balance Sheets

As at 31 July 2007

	Note	Consolidated 2007 £000	Consolidated 2006 £000	College 2007 £000	College 2006 £000
Fixed assets					
Tangible assets	11	587,437	565,582	455,094	431,486
Investments	12	48	48	89,728	89,728
		587,485	565,630	544,822	521,214
Endowment asset investments	13	119,361	111,854	119,361	111,854
Current assets					
Debtors	14	38,085	32,991	94,195	87,061
Cash at bank and in hand		83,781	68,879	78,997	66,704
		121,866	101,870	173,192	153,765
Creditors: amounts falling due within one year	15	(107,243)	(100,622)	(115,220)	(107,704)
Net current assets		14,623	1,248	57,972	46,061
Total assets less current liabilities		721,469	678,732	722,155	679,129
Creditors: amounts falling due after more than one year	16	(118,298)	(118,113)	(116,648)	(115,638)
Provisions for liabilities and charges	18	(492)	(1,792)	(492)	(1,792)
Net assets excluding pensions asset/(liability)		602,679	558,827	605,015	561,699
Net pensions asset/(liability)		163	(9,537)	163	(9,537)
Total net assets including pensions asset/(liability)		602,842	549,290	605,178	552,162
Deferred capital grants	19	333,134	299,240	333,134	299,240
Endowments	20	119,361	111,854	119,361	111,854
Reserves					
Income and expenditure account excluding pension reserve	21	150,184	147,733	152,520	150,605
Pension reserve		163	(9,537)	163	(9,537)
		150,347	138,196	152,683	141,068
Total funds		602,842	549,290	605,178	552,162

The financial statements on pages 11 to 31 were approved by the Council on 4 December 2007 and signed on its behalf by:

Professor Richard Trainor	Mr Rory Tapner	The Marquess of Douro
Principal	*Treasurer*	*Chairman of Council*

Consolidated Cash Flow Statement

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Net cash inflow from operating activities	23	10,525	17,080
Returns on investments and servicing of finance	24	3,905	2,927
Capital expenditure and financial investment	25	11,405	(16,196)
Cash inflow before use of liquid resources and financing		25,835	3,811
Management of liquid resources	26	(6,162)	258
Financing	27	(4,771)	(4,630)
Increase/(decrease) in cash	28	14,902	(561)

Reconciliation of net cash flow to movement in net debt

	Note	2006/07 £000	2005/06 £000
Increase/(decrease) in cash in the year		14,902	(561)
Cash inflow/(outflow) from liquid resources		6,162	(258)
Decrease in debt		275	182
Movement in net debt in the year		21,339	(637)
Net debt at 1 August		(49,920)	(49,283)
Net debt at 31 July	28	(28,581)	(49,920)

Notes to the accounts

For the year ended 31 July 2007

1. Funding Council Grants

	2006/07 £000	2005/06 £000
Higher Education Funding Council for England grants		
Recurrent grant	122,873	114,905
Specific grants:	3,976	4,365
Deferred capital grants released in the year:		
Buildings *(note 19)*	3,652	2,908
Equipment *(note 19)*	4,240	1,754
	134,741	123,932
Joint Information Systems Committee grants	1,536	2,634
Training and Development Agency for Schools		
Recurrent grant	1,222	1,183
Specific grants	248	75
	1,470	1,258
Total Funding Council and Agency grants	137,747	127,824

2. Tuition Fees and Education Contracts

	2006/07 £000	2005/06 £0000
Full-time students charged home fees	22,765	16,917
Full-time students charged overseas fees	26,025	23,830
Regional health authorities contracted student fees	20,075	20,365
Part-time fees	3,799	3,249
Special and short course fees	3,450	3,962
Research training support grants	160	61
	76,274	68,384

3. Research Grants and Contracts

	2006/07 £000	2005/06 £000
Research councils	25,130	26,593
UK central government, local authorities, health and hospital authorities	21,447	24,513
UK industry, commerce and public corporations	12,764	11,372
UK charitable bodies	34,750	36,152
EU government and other bodies	6,629	5,051
Other overseas	8,566	6,191
Other	640	765
	109,926	110,637

