KING'S College LONDON

Financial Statements

for the year to 31 July 2009

Contents

Chairman’s foreword

I am pleased to present the Operating and Financial Review and Financial Statements for King’s College London for the year ended 31 July 2009.

The College has generated a small surplus for the year of £739,000. Although this is a reduction of 78% on the previous year, this figure is after certain provisions for restructuring. The management of the College is to be congratulated for generating a surplus in a difficult financial year.

There was a 7% increase in student numbers to more than 21,000 during the academic year 2008–9 and an even greater increase in applications. The College has again been included in the list of the top 25 universities in the world by Times Higher Education. The Academic Health Sciences Centre, formed by King’s and our three partner NHS Trusts, was formally accredited by the Department of Health, as one of only five such centres in the UK. It will be known as King’s Health Partners.

The Research Assessment Exercise in 2008 showed considerable strength in many disciplines but weaknesses in others. In addition, the likelihood of a reduction in taxpayer-funded grants to higher education over the next few years has required the College to formulate a policy of Academic and Financial Sustainability. This, with the full support of the Council of the College, is scheduled to be implemented over the next year, involving the restructuring of certain departments. The College’s future success will depend not only on a continuing commitment to excellence by all staff, but also on an exercise of financial discipline at all levels.

The Council is encouraged by the prudent financial management and forward strategic planning demonstrated by the College over the last year. Whilst there are undoubtedly further difficult decisions and adjustments to be made, I believe that the College is in a strong position to achieve the vision outlined in the Strategic Plan of enhancing its status as one of the world’s outstanding university institutions.

The Marquess of Douro
Chairman of Council

Council and Council committee membership 2008–9

Council

The Marquess of Douro MA OBE DL *[Chairman]*
Professor Richard Trainor FKC *[Principal]*
Mr Adam Boulton
Mrs Blondel Cluff
Mr Patrick Disney
Mr Peter Ellender
Professor Sir Lawrence Freedman KCMG CBE FKC
Professor Chris Hamnett
Professor Keith Hoggart FKC
Professor Simon Howell FKC
Mrs Isabelle Laurent
Professor Robert Lechler FKC
Mr Andrew Leung
Dr Mark Miodownik
Mr Chris Mottershead
Mr Harry Musselwhite FKC
Sir Michael Pakenham KBE CMG
Dr Stewart Paterson
Mrs Olga Polizzi CBE FKC
Mr James Ritblat
Ms Emily Rowe
Mr Tony Sebastian
Mr Duncan Selbie
Dr Mike Slade
Mr Rory Tapner
His Hon Judge Toulmin CMG QC FKC
Professor Phil Whitfield FKC
Ms Fields Wicker-Miurin OBE
Veena, Lady Williams of Mostyn

Chairman's Committee

The Marquess of Douro MA OBE DL *[Chairman]*
Professor Richard Trainor FKC *[Principal]*
Mr Adam Boulton
Professor Sir Lawrence Freedman KCMG CBE FKC
Professor Keith Hoggart FKC
Professor Robert Lechler FKC
Mr Chris Mottershead
Mrs Olga Polizzi CBE FKC
Mr James Ritblat
Mr Rory Tapner
Ms Fields Wicker-Miurin OBE

Finance Committee

Mr Rory Tapner *[Chairman]*
Professor Richard Trainor FKC *[Principal]*
Mr Ian Creagh
Professor Simon Howell FKC
Mr Michael Kier
Mr Stephen Large
Mrs Isabelle Laurent

Audit and Compliance Committee

Ms Fields Wicker-Miurin OBE *[Chairman]*
Professor Stephen Challacombe
Mr Patrick Disney
Professor Chris Hamnett
Mr Keith Little
Mr Paul Mitchell
Mr Andrew Neill
Mr Ian Robinson

Investment Subcommittee

Mr Rory Tapner *[Acting Chairman]*
Professor Richard Trainor FKC *[Principal]*
Mr Keith Jeremiah
Mr Patrick Johns
Mr Stephen Large
Mr Mark Laurence
Mrs Isabelle Laurent
Mr David Potter FKC

Estates Strategy Committee

Mr James Ritblat *[Chairman]*
Professor Richard Trainor FKC *[Principal]*
Mr Ian Caldwell
Mr Ian Creagh
Professor Keith Hoggart FKC
Mr Stephen Large
Professor Robert Lechler FKC
Sir Michael Pakenham KBE CMG

Operating and financial review for the year ended 31 July 2009

Scope of the financial statements

The financial results comprise the consolidated results of the College and its subsidiary undertakings, King's College London Business Ltd (King's Business) and College Facilities Ltd. Both subsidiaries donate the bulk of their profits to the College using gift aid.

King's College London Business Ltd undertakes work associated with research innovation, including exploitation of intellectual property rights and other marketable activities which, for legal or commercial reasons, are most appropriately channelled through a limited company. College Facilities Ltd undertakes major building and related works on behalf of King's.

Vision

The Strategic Plan sets out a vision for King's as one of the world's leading university institutions, comparable in all respects to the world's best universities. The aim is to be consistently rated within the top six universities in the UK and the top 25 in the world by 2016.

The Strategic Plan identifies the following key targets to help the College realise this ambition.

Teaching and learning

- To improve further the quality of the College's student intake, the student experience at King's and the extent to which the College creates employable graduates.
- To provide students with a range of intellectually stimulating and challenging programmes and courses that will enable them to develop their knowledge and skills.
- To expand significantly the number and experience of international graduate students.

Research

- To obtain enhanced external recognition of the College's research stature through outstanding research assessment results in 2008 and thereafter.
- To increase very substantially research funding at King's, in particular the collaborative and entrepreneurial funding from the business sector.

Value added

- To develop the role of King's as a leading-edge contributor to society and regeneration.
- To maximise the commercial development of the College's intellectual property towards new products and services.

Identity

- To consolidate King's as an internationally acclaimed university.
- To develop world-class professional services and infrastructure to support the College's learning and teaching, research and knowledge-transfer aspirations.

Operating highlights

During the year the College made good progress towards these targets in an increasingly challenging operating environment.

Teaching and learning

The College has set an ambitious target for non-European Union (EU) overseas student numbers during the life of the Strategic Plan to rise from 2,500 to over 6,500, with increases also in EU student numbers on high-fee programmes. To achieve this growth the College has launched a number of initiatives in terms of marketing, recruitment and student support. Capacity within the College's international marketing team and resources allocated to international marketing have been increased. A new web-based student admissions system went live in October 2009.

On the support side, a set of student centres has been created and English-language support for non-English-speaking students has been enhanced. The amount of student residential accommodation is also being increased through third-party provision.

The Strategic Plan sets a target to increase graduate taught (PGT) student numbers by 50% and double graduate research (PGR) numbers by 2016. The Graduate School has implemented a number of initiatives to attract and support graduate students. Funding opportunities already in existence have been made more accessible through a new database created on the Graduate School webpage. Meanwhile, new funding has been allocated within the College to increase the number of College studentships, and external funding has generated an additional 23 awards. Application processes have been streamlined, with funding made available for mobility of graduates between King's and its international partners.

Total student numbers and changes year-on-year are:

Student numbers (enrolled full-time equivalent), 1 December	2008–9 Actual	2007–8 Actual	Increase
Undergraduate	12,595	12,204	391
Graduate taught	4,289	3,648	641
Graduate research	1,795	1,618	177
	18,679	17,470	1,209

The College has also developed initiatives to better support PhD students and prevent them from becoming isolated. Its induction programme has been completely overhauled, graduate lounges have been opened, web-based social networking opportunities have been provided and the number of social events has been increased.

The programme of development opportunities offered to graduates has been comprehensively redesigned and revised by the new training team established within the Graduate School. New software has been introduced allowing graduates to undertake an online learning needs analysis and then be directed to appropriate development opportunities which can also be booked online. The software incorporates a Personal Development Planner and can generate training transcripts. Significant elearning resources that can be accessed off-campus and out of hours have been provided to meet the needs of international and part-time students. A new training suite has been opened and the Graduate School has designed a development programme tailored to the different requirements of early stage researchers and contract researchers.

During 2008–9 the Graduate School was awarded a second Royal Literary Fund Writing Fellowship to enable work with King's PhD students two days per week, offering them one-to-one advice on how to improve their writing.

The King's Graduate Project (KGP) was launched to ensure that the College offers all of its students a distinctive and high-quality learning experience that is appropriate to the 21st century and to help King's to continue to attract good applicants.

The Higher Education Funding Council for England (HEFCE) awarded £544k from the Strategic Development Fund to King's and the University of Warwick to undertake a series of review and development activities as a pilot programme in support of the general thrust of the King's Graduate Project and its counterpart activities at Warwick. A steering group has been set up with representatives from both institutions and academically led sub-groups have been established to lead thinking on each of the five curriculum characteristics at the heart of the project. The HEFCE funding has been supplemented by a College Teaching Fund allocation and by web development support from the College's Department of Information Support & Services.

In addition to the pastoral support described above, the College has opened a student centre at the Strand Campus and will be opening a further centre at the Guy's Campus during 2010; each should provide a single point of contact for student advice and support.

A new Vice-Principal (Education) post has been created to replace Professor Phil Whitfield, Vice-Principal (Students), who retired from the College on 30 September 2009 after 40 years at King's. Professor Eeva Leinonen, previously Deputy Vice-Chancellor at the University of Hertfordshire, took up the post on 1 October 2009. She will lead further development of the King's Graduate Project and the College's student experience.