Notes to the accounts *continued*

For the year ended 31 July 2007

4. Other Income

	2006/07 £000	2005/06 £000
Academic departments costs reimbursed by NHS	14,669	16,681
Distinction and merit awards reimbursed by NHS	8,273	8,628
Residences, catering and conferences	14,699	13,322
Services rendered to NHS and related bodies	7,875	7,473
Self-financing activities	14,520	14,655
Released from deferred capital grants	2,414	2,206
Other income	12,913	10,124
	75,363	73,089

5. Endowment Income and Interest Receivable

	2006/07 £000	2005/06 £000
Transferred from specific endowments *(note 20)*	3,494	3,586
Pension scheme investment income	15	294
Other interest receivable	5,349	4,137
	8,858	8,017

6. Staff

	2006/07 £000	2005/06 £000
Staff costs:		
Wages and salaries	211,690	199,791
Social security costs	16,652	16,652
Other pension costs *(note 29)*	22,926	21,098
	251,268	237,541
Emoluments of the Principal:		
Other emoluments	210	215
Benefits-in-kind	5	5
	215	220
Pension scheme contributions	35	36
Total emoluments of the Principal	250	256

The pension contributions for the Principal paid in respect of employer's contributions to the Universities Superannuation Scheme are paid at the same rate as for other employees. Contributions were also paid to a FURBS pension arrangement in respect of the Principal.

	2006/07 Number	2005/06 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,500	2,505
Administrative and related staff	766	736
Technical	347	346
Clerical	878	843
Other	128	142
	4,619	4,572

Notes to the accounts *continued*

For the year ended 31 July 2007

6. Staff (continued)

Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to College staff under separate NHS contracts of employment and which are included in the College's Income and Expenditure Account:

	2006/07 Number	2005/06 Number
£ 70,001 - £ 80,000	93	72
£ 80,001 - £ 90,000	68	39
£ 90,001 - £ 100,000	40	39
£ 100,001 - £ 110,000	29	25
£ 110,001 - £ 120,000	22	20
£ 120,001 - £ 130,000	26	20
£ 130,001 - £ 140,000	13	17
£ 140,001 - £ 150,000	14	9
£ 150,001 - £ 160,000	14	13
£ 160,001 - £ 170,000	7	13
£ 170,001 - £ 180,000	13	8
£ 180,001 - £ 190,000	7	8
£ 190,001 - £ 200,000	6	10
£ 200,001 - £ 210,000	2	3
£ 210,001 - £ 220,000	4	5
£ 220,001 - £ 230,000	1	3
£ 230,001 - £ 240,000	2	1
£ 240,001 - £ 250,000	-	2
£ 250,001 - £ 260,000	1	-
£ 260,001 - £ 270,000	1	-
£ 300,001 - £ 310,000	-	1

The Accounts include severance payments (including the cost of additional pension benefits purchased by the College) amounting to £453,000 (2006 - £391,000) for four (2006 - four) higher paid employees.

7. Other Operating Expenses

	2006/07 £000	2005/06 £000
Research grants and contracts	40,294	38,471
Residences, catering and conferences operating expenses	6,691	5,807
Books and periodicals	3,207	2,754
Heat, light, water and power	6,591	5,742
Repairs and general maintenance	14,170	10,946
University of London charges	1,834	1,657
Services rendered to NHS and related bodies	3,276	2,988
Self-financing activities	5,280	3,435
Equipment items below £10,000 from general funds	2,084	2,368
Grants to King's College Students' Union	1,243	1,066
Communications, advertising and other services	9,929	9,180
Travelling, conference and related costs	3,635	3,189
Rents	3,618	3,397
Laboratory costs	1,720	1,891
Security and cleaning	7,746	7,429
Business rates and other premises costs	1,422	1,673
Auditors' remuneration	97	95
Auditors' remuneration in respect of non-audit services	80	54
Other expenses	12,709	11,558
	125,626	113,700

Notes to the accounts *continued*

For the year ended 31 July 2007

8. Interest Payable

	2006/07 £000	2005/06 £000
Loans not wholly repayable within five years	7,969	7,966
Finance leases	1,932	1,926
	9,901	9,892

9. Taxation

	2006/07 £000	2005/06 £000
UK corporation tax payable on the profits of subsidiary companies	1	1

The tax charge arises from taxable profits that were not paid under gift aid by subsidiary companies to King's College London. The Council does not believe that the College is liable for any corporation tax arising out of its activities during the year.

10. Analysis of 2007 Expenditure by Activity

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	115,731	3,515	14,359	-	133,605
Academic departments costs reimbursed by NHS	14,241	-	398	-	14,639
Distinction and merit awards reimbursed by NHS	8,304	-	-	-	8,304
Academic services	15,667	2,061	8,691	-	26,419
Research grants and contracts	55,254	2,329	40,294	-	97,877
Residences, catering and conferences	3,525	34	6,691	4,332	14,582
Premises	7,135	11,048	30,493	-	48,676
Administration	18,520	86	6,981	-	25,587
Staff and student facilities	1,487	16	3,600	-	5,103
General education expenditure	522	3	3,325	-	3,850
University of London federal subscription	-	-	576	-	576
Services rendered to NHS and related bodies	4,339	-	2,878	-	7,217
Self financing activities	6,224	-	5,280	-	11,504
Pension costs	186	-	-	-	186
Other	133	-	2,060	5,569	7,762
Total per income and expenditure account	251,268	19,092	125,626	9,901	405,887

The depreciation charge has been funded by:

Deferred capital grants released (*note 19*)	12,635
General income	6,457
	19,092

Notes to the accounts *continued*

For the year ended 31 July 2007

11. Tangible Assets

Consolidated	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost							
At 1 August 2006	287,264	265,870	7,645	57,259	24,393	38,989	681,420
Additions	822	3,260	-	6,443	-	30,422	40,947
Transfers	17,433	20,579	-	6,510	-	(44,522)	-
Disposals	-	-	-	(1,545)	-	-	(1,545)
At 31 July 2007	305,519	289,709	7,645	68,667	24,393	24,889	720,822
Depreciation							
At 1 August 2006	35,097	32,801	3,179	42,101	2,660	-	115,838
Charge for year	4,419	4,447	408	8,369	1,449	-	19,092
Eliminated on disposals	-	-	-	(1,545)	-	-	(1,545)
At 31 July 2007	39,516	37,248	3,587	48,925	4,109	-	133,385
Net book value							
At 31 July 2007	266,003	252,461	4,058	19,742	20,284	24,889	587,437
At 1 August 2006	252,167	233,069	4,466	15,158	21,733	38,989	565,582

College	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost							
At 1 August 2006	232,402	175,710	7,657	56,724	24,393	39,017	535,903
Additions	822	3,310	-	6,343	-	30,422	40,897
Transfers	17,433	20,607	-	6,510	-	(44,550)	-
Disposals	-	-	-	(1,526)	-	-	(1,526)
At 31 July 2007	250,657	199,627	7,657	68,051	24,393	24,889	575,274
Depreciation							
At 1 August 2006	31,249	25,683	3,179	41,646	2,660	-	104,417
Charge for year	3,865	3,249	408	8,318	1,449	-	17,289
Eliminated on disposals	-	-	-	(1,526)	-	-	(1,526)
At 31 July 2007	35,114	28,932	3,587	48,438	4,109	-	120,180
Net book value							
At 31 July 2007	215,543	170,695	4,070	19,613	20,284	24,889	455,094
At 1 August 2006	201,153	150,027	4,478	15,078	21,733	39,017	431,486

Notes to the accounts *continued*

For the year ended 31 July 2007

11. Tangible Assets (continued)

The total amount of interest included in assets above amounted to £1,740,000 (2006 - £1,740,000). Included within freehold and long leasehold land and buildings are a number of properties that are shared with third parties where title documentation may not exist at the present time. The net book value of these are £2,211,000 and £26,545,000 respectively.