Research

In the 2008 Research Assessment Exercise (RAE), 60% of research activity at King's was deemed either 4* (world-leading in terms of originality, significance and rigour; the top rating) or 3* (internationally excellent in terms of originality, significance and rigour). In total, 91% of research submitted was internationally recognised. The College entered 1,220 (1,172 full-time equivalent, or FTE) Category A staff (academic staff under contract of employment in post and on the payroll) to 35 different units of assessment. King's retained its sixth position in England in terms of the amount of Quality Research (QR), that is, funding council income based mainly on the RAE.

The College had 14 departments ranked in the top 10%, or top 3, in the country; over 50% of its academics work in these departments. Areas of strength can be found throughout King's: from cardiovascular studies and psychiatry to education and management; from European languages to philosophy.

Among recent research achievements:

- A collaborative research project led by Christopher Shaw, Professor of Neurology and Neurogenetics, with scientists from Massachusetts has revealed that mutations in the FUS (Fused in Sarcoma) gene cause familial motor neurone disease (MND). This is the second gene for MND to be discovered in just one year and important to the understanding of disease mechanisms.
- King's College London School of Law hosted a meeting of the world's leading judges, who met to share the latest practice and research. Those involved included the United States Supreme Court's Chief Justice Roberts and the President Elect of the United Kingdom's Supreme Court, Lord Phillips.
- Professor Alison Wolf of the Department of Management

received the grade 'outstanding' for her Economic and Social Research Council (ESRC) research project 'Workplace Learning and Adult Basic Skills', as did Dr David Green of the Department of Geography for his project 'Women Investors in England and Wales 1870–1930'. Professor Wolf's project tracked the impact of government-funded workplace training programmes on individual participants and on the workplace, and Dr Green examined the importance of gender in investment decisions as well as demonstrating clear differences in regional patterns of investment.

- King's was accredited as one of only five Academic Health Science Centres (AHSCs) in the UK by the Department of Health, reflecting its commitment to translate research from across the College to clinical practice with its NHS partners, Guy's and St Thomas' Foundation Trust (FT), King's College Hospital FT and South London and Maudsley FT.
- Professor Martin Wooster of the Department of Geography pioneered a new method for monitoring carbon dioxide emissions from grass and forest fires occurring across Africa in order better to assess their contribution to increasing atmospheric greenhouse gas concentrations.
- Dr Elizabeth Eger of the Department of English co-curated the exhibition 'Brilliant Women: 18th-century Bluestockings' at the National Portrait Gallery. It re-evaluated the contributions made by a group of intellectual women and examined how the 'Bluestocking Circle' redefined traditional notions of female achievement and attributes.

As well as celebrating these successes, King's is looking into areas that require improvement. As part of a comprehensive review of research performance following the results of the RAE, the College is working to ensure that it is in the best position with regard to the quality criteria of the Research Excellence Framework (REF) submission due late 2012, such as numbers of PhD students, citation indexes and levels of research income.

In 2008 the College reviewed and reissued its Citation Policy, which seeks to ensure that all published work from staff at the College is being attributed to King's rather than, for example, to a former institution that has now merged with the College. This has led to a significant increase in citations attributed to King's. Work is also progressing with the citation index providers to improve the quality of data held for the College.

The College has continued to see steady growth in its research funding, up from £118.0m in 2007–8 to £135.0m in 2008–9. Knowledge-transfer activity has focussed on three main areas: partnership with business and the cultural sector, technology transfer and commercial clinical trials.

Value added

As the College is located in the heart of London's cultural quarter, partnerships with the major cultural institutions are important. Agreements have been concluded during the year with the British Film Institute (BFI) Southbank and the National Theatre (NT). With the BFI the College will develop and deliver a new optional taught module that will be made available to the Film Studies and the Creative & Cultural Industries MA students; it is expected to be online in 2010–11. The NT partnership involves staff from the departments of English and Music and the Centre for Computing in Humanities; the NT will provide teaching sessions at its Digital Archive as part of the Text & Performance MA programme of the Department of English. Further opportunities concerning a potential 'NT Live' link to the newly renovated Anatomy Theatre & Museum at the Strand and potential research collaborations under the Arts & Humanities Research Council (AHRC) Collaborative Doctoral Award Scheme are being advanced.

Within the range of projects secured during the year are a number involving departments new to working on knowledge-transfer schemes. These include: the Department of Australian Studies, which is collaborating with the British Museum with funding from an AHRC Collaborative Doctoral Award (£59k); the Department of French, engaged in a creative collaboration with the artist Clare Qualman titled 'Sites of Gossip between Centuries and Languages' that is funded through a London Centre for Arts and Cultural Enterprise (LCACE) Seed Fund award; and the Department of History, where Head of Department Professor Arthur Burns was awarded an AHRC Knowledge Transfer Fellowship – a significant win, as it represents the first engagement by the School of Humanities in this key knowledge-transfer funding scheme and sees a collaboration with Lambeth Palace, the Diocese of London and the Open University.

Other significant collaborative awards include those with Tate Modern (Education) for a research project with Professor Sharon Gewirtz (Department of Education & Professional Studies) and a new programming partnership for Professor Ginette Vincendeau (Department of Film Studies) with BFI Southbank titled 'Key Scholars in Film Studies'. This particular new association with Public Programmes at BFI Southbank led to the creation and delivery of a Film Studies/BFI short course (public) on French New Wave Cinema delivered in April/May 2009; the course sold to capacity and is to be repeated in 2009–10.

Many of these awards secured during the year are of small financial value, reflecting the nature of the sector, but offer significant gains in terms of the collaborations they afford. For example, using its contribution to the LCACE Seed Fund, the College has been able to support pump priming for such projects as the development of a new Donizetti opera edition (a collaboration between Roger Parker, Thurston Dart Professor of Music, and Ricordi, Opera RaRa and Vlammse Opera) and 'Paul, our Contemporary', an event led by the Revd Professor Ben Quash (Department of Theology & Religious Studies) in collaboration with St Paul's Cathedral, organised to coincide with the launch of two new works at the cathedral by the artist Damien Hirst.

On the science side of the portfolio, the Health & Technology team handled 195 partnership opportunities (including those relating to Knowledge Transfer Partnerships [KTPs] and Innovation China UK collaborations) during the year. 49 resulted in partnerships being concluded to the sum of £4.3m. A further 45 have been worked up into propositions and are being actively developed; 52 are still considered early-stage proposals, whilst 46 opportunities were abandoned. Of the total partnerships secured in the sector, the majority derive from research collaborations (51%) and studentships (23%).

New relationships that were entered into during the year include a Memorandum of Understanding signed with Philips Medical on October 2008, to work together on a five-year research collaboration targeted at developing new ways to improve diagnosis and treatment of cardiovascular disease. Under the multimillion Euro agreement, Professor Reza Razavi of the King's College London School of Medicine will work to develop new medical imaging research projects with a particular focus on cardiology and cardiac electrophysiology. In January 2009 the College entered into a five-year strategic agreement with BD Biosciences, a segment of BD (Becton, Dickinson and Company), in respect of the research undertaken within the comprehensive Biomedical Research Centre (BRC). The aim of the relationship is to develop clinical diagnostics and research platforms for clinical applications in the field of immunology.

The Joint Clinical Trials Office (JCTO) continued to develop its offering to the College and its NHS partner trusts. The office expanded to support regulatory compliance for investigator-led clinical trials, which resulted in good outcomes from two Medicines and Healthcare Products Regulatory Agency (MHRA) inspections. (Failure in inspection would have resulted in clinical-trial activity being suspended within the institution.) Gross revenue from commercial clinical trials continues to increase ahead of plan, with £5.2m reported in the 2008–9 financial year and £900k invoiced in the first four months of the JCTO year (the office works to a 1 April financial year). The JCTO is now self-supporting in respect of its commercially focussed activities. During the academic year the total number of new commercial trials contracted was 97 and the total number of live trials at the end of July 2009 was 266.

Identity

The College is divided into Arts & Sciences (Humanities, Law, Physical Sciences & Engineering and Social Science & Public Policy) and Health (Biomedical & Health Sciences, Dental Institute, Medicine, Nursing & Midwifery and Institute of Psychiatry) Schools. It has core strengths in all of these areas and a key objective of the Strategic Plan is to build on them and to increase interdisciplinary activity. The College has agreed a number of brand values that will draw upon expertise and knowledge across the Schools, including creative and cultural industries; health; ethics; and security. These cross-cutting themes will integrate research, innovation and learning and provide direction to staff and external partners.

In March 2009 King's Health Partners (KHP), a collaboration between King's College London, King's College Hospital, Guy's and St Thomas' and South London and Maudsley NHS Foundation Trusts, was formally accredited as one of the UK's first five Academic Health Science Centres (AHSCs). Its objective is to facilitate more rapid and effective translation of research into teaching and patient care – pioneering approaches that will add value well beyond, as well as within, south London. Overseeing the project is a Partnership Board consisting of the Chairmen and Chief Executives (Principal and Head of Administration in the case of the College) from each institution. An executive team has been put in place, led by Professor Robert Lechler (Vice-Principal [Health]), that is considering such topics as governance, management, estates, and human resources.

KHP decided to take an inclusive approach, proposing that all relevant academic activity and all clinical activity be included in a number of Clinical Academic Groups (CAGs). In addition, there are some academic activities that do not map onto a single CAG but support a number of CAGs; the intention is to bring these cross-cutting themes together into two institutions, one focussed on basic sciences and the other concentrating on health services research. The College is considering how the proposed structures within KHP fit with the current School, divisional and departmental structures within King's.