Some of the assets have been funded from Treasury sources. Should these assets be sold, the College would either have to surrender part of the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Higher Education Funding Council for England.

Included in the above are assets with a net book value of £333,134,000 (2006 - £299,240,000) funded by capital grants (*note 19*).

12. Investments

	Consolidated		College	
	2007 £000	2006 £000	2007 £000	2006 £000
Investment in subsidiary companies at cost	-	-	89,680	89,680
Other fixed asset investments	48	48	48	48
	48	48	89,728	89,728

The College owns 100 per cent of the issued share capital of KCL Enterprises Limited, Doublerace Limited, Closeworld Limited and College Facilities Limited which are all companies registered in England and operating in the United Kingdom.

13. Endowment Asset Investments

	Consolidated and College	
	2007 £000	2006 £000
Balance at 1 August	111,854	103,321
Additions	39,983	27,984
Disposals	(45,336)	(19,978)
Revaluation	6.698	785
Increase/(decrease) in cash balances	6,162	(258)
Balance at 31 July	119,361	111,854
Fixed interest stocks	28,640	28,835
Equities	82,950	81,410
Bank balances	7,771	1,609
Total endowment asset investments	119,361	111,854
Fixed interest and equities at cost	98,318	91,286

14. Debtors

	Consolidated		College	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade debtors	10,141	7,538	10,141	7,538
Other debtors	2,098	1,338	2,096	765
Research grant debtors	12,532	11,988	12,532	11,988
Research grant work in progress	8,839	7,538	8,839	7,538
Prepayments and accrued income	4,475	4,589	3,609	4,365
Amounts owed by Group undertakings	-	-	56,978	54,867
	38,085	32,991	94,195	87,061

Included within College Group debtors is £52,886,000 (2006 - £54,087,000) payable over more than one year.

Notes to the accounts *continued*

For the year ended 31 July 2007

15. Creditors: Amounts Falling Due within one Year

	Consolidated		College	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade creditors	14,830	13,751	13,202	12,434
Payments received on account	47,488	45,655	47,145	45,815
Other creditors and accruals	28,693	25,126	25,702	22,429
Social security and other taxation payable	8,814	8,893	7,327	5,550
Amounts owed to group undertakings	-	-	14,426	14,279
Obligations under finance leases (*note 17*)	2,150	2,169	2,150	2,169
Unexpended endowment income (*note 20)*	2,538	2,427	2,538	2,427
Current element of long term liabilities (*note 17*)	2,730	2,601	2,730	2,601
	107,243	100,622	115,220	107,704

16. Creditors: Amounts Falling Due after more than one Year

	Consolidated		College	
	2007 £000	2006 £000	2007 £000	2006 £000
Obligations under finance leases *(note 17)*	35,346	35,508	35,346	35,508
Term deposits for loan repayments	(22,949)	(22,892)	(22,949)	(22,892)
	12,397	12,616	12,397	12,616
Loans *(note 17)*	102,856	103,022	102,856	103,022
Total long term borrowings	115,253	115,638	115,253	115,638
Capital goods scheme VAT	3,045	2,475	1,395	-
Total	118,298	118,113	116,648	115,638

Loans are secured on a portion of the freehold land and buildings of the College.

17. Borrowings

	Consolidated and College			
	Finance leases		Loans	
	2007 £000	2006 £000	2007 £000	2006 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	2,150	2,169	2,871	2,727
Between two and five years	6,451	6,506	9,517	9,047
Total between one and five years	8,601	8,675	12,388	11,774
Over five years	26,745	26,833	90,468	91,248
Total over one year *(note 16)*	35,346	35,508	102,856	103,022
Within one year *(note 15)*	2,150	2,169	2,730	2,601
	37,496	37,677	105,586	105,623

Loans with interest rates between 6.75% and 9.60% amounting to £42,856,000 are repayable by instalments falling due between 1 August 2008 and 17 September 2027; the remaining loan with an interest rate of 6.22% is repayable by a single instalment on 31 July 2031.

Notes to the accounts *continued*

For the year ended 31 July 2007

18. Provisions for Liabilities and Charges

	Consolidated and College Restructuring £000
At 1 August 2006	1,792
Utilised in year	(1,300)
At 31 July 2007	492

The restructuring provision relates to costs arising in order to achieve the College's strategic plan.

As explained in the accounting policies note, no provision has been made for the deferred tax on the grounds that the subsidiary companies transfer their taxable profits by Gift Aid to the College and therefore no deferred tax assets or liability will be realised.

19. Deferred Capital Grants

	Consolidated and College		
	Funding Council £000	Other grants & benefactions £000	Total £000
At 1 August 2006			
Buildings	176,697	106,156	282,853
Equipment	11,634	4,753	16,387
Total	188,331	110,909	299,240
Cash received			
Buildings	12,196	6,975	19,171
Equipment	24,040	3,318	27,358
Total	36,236	10,293	46,529
Released to income and expenditure			
Buildings *(note 1)*	(3,652)	(2,228)	(5,880)
Equipment *(note 1)*	(4,240)	(2,515)	(6,755)
Total *(note 10)*	(7,892)	(4,743)	(12,635)
At 31 July 2007			
Buildings	185,241	110,903	296,144
Equipment	31,434	5,556	36,990
Total	216,675	116,459	333,134

Notes to the accounts *continued*

For the year ended 31 July 2007

20. Endowments

	Consolidated and College		
	Specific £000	General £000	Total £000
At 1 August 2006	114,281	-	114,281
Additions	470	-	470
Change in value of endowment asset investments	6,698	-	6,698
Income for year	3,944	-	3,944
Transferred to income and expenditure account *(note 5)*	(3,494)	-	(3,494)
At 31 July 2007	121,899	-	121,899
Creditors *(note 15)*	2,538	-	2,538
Endowment capital	119,361	-	119,361
	121,899	-	121,899
Representing:			
Fellowships and scholarships	14,265	-	14,265
Prize funds	5,390	-	5,390
Chairs and lectureships	93,035	-	93,035
Other funds	9,209	-	9,209
	121,899	-	121,899

21. Reserves

	Consolidated £000	College £000
Balance at 1 August 2006	138,196	141,068
Surplus after depreciation of assets at cost and tax	2,280	1,744
Actuarial loss on pension scheme liability	9,871	9,871
Balance at 31 July 2007	150,347	152,683
The reserves are allocated to:		
The income and expenditure account which is nominally allocated to:		
Departmental reserves	34,618	34,618
Revenue reserve	115,566	117,902
Income and expenditure account	150,184	152,520
Pension reserve	163	163
	150,347	152,683

22. Capital Commitments

	Consolidated		College	
	2007 £000	2006 £000	2007 £000	2006 £000
Commitments contracted at 31 July	30,266	50,100	30,266	50,100
Authorised but not contracted at 31 July	5,254	9,400	5,254	9,400
	35,520	59,500	35,520	59,500

Notes to the accounts *continued*

For the year ended 31 July 2007

23. Reconciliation of Consolidated Operating Surplus to Net Cash from Operating Activities

	2006/07 £000	2005/06 £000
Surplus before tax	2,281	11,990
Depreciation (*note 11*)	19,092	14,828
Deferred capital grants released to income (*note 19*)	(12,635)	(9,161)
Investment income (*note 5*)	(8,858)	(8,017)
Interest payable (*note 8*)	9,901	9,892
Pension scheme income and costs	171	(151)
Deficit on disposal of tangible fixed assets	-	10
(Increase)/decrease in debtors	(5,094)	5,038
Increase/(decrease) in creditors	6,397	(3,965)
Increase/(decrease) in capital goods scheme VAT (*note 16*)	570	(826)
Decrease in provisions	(1,300)	(2,558)
Net cash inflow from operating activities	10,525	17,080

24. Returns on Investments and Servicing of Finance

	2006/07 £000	2005/06 £000
Income from endowments (*note 20*)	3,944	3,952
Pension scheme investment income (*note 5*)	15	294
Interest received (*note 5*)	5,349	4,137
Interest paid	(5,403)	(5,456)
Net cash inflow from returns on investments and servicing of finance	3,905	2,927