In June 2009 the College decided to restructure the School of Physical Sciences & Engineering (PSE) into a School of Natural & Mathematical Sciences (SN&MS). The decision was prompted by relatively unimpressive results in RAE 2008 by some subject areas within PSE and by a desire to upgrade the science base of the College. Although the engineering degree will be phased out, the new School will seek to deliver excellent research, education and innovation in physics, chemistry, biology, mathematics and informatics. It will undertake a broad range of science, some of which will underpin the performance of KHP. The School will be organised into programmes for each science, with a 'hub' of activity located within the School, and 'spokes' of activity elsewhere in the College. The SN&MS will be broadly similar in size to PSE in terms of student numbers and finance but there will be more focus on research-grant income generation.

In 2008–9, the new Professional Services directorates co-ordinated by the College Operations Executive (COE), chaired by the Head of Administration, were embedded further in the College. During the same period a review of the governance and management structure processes started two years ago was completed, with resultant changes being made to the Council and Academic Board and their committees. In general the membership and number of committees has been streamlined.

In addition, a new Charter and Statutes were approved by the Privy Council for implementation from the end of the 2008–9 academic year. Again, the objective has been streamlined structures and clearer accountability.

In terms of creating a performance culture, the College has made substantial progress both in increasing capability and in developing policy. The College recognises that leadership and management capacity is essential in delivering a performance culture. Accordingly the following programmes have been initiated:

- Foundation Management Development Programme
- Management Development Programme.

A new probationary policy was introduced across King's to make clear the College's commitment to the fair, equal and consistent treatment of staff with regard to their probation period. The development of an e-recruitment process was started to facilitate quicker turnaround on appointments and provide a more efficient and professional service, with its first pilot beginning in November 2009 and aiming for a full roll-out by Easter 2010.

The College has a complicated estate with its five academic campuses, three of which are shared with NHS trusts. Protocols are in place for the management of space, including a space committee on each campus and a space-charging policy across the College. To improve the management of space, a new computerised central timetabling and room-booking system was introduced in 2008–9 as well as a regular programme of space audits. Target efficiencies were set as part of the implementation of the new estates strategy in order to optimise the use of the estate for new initiatives and growth to support the Strategic Plan.

The College is in discussions with a number of local institutions regarding estate issues. Better integration of estate management and planning is underway with Guy's and St Thomas' and King's College Hospital NHS FTs, not least in relation to King's Health Partners. In addition, discussions are advanced with Somerset House Trust and the Courtauld Institute to create a world-class cultural quarter around Somerset House with the benefit of a HEFCE grant of £7.5m from the Strategic Development Fund.

The College remains committed to being a leader in sustainability. In addition to undertaking cutting-edge academic work in the area of climate change and environmental issues, King's became a member of the 10:10 campaign to cut carbon emissions by 10% in 2010.

Following a review of the College's current information technology (IT) systems in 2007, a framework was developed to align King's technology initiatives with the Strategic Plan through the concept of a Connected Campus. During 2008–9 significant investment has been made in modernising the legacy IT infrastructure. King's has also introduced out-of-hours monitoring of critical business systems, enhanced web services, additional e-information resources and extended library opening hours.

The 2008–9 academic year saw improvements and service enhancements in many areas, including: a new staff and student email and calendaring service; a new standard global desktop for Professional Services staff; and an enhanced file-store service for all students.

Academic and financial sustainability

In order to ensure that King's continues to develop academically (towards the ambitious goals of the Strategic Plan) in the face of the predicted public sector funding cuts over the coming years, the College's Principal's Central Team (PCT) have been looking at options for ensuring the institution's academic and financial sustainability. Chris Mottershead, Vice-Principal (Research & Innovation), who joined King's from British Petroleum at the start of 2009, is leading the project. Five guiding principles have been agreed:

- The measures must advance the further development of a research-led university, delivering world-class academic performance through an integrated approach to research, teaching and innovation.
- Financial discipline must be maintained at every level in the College with clearly defined accountabilities and responsibilities.
- Cost management must be the immediate focus, as further advances in income are uncertain.
- A fund for investment must be created through cost management and revenue generation to pursue strategic priorities.
- Restructuring and reforms must not disadvantage students and must be compatible with enhancing their overall experience.

The project started during 2008–9 with a review of current expenditure, income and structures. All budgets are being scrutinised based on the assumption of a substantial cut in public funding over the next three years. The results of the RAE 2008 and the National Student Survey (NSS) 2009 have been fed into the process to secure areas of strength and address areas of weakness. Discussions are ongoing with heads of Schools, heads of Professional Service directorates, recognised trade unions, staff and students.

A new Planning and Performance Management (PPM) process is being introduced to:

- deliver research and education excellence
- integrate academic planning and performance management within the existing financial process
- ensure the College's strategic intent and collective performance targets are consistent
- provide greater transparency and accountability for delivery of performance targets by departments/divisions and COE directorates
- provide a consistent College-wide process to ensure necessary cost savings and revenue enhancements are identified and delivered.

The PPM process will ensure the College builds and executes plans that will close the gap between current performance and the intent of the Strategic Plan 2006–16. A new set of key performance indicators is also being developed at School and departmental level.

In summary, King's continued to make good progress towards its strategic objectives during 2008–9 and has put in place new planning procedures and policies designed to ensure that strategic momentum will be maintained in the tougher funding climate of future years.

Financial highlights

Results for the year

Total income for the year increased by 8.4% to £485.6m (2007–8 £447.9m). Total expenditure for the year increased by 9.1% to £484.9m (2007–8 £444.4m), giving a surplus on normal operations of £739k (2007–8 £3.5m). This is summarised below:

	2008–9 £000	2007–8 £000
Income	485,622	447,871
Expenditure	484,883	444,419
Surplus on normal operations	739	3,452
Surplus on disposal of property	–	5,717
Taxation	(5)	(7)
Surplus after depreciation of assets at cost and tax	734	9,162
Surplus as a % of income	0.2%	2.0%

The £739k surplus on normal operations benefited from a £63k Financial Reporting Standard (FRS) 17 pension impact and a £1.9m surplus of income over expenditure on departmental activities while accommodating a £5.7m charge for restructuring costs.

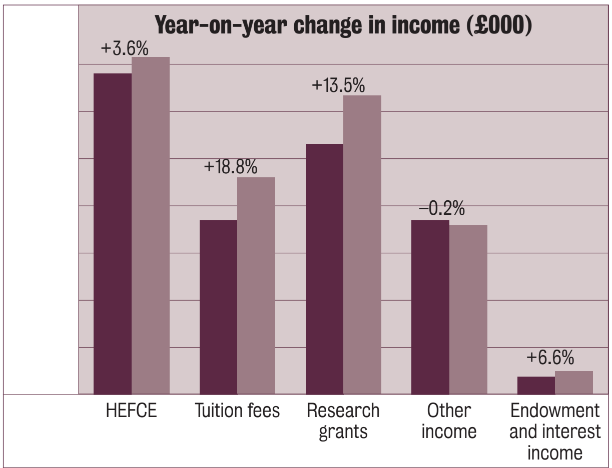
	2008–9 £000	2007–8 £000
Surplus on operating activities	4,514	435
Impact of FRS17	63	407
Surplus on departmental activities	1,862	2,610
Provision for restructuring costs	(5,700)	–
Surplus on normal operations	739	3,452

The £4.5m surplus on operating activities compares with a £2.0m deficit budget and reflects income growth (particularly on research) ahead of plan. The budget included some stretching targets for overseas student recruitment that were exceeded during the year.

It is therefore pleasing to report an increase in the underlying surplus, which reflects improvements in the academic and administrative operations of the College. However, more needs to be done to ensure longer-term academic and financial sustainability.

Income growth and diversification

The College exceeded its income targets during the year with total income increasing by 8.4% to £485.6m.

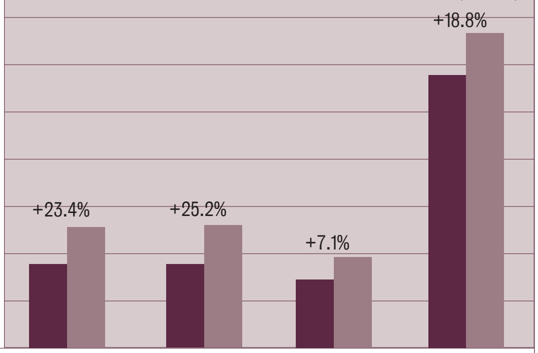


	HEFCE	Tuition fees	Research grants	Other income	Endowment and interest income
2007–8	144,970	84,594	118,865	88,388	11,054
2008–9	150,207	100,480	134,955	88,197	11,783

Whilst the focus has now shifted to cost management as the College plans for a more challenging funding environment, King's believes some opportunities remain for revenue growth, particularly in international student fees and research income, which experienced double-digit growth during the year.

Tuition fees increased by 18.8% to £100.5m.

Tuition fees and education contracts income (£000)



	Full-time UK and EU students	Full-time overseas students	NHS and other teaching contracts	Total tuition fees and educational contracts
2007–8	28,828	28,701	27,065	84,594
2008–9	35,570	35,934	28,976	100,480

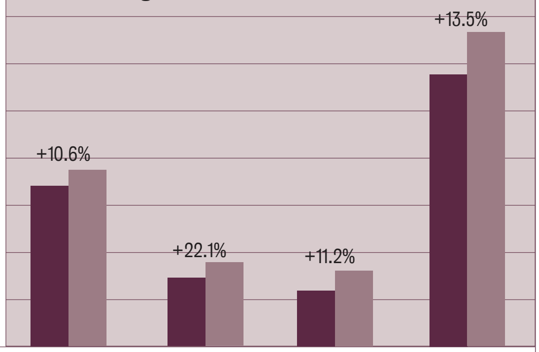
Tuition-fee income from full-time UK and EU students increased by 23.4% to £35.6m, reflecting the third year of variable or ‘top up’ fees payable by home undergraduates.