25. Capital Expenditure and Financial Investment

	2006/07 £000	2005/06 £000
Tangible assets acquired (*note 11*)	(40,947)	(36,434)
Endowment asset investments acquired (*note 13*)	(39,983)	(27,984)
Total tangible and investment assets acquired	(80,930)	(64,418)
Receipts from sale of endowment assets	45,336	27,308
Deferred capital grants received (*note 19*)	46,529	20,547
Endowments received (*note 20*)	470	367
Net cash outflow from capital expenditure and financial investment	11,405	(16,196)

26. Management of Liquid Resources

	2006/07 £000	2005/06 £000
Movement in endowment assets	(6,162)	258
Net cash movement from management of liquid resources	(6,162)	258

27. Analysis of Changes in Consolidated Financing during the Year

	2006/07 £000	2005/06 £000
Borrowings repaid	(2,604)	(2,481)
New long term loans	-	10,818
Repayment of capital element of finance leases	(2,167)	(12,967)
Net cash outflow from financing	(4,771)	(4,630)

Notes to the accounts *continued*

For the year ended 31 July 2007

28. Analysis of Changes in Net Debt

	At 1 August 06 £000	Cash flows £000	Other changes £000	At 31 July 07 £000
Cash at bank and in hand	68,879	14,902	-	83,781
Endowment asset investments *(note 13)*	1,609	6,162	-	7,771
	70,488	21,064	-	91,552
Debt due within one year	(4,770)	4,717	(4,827)	(4,880)
Debt due after one year	(115,638)	54	331	(115,253)
Net debt	(49,920)	25,835	(4,496)	(28,581)

29. Pensions

The two principal pension schemes in which the College participates are the Universities Superannuation Scheme (USS), and the Superannuation Arrangements of the University of London (SAUL). USS provides benefits based on final pensionable salary for academic and related employees of all UK universities and some other employers. SAUL provides similar benefits for non-academic staff. These are externally funded centralised defined benefit schemes which are contracted out of the Second State Pension. The assets of the schemes are held in separate trustee-administered funds. It is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore contributions are accounted for as if the schemes were defined contribution schemes and pension costs are based on the amounts actually paid in accordance with paragraphs 8-12 of FRS 17.

Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was as at 31 March 2005 using the projected unit method. The assumptions that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Valuation rate of interest	4.5%	6.2%
Salary scale increases per annum	3.9%	3.9%
Pensions increases per annum	2.9%	2.9%
Market value of assets at date of last valuation	£21,740 million	
Value of past service liabilities at date of last valuation	£28,308 million	
Deficit of assets at date of last valuation	£6,568 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%	

The College's contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the College's contribution rate at 14% of pensionable salaries.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

Superannuation Arrangements of the University of London (SAUL)

The last available actuarial valuation of the scheme was as at 31 March 2005 using the projected unit credit method. The assumptions that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns on liabilities per annum before retirement	5.50%	6.50%
Investment returns on liabilities per annum after retirement	4.50%	4.50%
Salary scale increases per annum	4.15%	4.15%
Pensions increases per annum	2.65%	2.65%
Market value of assets at date of last valuation	£982 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	93%	

Notes to the accounts *continued*

For the year ended 31 July 2007

29. Pensions (continued)

Employers contribute 13.0% of salaries from August 2006 (previously 10.5% of salaries), an increase of 2.5% of salaries.

Members contributions also increased, by 1.0% of salaries to 6.0% with effect from the same date.

Employers who have recently joined SAUL and certain employee groups (as agreed by the Trustee of SAUL), pay 19.2% of salaries from 1 August 2006 until the second actuarial valuation after entry (or some other period as agreed with the Trustee).

The next formal actuarial valuation is due as at 31 March 2008 when the above rates will be reviewed.

Federated Pension Scheme (FPS) and Local Government Pension Scheme (LGPS)

The pension scheme offered to non-academic staff at United Medical and Dental Schools of Guy's and St Thomas' Hospitals (UMDS) was the Federated Pension Scheme for UMDS (FPS). The pension scheme offered to staff at Chelsea College was the Local Government Pension Scheme (LGPS). No new members are admitted to these schemes.