Income from overseas students (from outside the EU) increased by 25.2% to £35.9m. This is consistent with the College’s international strategy and growth plans and shows a return on recent investments in marketing, student support and improvements in the organisation of the student recruitment and admissions processes.

The College stabilised recent losses in NHS teaching contract income and continues to pursue its plans to refocus provision in Nursing & Midwifery around graduate-level training. King’s experienced increasing demand for a range of tailored short courses and is looking to expand summer-school provision further in future years.

With regard to research, income from grants and contracts increased by 13.5% to £135.0m.

Research grants and contracts income (£000)



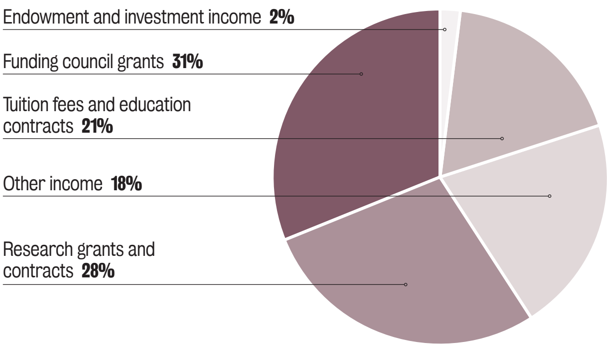
	Research councils and UK charities	UK government and health authorities	Industry, overseas and others	Total research grants and contracts
2007–8	65,501	27,434	25,930	118,865
2008–9	72,464	33,496	28,995	134,955

The College experienced continued growth across the portfolio, but it remains heavily dependent on publicly available research funding.

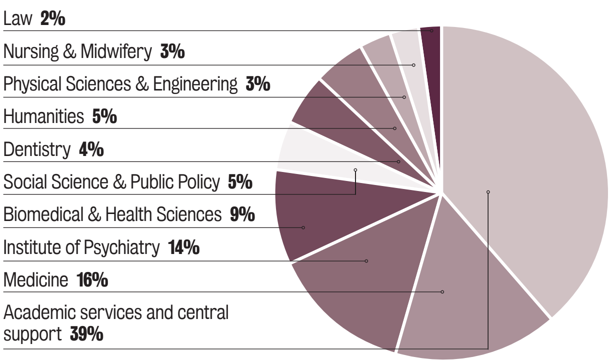
Income from research councils and UK charities increased by 10.6% to £72.5m, which reflects improvements in research quality given the peer-reviewed nature of such funding sources; it brings financial benefits through increased cost recovery under full Economic Costing (fEC).

Research income from the UK government and health authorities increased by 22.1% to £33.5m, with most of the growth attributable to success in winning grants from the National Institute of Health Research. This reflects the College’s strengths in biomedical and translational research. (Translational research either leads directly to

Income



Expenditure



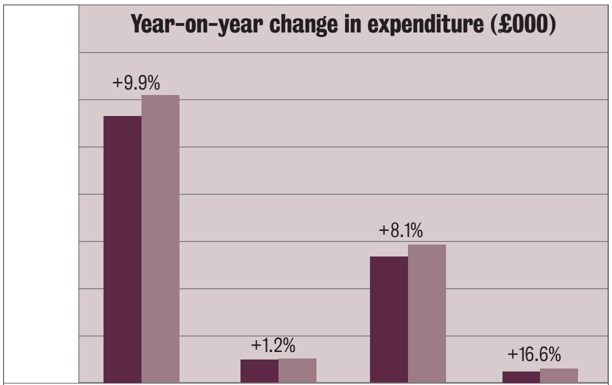
the development of a diagnostic tool/disease therapy or contributes significantly to its development while defining subsequent steps required to achieve the proposed health application.)

Research income from UK industry, European Union and overseas funding sources rose by 11.2% to £29.0m, an increase attributable to EU framework grants and overseas charitable foundations; income from UK industry remained static.

Other income also remained static at £88.2m, reflecting the harsh economic climate. However, endowment and interest income increased by 6.6% to £11.8m, reflecting the income allocation bias of the King's endowment asset investment portfolio, with cash invested across a range of maturities in accordance with the College's treasury policy; this enabled it to withstand the turbulence in the banking system and financial markets.

Patterns of expenditure

As indicated above, total expenditure increased by 9.1% to £484.9m.



	Staff costs	Depreciation	Other operating costs	Interest payable
2007–8	275,665	21,377	136,511	10,866
2008–9	303,084	21,631	147,503	12,665

Staff costs increased by 9.9% to £303.1m, reflecting growth in activity – particularly research – and the final instalments of the 2006 national pay agreement – an 8% pay award implemented in 2008 (3% on 1 May 2008 and 5% on 1 October 2008). The £5.7m charge for restructuring costs is also included.

Staff costs (which include employer pension contributions) represent 62% of total expenditure, the highest of any Russell Group institution. Managing staff costs within affordable limits will be crucial to the success of the College's cost management programme.

Depreciation increased by a modest 1.2% to £21.6m, reflecting some slippage against the capital plan, while other operating costs increased 8.1% to £147.5m, reflecting recurrent cost pressures on the estates budget and in information technology costs as a consequence of the Connected Campus investment programme.

Interest payable increased by 16.6% to £12.7m, reflecting the full-year effect of the £60.0m long-term loan facility drawdown from Royal Bank of Scotland (RBS) in May 2008 to part-finance the College's capital plan. Interest costs, whilst largely fixed, were slightly ahead of budget as the College was able to benefit from the interest rate differential between one- and three-month LIBOR.

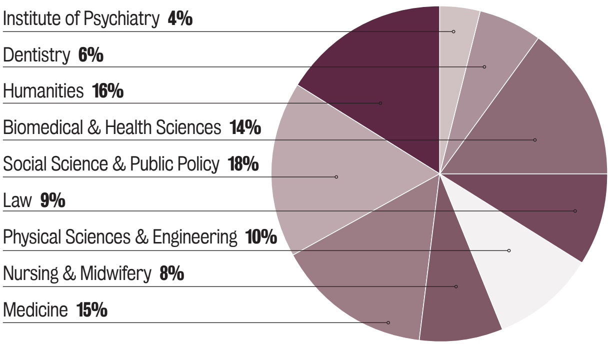
An analysis of the College's income by funding source together with a breakdown of expenditure by the Schools of the College is given on page 10.

An analysis of student load, which rose by 6.9% compared with 2008, and total staff, which increased by 3.4% from 2008 levels, is given below.

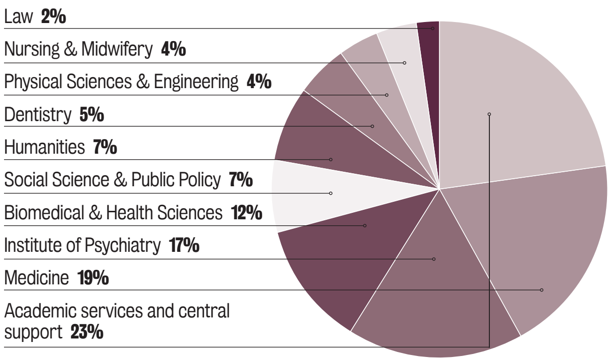
Capital investment programme

During the year the College has made further progress towards achieving its estates strategic aims, investing some £34m (2007–8 £38.5m) in buildings and equipment.

Student load



Staff



The financial year 2008–9 was the first of the College's 10-year capital programme (with a value of £656.0m). At present this is undergoing a review both to adjust the programme in the light of new strategic developments and to ensure that the future spend is aligned to predicted changes in government funding and expected fundraising. Overall the programme is progressing well, with most projects completed on time and to budget.

Projects completed during the year include a new facility for graduate dental education, a teaching information centre at the Strand Campus and a new archive facility on the Guy's Campus. Work was completed at the College's Honor Oak Park sports ground in Lewisham just after the end of the year.

Work on the Cicely Saunders Institute of Palliative Care at Denmark Hill is progressing well, as is a programme of refurbishment and upgrades for teaching rooms across King's.

During the year the design phase was completed for a number of major projects, including the Maurice Wohl Neuroscience Institute at the College's Denmark Hill Campus and the East Wing of Somerset House.

Around half of the funding for the first three years of the capital programme (valued at £170.0m) is provided by government grants, with the remainder coming from a mix of philanthropy, fundraising and developer finance. The College has a £60.0m loan facility to provide the flexibility to manage the cash flows associated with this large programme of investment.

King's has an ongoing programme to address long-term maintenance and for the first three years of the investment plan has committed £12.0m. Projects are prioritised on a risk basis considering legal compliance, health and safety and business continuity.

Working capital management

Net current assets increased by £13,742m during the year.

	31 July 2009 £000	31 July 2008 £000	Change £000
Cash at bank	182,142	163,518	18,624
Debtors	49,021	40,165	8,856
Current assets	231,163	203,683	27,480
Creditors	(128,813)	(115,075)	(13,738)
Net current assets	102,350	88,608	13,742

Cash balances exceeded forecasts throughout the year, mainly due to delays on the capital plan. The principal measure of liquidity is the ratio of liquid assets to annual expenditure excluding depreciation, expressed in number of days. The target is 90 days; the actual cash position at year-end represented 144 days.

The College's financial strategy targets a minimum level of liquid reserves to manage risk and uncertainty. Free liquid reserves (defined as the total of cash plus debtors and creditors, i.e. net current assets) increased to £102.4m, of which £60.0m is earmarked to support the College's capital plan, leaving £42.4m compared with a target risk reserve of £15.0m. King's therefore has some headroom to finance restructuring and manage the more turbulent times ahead.

Debtors increased by 22% to £49.0m (2007–8 £40.2m).

	31 July 2009 £000	31 July 2008 £000	Change £000
Trade debtors	15,040	12,351	2,689
Other debtors	3,175	2,178	997
Research grant debtors	17,582	11,697	5,885
Research grant work in progress	12,000	11,078	922
Prepayment and accruals	1,224	2,861	(1,637)
	49,021	40,165	8,856

The increase is mainly attributable to research grant debtors and research work in progress. Total research debtors represent 80 days (2007–8 70 days). This is due in part to volume increases, with income up 13.5% or £16.1m year on year, in part to changes in payment profiles of funders and in part to changes in the bad debt provision to better reflect loss experience whilst maintaining adequate provision for business risk.

Creditors increased by 11.9% to £128.8m (2007–8 £115.1m).

	31 July 2009 £000	31 July 2008 £000	Change £000
Trade creditors	18,280	16,514	1,766
Payments received on account	68,107	59,386	8,721
Other creditors and accruals	30,211	23,753	6,458
Social Security and other taxation payable	6,989	10,327	(3,338)
Obligations under finance leases	2,210	2,224	(14)
Current element of long-term liabilities	3,016	2,871	145
	128,813	115,075	13,738

The £8.7m increase in payments on account relates to research funding paid in accordance with the agreed payment terms in advance of research work commencing.

The £6.5m increase in other creditors and accruals relates mainly to estates charges from Guy's and St Thomas' NHS Trust, where the College has been in dispute with the trust during the year regarding the attribution of costs under the service level agreement for utilities and maintenance. The invoices from the trust have been accrued and subsequent to the year end payments have resumed.

The £3.3m reduction in social security and taxation payable relates to reversal of Value Added Tax due in subsidiary companies from the previous year.

Treasury management

The College manages day-to-day cash flow through its principal bankers, RBS. King's maintains a minimum of £10.0m with RBS to meet operational cash requirements. There is an automated daily sweep from current account to deposit account (Special Interest Bearing Account, or SIBA), which pays LIBOR less 13 basis points. Amounts above this level up to £20.0m are transferred from the SIBA account to the RBS Global Treasury Fund, an AAA-rated money-market fund. At any point, the College will normally hold between £10.0m and £30.0m with RBS to manage immediate liquidity requirements, such as paying suppliers or meeting payroll.

Surplus cash in excess of immediate liquidity needs is managed for the College by Royal London Cash Management (RLCM). RLCM invests the College's cash in Certificates of Deposit (CDs) with banks over a range of maturities for up to 12 months within an agreed mandate.

In the recent banking crisis, the College took measures to ensure the security of its cash deposits. Liquidity in the money markets was severely restricted and many banks on the College's lending list were no longer taking deposits. The old credit list used by the College's money-market managers was temporarily suspended and a new 'interim' list was devised. The choice of counterparties was based on the spread of five-year credit default swaps and guidance from the Treasurer and other lay members of the College with relevant specialist knowledge. Individual credit limits were applied to each counterparty, including the College's principal bankers.

At the peak of the crisis the list was kept under constant review in order to balance security, liquidity and yield; banks were added or deleted as market conditions and credit ratings changed.

The cash invested by RLCM is held in individual segregated accounts with HSBC as custodian. King's has taken legal advice on the risks associated with using RLCM as cash managers. The principal risk relates to cash-in-transit as the Client Trust Settlement Account commingles the College's money with that of other RLCM clients, if RLCM has not complied with the segregation requirements of the FSA Client Money Rules. From a legal perspective, this risk would only materialise if RLCM acted fraudulently, and the College believes the risk of fraud is low.

Now that the worst of the crisis seems to be over, a more conventional credit list has been established including only major national banks with Standard & Poor's long-term rating of AA- or above; there is a limit of £15.0m per individual bank, with the exception of the major UK clearing banks, which have a limit of £30.0m.

For the year to 31 July 2009, the College achieved an average return of 3.35% on its cash deposits, comfortably beating its benchmark. However, the base rate is currently 0.5% and it is likely to remain low for the foreseeable future.

Long-term loans and provisions

There were no changes to the College's borrowing levels during the year.

	Year to 31 July 2009		
	Total debt £000	Due <1 year £000	Due >1 year £000
Finance leases			
Lloyds Leasing	15,901	1,649	14,252
National Australia Bank	11,705	301	11,404
National Australia Bank	9,936	260	9,676
	37,542	2,210	35,332
Less related deposits	(23,656)	–	(23,656)
Total leases	13,886	2,210	11,676
Loans			
Royal Bank of Scotland	27,110	2,153	24,957
Royal Bank of Scotland	17,682	784	16,898
Royal Bank of Scotland	59,906	–	59,906
King's College London Bond	59,689	–	59,689
General Practice Finance Corporation	542	22	520
South London and Maudsley NHS FT	254	57	197
	165,183	3,016	62,167
Total borrowings	179,069	5,226	173,843

The National Australia Bank leasing arrangements enable the College to benefit from the tax depreciation/capital allowances on qualifying expenditure, with the capital placed in sinking funds to finance repayment. The leasing structures have been kept under review due to changes in legislation that may affect the tax treatment of any lump sum payment. If the leases become uneconomic, the College will take appropriate action and either run them out over the primary lease period or make early termination payment.

The College's financial strategy sets internal borrowing limits of 50% of income and states that borrowings cannot exceed reserves, implying a maximum gearing ratio of one.

31 July 2009	Limit	Actual
Borrowings to income	50%	36%
Borrowings to reserves	1	1.16

King's is at the upper end of its internally imposed borrowing limits, although net funds have increased during the year, putting the College in a positive net cash position.

	31 July 2009 £000	31 July 2008 £000	Change £000
Cash at bank and in hand	182,142	163,518	18,624
Borrowings	(174,407)	(175,556)	1,149
Net funds	7,735	(12,038)	19,773

The College credit rating gives an external measure of financial health, providing access to the financial markets to fund investment at favourable rates of interest. More generally it is an acknowledgement of academic quality and management capability. It is therefore pleasing to report that during the year Standard & Poor's increased the College's credit rating to AA.

As indicated above, the College made £5.7m provision for restructuring costs in the 2008–9 accounts. This relates to constructive obligations and expectations that existed at the balance sheet date.

Pensions

The Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL) both carried out triennial valuations as at 31 March 2008. These are the first valuations under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a Statutory Funding Objective that must have sufficient and appropriate assets to cover their Technical Provisions.

Technical Provisions is a legislative term that means the value put on the scheme's liability to pay benefits already accrued. In order to monitor the impact of the Statutory Funding Objective both USS and SAUL have a Secondary Funding Objective that is more in line with the previous approach, the historic funding basis.

The actuarial valuations on the various funding bases were:

Valuations as at 31 March 2008

	USS	SAUL
Technical Provisions	103%	100%
Historic funding basis	71%	83%
FRS17	104%	127%
Pension Protection Fund	107%	107%
Buy-out basis	79%	80%

As both USS and SAUL are fully funded on the Technical Provisions, recovery plans are not required.

The contribution rate is made up of the cost of the future service accrual over the year (the 'normal cost') together with any contributions levied to rectify any past service deficit on the Technical Provisions (the 'additional contributions').

As both USS and SAUL are fully funded on the Technical Provisions, no additional contributions are proposed or payable.

Costs for the normal contribution rate are calculated as the value of benefits expected to accrue to the membership in respect of one year's service based on projected salaries, plus allowance for life assurance and expenses/levies. Following the March 2008 valuations USS has increased the employer's contribution rates by 2% to 16% from 1 October 2009.

Talks between employers and staff-side representatives have commenced to consider various ways of removing risk from USS, in terms of both future benefit accrual and liability matching.

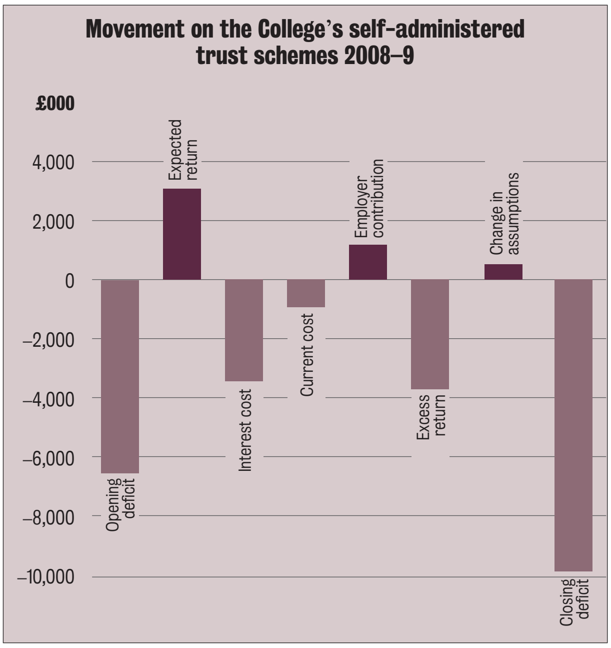
SAUL believes it can fund the balance of normal contributions from extra return on assets and has agreed to maintain employer and member contributions unchanged. This strategy is not without risk, but based on the strength of the employer covenant, the trustee's long-term investment strategy and the funding margins within the scheme, the position is sustainable in the short to medium term. However, the trustee is looking for some improvement in the financial position to be evident at the next formal valuation in March 2011 if current contribution and benefit levels are to be maintained.

More up-to-date valuations based on the March 2009 funding reviews indicate that the funding position has worsened since the March 2008 valuation. The College is supporting changes to the benefits structures aimed at removing risk from the pension schemes to ensure the long-term affordability of the pension promise.