FPS and LGPS are defined benefit schemes; the last triennial valuations were undertaken on 31 March 2003 and 31 March 2004 respectively.

The scheme actuaries of FPS are currently carrying out the actuarial valuation as at 31 March 2006.

For the purposes of reporting under FRS 17 projected unit method valuations were carried out as at 31 July 2007. The assumptions used and the valuation results are set out below.

	Federated Pension Scheme			Local Government Pension Scheme		
	31 July 2007	31 July 2006	31 July 2005	31 July 2007	31 July 2006	31 July 2005
Price increases per annum	3.25%	2.80%	2.50%	3.3%	3.1%	2.8%
Salary increases per annum	4.75%	4.50%	4.00%	4.8%	4.6%	4.3%
Pensions increases per annum	3.10%	3.00%	2.50%	3.3%	3.1%	2.8%
Discount rate per annum	5.80%	5.20%	5.00%	5.8%	5.1%	5.0%

Federated Pension Scheme

The assets and liabilities in the scheme and the expected rate of return are:

	31 July 2007		31 July 2006		31 July 2005	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	7.25%	35,489	6.85%	33,245	6.75%	28,660
Annuities	5.80%	1,361	5.20%	2,041	5.00%	1,845
Bonds	5.40%	3,552	4.80%	3,653	5.50%	5,474
Cash	4.75%	3,017	4.75%	1,244	4.00%	50
Total market value of assets		43,419		40,183		36,029
Actuarial value of scheme liabilities		(41,751)		(48,106)		(39,221)
Surplus/(Deficit) in the scheme		1,668		(7,923)		(3,192)

Notes to the accounts *continued*

For the year ended 31 July 2007

29. Pensions (continued)

History of experience gains and losses

	31 July 2007 £000	31 July 2006 £000	31 July 2005 £000	31 July 2004 £000	31 July 2003 £000
Difference between expected and actual return on scheme assets:					
Amount	1,213	2,444	3,885	17	(10)
Percentage of scheme assets	3%	6%	11%	0%	0%
Experience gains and losses on scheme liabilities:					
Amount	2,135	0	(376)	(2,987)	(93)
Percentage of the present value of scheme liabilities	5%	0%	(1.0%)	(9.0%)	(0.3%)
Total amount recognised in statement of total recognised gains and losses:					
Amount	9,728	(4,893)	301	2,206	(2,108)
Percentage of the scheme liabilities	23%	(10%)	1%	7%	(6%)
Employer contribution to scheme	603	631	674	540	518
Percentage of salary contributed	19.00%	19.00%	19.00%	19.00%	13.25%
Percentage of salary contributed 1 August 2003 to 31 March 2004				13.25%	

Local Government Pension Scheme

The assets and liabilities in the scheme and the expected rate of return are:

	31 July 2007		31 July 2006		31 July 2005	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	8.0%	192,900	7.7%	185,100	7.3%	233,400
Cashflow matching	4.7%	1,062,100	4.4%	1,105,700		-
Bonds		-			4.7%	1,121,400
Cash	5.1%	24,400	4.8%	43,700	4.5%	99,900
Total market value of assets for whole fund		1,279,400		1,334,500		1,454,700
Estimated employer share of assets		4,075		4,284		4,459
Present value of scheme liabilities		(4,961)		(5,233)		(5,228)
Present value of unfunded liabilities		(619)		(665)		(675)
Total value of liabilities		(5,580)		(5,898)		(5,903)
Net pension liabilities		(1,505)		(1,614)		(1,444)