The NHS pension scheme (NHSPS) is an unfunded multi-employer defined-benefit scheme. King's operates it for staff who were existing members immediately prior to appointment at the College. The scheme changed on 1 April 2008 for new members; existing members were given a one-off choice either to move to the new scheme or remain in the existing one. The new NHSPS is a 60ths scheme with tiered contributions and a normal retirement age of 65. The funding objective of the various scheme changes is to ensure that benefits are contained within a maximum employer's contribution rate of 14.2%. The College is unable to identify its share of the underlying liabilities and assets, and it is therefore accounted for on a contribution basis.

King's also operates two closed defined-benefit schemes: the Federated Pension Scheme (FPS) for support staff from the former United Medical and Dental Schools of Guy's and St Thomas' Hospitals (UMDS), and the Local Government Pension Scheme (LGPS) for staff from the former Chelsea College. As it is possible to identify the College's share of assets and liabilities separately, the pension scheme surplus or deficit is recognised in full on the balance sheet.

The movement in the schemes' funding position is summarised below:



The College has engaged Mercer to undertake a strategic review of the FPS in terms of both benefits and investment strategy. The preferred option is to merge the FPS with another scheme, which will require a transfer payment equal to the funding shortfall spread over an agreed period.

The alternative is to remove risk from the FPS through a change to the benefits and investment strategy. The triennial valuation of the FPS due on 31 March 2009 has yet to be received; Mercer estimates a past-service deficit of around £15m will have to be funded through additional contributions (one-off or spread over 10 years). Discussions around the future of the FPS are continuing.

Endowment asset investments

The College's investments fell 7.8% for the year to 30 June 2009, comfortably outperforming the Income Allocation benchmark, which declined by 10.0% over the period. This performance was mainly due to decisions made by the Investment Subcommittee, who maintained a substantial proportion of the portfolio in cash throughout the year. At 31 July 2009 cash awaiting investment held by the College and its investment managers amounted to £25.4m, representing 24.5% of the total portfolio value of £103.6m.

During the year the College pursued an active investment policy, disposing of the balance of its UBS Property Fund which it began liquidating last year, half of its investment in the PIMCO Global Bond Fund and its entire holding of Quellos Hedge Fund. These were realised at a total net break-even price to original cost. Additions were made to Schroders European Property Fund and Schroders Charity Equity Fund, and calls were paid in respect of two of the College's private equity holdings. New portfolio additions were the purchase of £4.5m Aberdeen Emerging Markets Fund and Cazenove Absolute Return Trust for Charities.

Income for the year amounted to £4.2m. Investments held by the College returned 3.6% on opening market value. The College continues to hold back from adopting a total return investment policy because it has been informed by the Charity Commission that the financial position of most of its endowment funds will have to be considered individually when deciding whether there is a surplus available for revenue expenditure. King's considers a change to total return policy too risky at present as it has insufficient surplus (unapplied total return) on many of its major funds to withstand major stock-market fluctuations. Any restriction on the ability to spend money from these endowments would have a significant impact on the College's revenue account.

The College therefore continues to be restricted to spending income only and this is reflected in the asset allocation strategy.

In terms of performance, the portfolio returned –7.8% net of fees for the year to 30 June 2009, the latest date for which performance measurements are available.

Performance for year to 30 June 2009

Actual performance	–7.8%
Income allocation benchmark	–10.0%
Value added	+2.2%
Actual performance	–7.8%
Total return benchmark	–8.6%
Value added	+0.8%

The College achieved its fundraising targets for the year, raising £12.3m in cash and pledges, excluding any contribution due from the government's matched-funding scheme. With regard to this scheme, the College has not accrued any income for 2008–9, as the amount of income eligible for matched funding has not been identified. King's will only recognise HEFCE matched funding once there is greater certainty of amount following submission and approval by HEFCE.

Risk and sustainability

In the medium to longer term, probably the biggest uncertainty King's faces is the deterioration of the public finances. The College has embarked on a major programme to review its academic and financial sustainability to mitigate this risk.

King's continues to hold relatively large cash balances and its net asset position is strong. The College therefore has some headroom to finance restructuring and manage the more turbulent times ahead. The recent upgrade in its Standard & Poor's rating recognises the strength of its general and financial management. These disciplines will help it manage through a period of risk.

It is apparent that King's is not the only institution aiming to increase the intake of high-fee students. Its results will be at risk if it does not attract and retain the planned student numbers. A 10% shortfall in overseas graduate taught students would result in a loss of approximately £1m in fees. A similar shortfall in overseas undergraduates would result in a loss of £1.3m of income. The 'credit crunch' may affect the overall supply of non-regulated income, although the weaker pound may help in the short term. A number of initiatives are in hand (for example, programme review and review of international agents; streamlining of the admissions process; more vigorous target-setting; and the provision of studentships) to mitigate risk.

King's has had some success in increasing its fEC grants, which are essential in terms of contribution to overheads. Although there is still some potential for growth as new grants are won, it can be assumed that the rate of growth will slow down. The College's share of the research council income appears to be lower than it should be when taken in the context of research ranking, and projections therefore assume that there will be some volume growth even if the overall market stagnates. It is also assumed that at some stage all grants subject to full cost-recovery will have been recovered and that there will be limited further growth in overhead recovery.

The funding model for the higher education sector does not adequately provide for long-term investment, so King's relies on its ability to generate surplus for reinvestment. Investment will be at risk if there is a failure to generate results in line with its Strategic Plan.

Risk is inherent in all ventures; however carefully plans are put together there will inevitably be unforeseen events. Thus it is prudent to build up reserves as a cushion against future identified and unidentified risks. It is also important to have enough financial flexibility to be able to react to unforeseen opportunities.

A combination of factors led King's to initiate a major review of cost efficiency as part of the work on academic and financial sustainability. In order of priority, the objectives of this exercise are:

- to provide for contingencies should the economic environment worsen
- to fund future investment
- to introduce more flexibility to the College's investment base, particularly in terms of staff.

King's regularly reforecasts its medium-term financial outturn using a variety of planning scenarios, including assumptions on public funding, research volumes and overheads, student numbers and pay-related costs. This financial discipline ensures that, as far as possible, the College is prepared for any potential worsening in factors outside its control and that it has the headroom to fund its growth ambitions.

The forecast at the beginning of 2009 indicated a number of financial pressures building up, particularly in infrastructure. This, in combination with the deterioration in public funding, indicated that significant losses might accrue without management action.

A mechanism has been created for considering the financial contribution and quality of each academic area, measured *inter alia* by the RAE and NSS, respectively. This has enabled the identification of opportunities for development and plans have been drawn up for priority areas. The process will enable King's to speed up the shift towards a more strategic and revenue-driven management model and will frame the College's cost-efficiency programmes.

The first phase of cost-efficiency measures was largely tactical and did not reflect strategic changes to the underlying activity of the College but did ensure results for 2008–9 that exceeded the plan. Economy measures were combined with leaving vacancies caused by departures and retirements unfilled. The second stage of the cost-efficiency part of the programme focussed on improvements to the 2009–10 plan, with a target of a further 10% to be saved over the next two years. This second stage has been informed by the contribution and quality mechanism referred to above.

Where the College's plans were sufficiently developed at 31 July 2009 to give rise to a constructive obligation, provision was required to be made in the accounts, and accordingly a £5.7m restructuring provision was chargeable against 2008–9 accounts.

The estimated results of both phases indicate that some £19m will have been taken out of the College's cost base by the end of 2011–12 at the latest. This is about 7% of costs (excluding NHS and research matched costs), a little short of the 10% target, but good progress has been made.

It has been achieved, where possible, by deferring investment or managing vacancies; inevitably, however, there are job losses. Non-grant-funded headcount is expected to fall by about 6% by the end of 2011–12.

A Voluntary Leavers' Scheme that includes flexible working options has been introduced and early retirement options have been fully explored. Both approaches have limited the need to enforce non-voluntary job losses.

To reduce non-pay costs, King's has looked at process re-engineering, re-phasing and economy measures, particularly in relation to the corporate infrastructure directorates for Estates & Facilities and Information Services & Systems. It is reviewing in detail the efficiency of space usage across the College with a view to drawing up plans to relinquish occupancy of certain buildings, notably those currently leased at relatively high rent levels.

Work continues in terms of identifying activities that are not strategically important and further opportunities for income generation. These include growth in Strand Campus activities in such areas as Public Policy; Creative & Cultural Industries; and Law. The College expects King's Health Partners and the new School of Natural & Mathematical Sciences to realise efficiencies while upgrading the science base. Other areas for development include Education & Professional Studies and Area Studies

The impact of the cost-efficiency programme so far is projected to return the College to a modest surplus over each of the next five years to 2013–14.

Prospects

Economic outlook

Economic activity in high-income and developing countries alike fell abruptly in the final quarter of 2008 and in the first quarter of 2009. Growth had begun to slow in most countries during the second quarter of 2008 and weakened sharply by the fourth, when all newly industrialised economies – including Hong Kong, China; the Republic of Korea; Singapore; and Taiwan, China – were in recession and output was contracting in Malaysia, the Philippines and Thailand. The outbreak of the financial crisis provoked a broad liquidation of investments, substantial loss in wealth worldwide, a tightening of lending conditions and a widespread increase in uncertainty. Higher borrowing costs and tighter credit conditions, coupled with the increase in uncertainty, caused firms to cut back on investment expenditure and households to delay discretionary and high-value purchases.

Despite the rapid decline in gross domestic product in high-income countries during the first quarter of 2009, a number of indicators point to the beginnings of an economic recovery: stabilising and even recovering stock markets; modest improvements in exports in some countries; and a recovery in consumer demand. But there seems to be a consensus that the rate of growth will be sluggish and patchy. The World Economic Outlook predicts that, in the global economy, growth is forecast to turn positive (3.1%) in 2010.

The advanced economies of Western Europe, North America and Japan are expected to grow by a modest 1.3% in 2010. The Chancellor has predicted 1.25% growth in the UK in what will be an election year, but this is higher than the 0.9% predicted by the International Monetary Fund (IMF).

Prospects for the United States and China are better than those for Western Europe and other developing regions; China and India, two of the College's key markets, are projected to expand strongly – by 9% and 6.4% respectively.

Several factors point to ongoing weakness. Unemployment continues to rise throughout the world, housing prices in many countries are still falling (adding to negative-wealth effects) and there is likely to be more consolidation in the financial sector to bolster weakened bank balance sheets.

The IMF predicts that unemployment in Britain – as in every other western economy – will remain on a strong upward trend next year. In the UK, the jobless rate is expected to rise from 7.6% to 9.3%, its highest level since the early 1990s, but slightly below the double-digit rates expected in the United States, Germany, France and Italy.

Outlook for the higher education sector

Long after the economic recession is declared over, problems in the public finances will continue to affect the higher education sector. Some estimates indicate that it might be 15 or more years before this part of the economy recovers. King's cannot therefore rely on continued inflation and other increases to the block grant and infrastructure funding.

The outlook for public spending therefore looks challenging. Specifically for higher education, the long-term funding model will need to be addressed, including the issue of the cap on tuition fees and how to provide funding for any lifting of the cap. This could be from either public or private sources.

The government aims to have 50% of under thirties participating in higher education. Key themes to achieving this are the widening participation agenda, flexible learning, industrial and commercial partnerships and improving the ability of students to move between institutions. While the government is keen to expand student numbers, it is facing the difficulty of providing funding to support this. The recent offer of unfunded Additional Student Numbers was rejected by most Russell Group institutions keen to preserve the unit of resource/quality.

The Department for Business, Innovation and Skills is working on a 15-year framework document on the future of higher education; it is not clear whether this review will be completed in 2009. The relevant minister has consistently refused to comment on the future of the fees cap pending the results of the framework document.

The government has expressed a strong desire to link research to the innovation agenda, possibly with focussed sponsorship. Its funding relating to the RAE was more thinly spread across more institutions than ever before. This seems to contradict some comments that the higher education sector might be allowed to polarise into research-focussed and teaching-based institutions.

It might be expected that unemployment, coupled with declining financial confidence and restricted access to credit, would affect the ability of some students to further their education. So far, this problem has not materialised; most universities report record levels of applications as people without the immediate prospect of employment choose to enhance their CVs by further education. In many countries a well-educated child is seen as an investment for the retirement of the parents.

The generation of non-regulated student income seems to be a main aim of most Higher Education Institutions (HEIs). Demand for UK university places from overseas students has yet to peak, although as the key supplier markets in India and China develop their own HEI capability this will come about.

Weaker investment performance is likely to affect research councils and other sources of grant funding in the medium term. It is also reasonable to assume that fundraising will become more challenging.

Although pay awards are only in line with inflation, HEIs will see pay-related costs rise annually by an estimated 2% over the next few years as pension funding deficits are addressed.

Planning outlook for King's

The College's plans are based on mid-range assumptions in terms of public funding for higher education over the next three years and only modest increases to research grant income.

The research 'order book' is still showing strong growth. In the period since the poor year of 2004–5, grant income has grown by some 25% per annum for 2005–6 and 2006–7, 15% for the following year and, according to the latest statistics, about 13% for 2008–9.

There is an encouraging rise in fEC grants won; they incorporate a contribution towards overheads and longer-term sustainability and growth. Overhead growth year-on-year is 27% as the number of fEC grants increases, but at some stage this will plateau. A recent review of the College's position in the research council league tables indicates that King's has much more potential for growth.

Research grant overheads are expected to increase by about 4% per annum, reflecting a modest assumption about growing the College's share of a possibly declining pot of money.

There have been extremely encouraging levels of high-quality student applications for places. Uncertainties over the lifting of the fees cap have led to a forecast that assumes a continuation of the current status. Were the cap to be lifted, either partially or wholly, King's would expect an increase in both student numbers and the related fee income. However, positive income effects would not be expected until two or three years after the decision was taken and their quantum would depend on the precise changes to the present policy.

No growth in regulated student numbers has been assumed, but as the College is still relatively underrepresented in overseas markets compared to its peer group, growth in this area focuses on increasing its share of the total market. Tuition fees are expected to rise about 3% over the next three years but volume from overseas markets to increase by about 10%. One priority is to invest in future research by encouraging an increase in research students.

The future sustainability of the College depends upon its ability to grow and diversify income streams in line with its Strategic Plan. This will generate the level of surplus needed to enable King's to invest fast enough to compete with the world's best universities.

Financial forecast

A medium-term financial forecast is outlined below:

Surplus/ (deficit) £m	2009–10	2010–11	2011–12	2012–13	2013–14
Target	Break even	2	3	4	5
Best case	4	12	26	34	48
Worst case	(10)	(9)	(20)	(34)	(40)

Restructuring costs are excluded from the table and are likely to amount to around £15m over the three years to 2010–11. £5.7m was included in the results for 2008–9 in respect of posts where the exit process had already started. The remainder of the estimated costs of restructuring are likely to accrue largely in 2009–10.

The planning uses a number of variables to test the sensitivity of financial results to changes in the economic environment; most of the important variables are included in the table below. The worst-case scenario assumes all variables move against the College and is thus extremely unlikely; a more probable outcome is that some factors will be bad and others better. The base case or target for 2009–10 and subsequent years gives the most likely combination of variables.

	Base case	Best case	Worst case	Financial effect on results of 1% change pa
Pension costs	1%	0.5%	2%	+/–£1.9m
Pay award	2%	1.5%	3%	+/–£1.9m
HEFCE efficiency gain over three years	15%	10%	20%	+/–£1.3m pa
Volume growth in non-regulated student numbers	10%	12%	5%	+/–£500k
Research grant overheads	3%	5%	2%	+/–£200k

Social and environmental

Corporate responsibility

King's is dedicated to the advancement of knowledge, learning and understanding in the service of society. It seeks to make a positive impact upon both its human and its physical environment at local, regional and global levels.

King's corporate social responsibility policies and activities can be grouped under two headings.

Understanding the environment

The College Principal and President, Professor Richard Trainor, was in the first cohort of 'London Leaders' of the London Sustainable Development Commission, whose objective is to provide a sustainable London that supports its residents and considers the needs of future generations. The College has multidisciplinary research activity on issues including climate change, biodiversity loss and environmental health policy systems and strategies, and it continues to undertake cutting-edge academic work in these areas.

The College's Environmental Policy was published in 2001. King's was one of the first universities to have 100% of its electricity needs sourced from renewable large-scale hydro-generation. The College is committed to responsible carbon and water management and plans to meet the government's objective of a 60% reduction in carbon emissions by 2050.

In 2008 King's was one of the first organisations in the UK to achieve the Carbon Trust Standard: the world's first carbon award that requires a measured, managed and reduced annual carbon footprint. The comprehensiveness of its green construction programme won the College a Green Business Award in the Best Construction category in 2008, and in 2009 it became one of the first four universities to sign up to the 10:10 campaign to cut carbon emissions by 10% in 2010.

King's also recognises its responsibility to its local communities.

Creating value for society

The staff and student body have a strong record of volunteering in organisations and schools close to the College's campuses in Southwark, Lambeth and Westminster. The philosophy of the workplace as a learning, supportive and positive environment is enshrined in the Dignity at Work policy. King's aims to embed equality and diversity into every aspect of College life, developing policies, strategies and networks to ensure that its staff and student bodies are enriched by their diversity.

The College's widening participation strategies are designed to ensure that its local communities feel at home at King's. The curriculum continues to reflect the College's connection to its communities. Talented, underachieving pupils from targeted inner London boroughs are offered the chance to achieve a degree through the six-year Extended Medical Degree Programme, which provides additional support in the first three years. The programme was praised when the Professions Panel launched the Fair Access to the Professions report at the College's Guy's Campus in July 2009.

King's also designs and delivers outreach activities aimed to nurture aspiration and attainment. For example, each year some 100 student ambassadors welcome around 8,000 people to over 400 widening participation events, organised in conjunction with 140 schools, 34 universities and 25 colleges of further education. It has also engaged in school improvement through its partnership in the St Paul's Way Community School National Challenge Trust bid. The College's intake from state-sector secondary schools and colleges remains the highest of any Russell Group university in London. King's, the home of the South East London Lifelong Learning Network, is increasing its involvement with local academies, and in April 2009 the College was one of the founding members of a consortium of universities launching a mutual recognition scheme to enable students engaged in widening participation activities to apply to other institutions.

Corporate responsibility is at the core of the King's ethos. The creation of the College Academic Health Sciences Centre in partnership with three of London's most successful NHS Foundation Trusts has, therefore, already included the development of joint corporate responsibility projects and policies.

Conclusions

Financially, these are a pleasing set of results ahead of expectations, particularly as regards income growth. It is good to report a modest surplus in the context of a deficit budget and to strengthen the balance sheet further.

The efforts of the College's finance team should be acknowledged – in particular, the loyal service of Keith Jeremiah, who retires as Chief Accountant at the end of November 2009 after 33 years at the College and its medical schools.

The income outlook for King's and for virtually all other UK universities for the academic year 2010–11 and beyond is adverse due to the likelihood of substantial and sustained cuts in government expenditure on higher education – hence the cost reductions and income advancements set out in the College's academic and financial sustainability project. Targeted academic investment will be needed to sustain the College's upward academic trajectory.