Notes to the accounts *continued*

For the year ended 31 July 2007

29. Pensions (continued)

History of experience gains and losses

	31 July 2007	31 July 2006	31 July 2005	31 July 2004	31 July 2003
	£000	£000	£000	£000	£000
Difference between the expected and actual return on scheme assets:					
Amount	(59)	(42)	365	(12)	75
Percentage of scheme assets	(1.4%)	(1.0%)	8.2%	(0.3%)	1.5%
Experience gains and losses on scheme liabilities:					
Amount	20	(7)	(690)	(9)	(84)
Percentage of present value of scheme liabilities	0.4%	(0.1%)	(11.7%)	(0.2%)	(1.5%)
Total amount recognised in the statement of total recognised gains and losses:					
Amount	143	(159)	(672)	(26)	(310)
Percentage of the scheme liabilities	2.6%	(2.7%)	(11.4%)	(0.5%)	(5.5%)
Employer contribution to the scheme	13	7	5	4	4
Percentage of salary contributed	22.0%	22.0%	15.3%	15.3%	15.3%

The movements in the schemes' (deficit)/surplus during the year is:

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2007	31 July 2006	31 July 2007	31 July 2006
	£000	£000	£000	£000
Deficit in scheme at beginning of year	(7,923)	(3,192)	(1,614)	(1,444)
Movement in year:				
Current service cost	(846)	(806)	(8)	(7)
Employer's contribution	603	631	13	7
Past service cost	-	(23)	-	-
Contributions in respect of unfunded benefits	-	-	52	55
Net return on assets	106	360	(91)	(66)
Actuarial gain/(loss)	9,728	(4,893)	143	(159)
Surplus/(deficit) in scheme at end of year	1,668	(7,923)	(1,505)	(1,614)

The above statements are made in compliance with FRS17. However, under current legislation, the College's obligation to fund the pension scheme is defined by the Minimum Funding Requirement (MFR). At the time of the last actuarial valuation of the pension scheme and at the time the appropriate Schedule of Contributions was prepared following that valuation, the pension schemes had an MFR funding level in excess of 100%.

Notes to the accounts *continued*

For the year ended 31 July 2007

29. Pensions (continued)

National Health Service Pension Scheme (NHSPS)

The College also operates the National Health Service Pension Scheme which is available to staff who immediately prior to appointment at the College were members of that scheme. This is a statutory, unfunded, multi-employer, defined benefit scheme which the College is unable to identify its share of the underlying liabilities and assets and is therefore accounted for on a contributions basis.

The total pension cost for the College and its subsidiaries was:

	Consolidated		College	
	2006/07	2005/06	2006/07	2005/06
	£000	£000	£000	£000
Contributions to USS	15,613	14,583	15,454	14,478
Contributions to SAUL	3,152	2,181	3,152	2,181
Contributions to NHSS	3,381	3,439	3,381	3,439
Contributions to other pension schemes	780	895	780	895
Total pension cost (*note 6*)	22,926	21,098	22,767	20,993

30. Access Funds and Training Salaries

	Consolidated and College			
	Access funds		Training salaries	
	2006/07	2005/06	2006/07	2005/06
	£000	£000	£000	£000
Balance unspent/(overspent) at 1 August	(14)	128	69	218
Funding Council and Training and Development Agency for Schools grants	615	605	2,051	1,214
Interest earned	3	5	-	-
	618	610	2,051	1,214
Disbursed to students	(489)	(734)	(1,943)	(1,363)
Administrative expenses	(18)	(18)	-	-
	(507)	(752)	(1,943)	(1,363)
Balance unspent/(overspent) at 31 July	97	(14)	177	69

Funding Council and Training and Development Agency for Schools grants are available solely for students. The College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

31. Prior Year Adjustment

The prior year adjustment relates to the first time adoption of FRS17 Retirement Benefits in 2006. The Adoption of FRS17 has resulted in an increase in staff costs of £186,000 (2006: increase of £143,000), an increase in endowment income and interest receivable of £15,000 (2006: £294,000), an increase in surplus for the year of £171,000 (2006: increase of £151,000) and an inecease in the total recognised gains and losses of £9,700,000 (2006: decrease of £9,230,000).

Analysis of prior year adjustment	£000
Adjustment to opening reserves at 1 August 2004	(4,329)
Adjustment to income and expenditure for the year ended 31 July 2005	64
Adjustment to statement of total recognised surpluses and deficits for the year ended 31 July 2005	(371)
Total prior year adjustment	(4,636)