More generally, long-term sustainability will require the College to generate increasing levels of surplus for academic investment if it is to realise the strategic ambition of being one of the world's best universities.

Mr Rory Tapner	Mr 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 has lay members, from whom its Chairman and Vice-Chairman must be drawn, but also included in its membership are College staff members and the president of 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. The Academic Board recommends major policy changes to the Council.

Although the Council meets at least three times each academic year, most of its detailed business is handled by committees, in particular a Finance Committee, an Audit and Compliance Committee, a Remuneration Committee, an Estates Strategy Committee and a Nominations Committee. The Council also has a Chairman's Committee, which looks at issues that are major and/or pressing. 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. It also approves comprehensive Financial Regulations for the conduct of the financial affairs of the College.

The Audit and Compliance 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. It receives and considers 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 receives reports from statutory, regulatory or funding agencies concerning the College's compliance with relevant legislation and standards. It also reviews accounting policies and any major changes to the College's accounting principles and practice that are brought to its attention by the external auditors, internal audit or management.

The Remuneration Committee determines the annual remuneration of the Principal, Vice-Principals, the Head of Administration and any Deputy or Assistant Principals.

The principal academic and administrative officer of the College is the Principal and President, 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.

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 2009 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 Audit and Compliance Committee independently reviews the effectiveness of internal control systems and the risk-management process.
- The Council receives periodic reports from the Chairman of the Audit and Compliance 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 and Compliance 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 and Compliance Committee receives regular reports from the director of the Department of Audit & Management Review 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 carried out.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.

The College has a Department of Audit & Management Review, 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 June 2009. The Department of Audit & Management Review submits regular reports to the Audit and Compliance Committee that include the director of the department'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 2009 was informed by the Audit and Compliance Committee, the work of the Department of Audit & Management Review 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 that disclose with reasonable accuracy at any time the financial position of the College and that enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memoranda agreed between the Higher Education Funding Council for England and the Training and Development Agency for Schools and the Council of the College, the Council, through its designated office holder, is required to prepare financial statements for each financial year that 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 the 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 Finance Committee
- a professional independent internal audit team whose annual programme is approved by the Audit and Compliance 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 2009 which comprise the Consolidated Income and Expenditure Account, the Statement of Consolidated Total Recognised Gains and Losses, the Consolidated and College Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and in accordance with 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's responsibilities for preparing the Operating and Financial Review and the consolidated financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 23.

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. 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 Financial Memorandum with the Training and Development Agency for Schools. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, 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 Operating and Financial Review, other information in the Annual 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 that 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 the Group and the College's affairs as at 31 July 2009 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.

- 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 2009 have been applied for the purposes for which they were received.
- In all material respects, income during the year ended 31 July 2009 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 Financial Memorandum with the Training and Development Agency for Schools.

Marianne Fallon
For and on behalf of
KPMG LLP
Statutory Auditor
Chartered Accountants
Registered Auditor
1 Forest Gate, Brighton Road, Crawley, West Sussex RH11 9PT

24 November 2009

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 on Accounting for Further and Higher Education Institutions (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

Recurrent grants from HEFCE are recognised in the year for which they are receivable. HEFCE matched income is recognised on a receipts basis; £971k is expected to be received in the next financial year in respect of the year to 31 July 2009.

Student fee income is credited to the Income and Expenditure Account over the year in which it is earned.

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 that 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 schemes. 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 payment or receipt. 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 £10k 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 five 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. 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.

15. Charitable donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Where charitable donations are restricted to a particular objective specified by the donor, these are accounted for as an endowment. There are two main types:

- Restricted permanent endowments: the capital fund is maintained but the income can be used for the objective specified by the donor.
- Restricted expendable endowments: the capital may be used in addition to the income for the objective specified by the donor.

Donated assets, or donations received to be applied to the cost of an asset, are shown on the balance sheet as deferred capital grants. The deferred capital grant is released to income over the same expected useful life as that used to depreciate the asset.

Consolidated Income and Expenditure Account

For the year ended 31 July 2009

	Note	2008–9 £000	2007–8 £000
Income			
Funding Council grants	1	150,207	144,970
Tuition fees and education contracts	2	100,480	84,594
Research grants and contracts	3	134,955	118,865
Other operating income	4	88,197	88,388
Endowment income and interest receivable	5	11,783	11,054
Total income		485,622	447,871
Expenditure			
Staff costs	6	303,084	275,665
Depreciation	11	21,631	21,377
Other operating expenses	7	147,503	136,511
Interest payable	8	12,665	10,866
Total expenditure	10	484,883	444,419
Surplus on ordinary activities		739	3,452
Taxation	9	5	7
Surplus on ordinary activities after taxation and before exceptional items		734	3,445
Surplus on disposal of property		–	5,717
Surplus after depreciation of assets at cost, disposal of property and tax		734	9,162

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 2009

	Note	2008–9 £000	2007–8 £000
Surplus after depreciation of assets at cost, disposal of property and tax		734	9,162
Change in value of endowment asset investments	20	(7,984)	(13,307)
Endowment income movement for the year	20	681	836
New endowments	20	205	1,352
Actuarial loss on pension schemes	29	(2,921)	(7,125)
Total recognised losses relating to the year		(9,285)	(9,082)

Reconciliation

Opening reserves and endowments		263,164	272,246
Total recognised losses for the year		(9,285)	(9,082)
Closing reserves and endowments		253,879	263,164

Consolidated and College Balance Sheets

As at 31 July 2009

	Note	Consolidated 2009 £000	Consolidated 2008 £000	College 2009 £000	College 2008 £000
Fixed assets					
Tangible assets	11	610,264	597,552	611,495	522,027
Investments	12	48	48	48	89,728
		610,312	597,600	611,543	611,755
Endowment asset investments	13	103,682	110,780	103,682	110,780
Current assets					
Debtors	14	49,021	40,165	48,953	44,529
Cash at bank and in hand		182,142	163,518	179,065	159,271
		231,163	203,683	228,018	203,800
Creditors: amounts falling due within one year	15	(128,813)	(115,075)	(125,653)	(128,027)
Net current assets		102,350	88,608	102,365	75,773
Total assets less current liabilities		816,344	796,988	817,590	798,308
Creditors: amounts falling due after more than one year	16	(174,407)	(175,556)	(174,407)	(175,556)
Provisions for liabilities and charges	18	(5,700)	(69)	(5,700)	(69)
Net assets excluding pensions liability		636,237	621,363	637,483	622,683
Net pensions liability		(9,413)	(6,555)	(9,413)	(6,555)
Total net assets including pensions liability		626,824	614,808	628,070	616,128
Deferred capital grants	19	372,945	351,644	372,945	351,644
Endowments					
Restricted permanent	20	94,028	99,837	94,028	99,837
Restricted expendable	20	9,654	10,943	9,654	10,943
		103,682	110,780	103,682	110,780
Reserves					
Income and Expenditure Account excluding pension reserve	21	159,610	158,939	160,856	160,259
Pension reserve		(9,413)	(6,555)	(9,413)	(6,555)
		150,197	152,384	151,443	153,704
Total funds		626,824	614,808	628,070	616,128

The financial statements on pages 26 to 46 were approved by the Council on 24 November 2009 and signed on its behalf by:

The Marquess of Douro
Chairman of Council

Professor Richard Trainor
Principal

Mr Rory Tapner
Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2009

	Note	2008–9 £000	2007–8 £000
Net cash inflow from operating activities	*23*	18,372	14,267
Returns on investments and servicing of finance	*24*	4,343	6,528
Capital expenditure and financial investment	*25*	15,344	7,743
Cash inflow before use of liquid resources and financing		38,059	28,538
Management of liquid resources	*26*	(14,132)	(1,005)
Financing	*27*	(5,303)	54,742
Increase in cash	*28*	18,624	82,275

Reconciliation of net cash flow to movement in net debt

	Note	2008–9 £000	2007–8 £000
Increase in cash in the year		18,624	82,275
Cash inflow from liquid resources		14,132	1,005
Decrease/(increase) in debt		568	(59,504)
Movement in net debt in the year		33,324	23,776
Net debt at 1 August		(4,805)	(28,581)
Net cash/(debt) at 31 July	*28*	28,519	(4,805)

Notes to the accounts

For the year ended 31 July 2009

1. FUNDING COUNCIL GRANTS

	2008–9 £000	2007–8 £000
Higher Education Funding Council for England grants		
Recurrent grant	132,082	128,305
Specific grants	5,333	3,629
Deferred capital grants released in the year:		
Buildings *(note 19)*	4,801	4,720
Equipment *(note 19)*	4,799	4,926
	147,015	141,580
Joint Information Systems Committee grants	1,708	2,032
Training and Development Agency for Schools		
Recurrent grant	1,274	1,256
Specific grants	210	102
	1,484	1,358
Total Funding Council and Agency grants	150,207	144,970

2. TUITION FEES AND EDUCATION CONTRACTS

	2008–9 £000	2007–8 £000
Full-time students charged home fees	35,570	28,828
Full-time students charged overseas fees	35,934	28,701
Regional health authorities contracted student fees	18,448	18,328
Part-time fees	4,674	4,578
Special and short course fees	5,677	4,029
Research training support grants	177	130
	100,480	84,594

3. RESEARCH GRANTS AND CONTRACTS

	2008–9 £000	2007–8 £000
Research councils	34,929	29,911
UK central government, local authorities, health and hospital authorities	33,496	27,434
UK industry, commerce and public corporations	10,867	10,988
UK charitable bodies	37,535	35,590
EU government and other bodies	8,228	6,718
Other overseas	8,946	7,663
Other	954	561
	134,955	118,865

Notes to the accounts *continued*

For the year ended 31 July 2009

4. OTHER OPERATING INCOME

	2008–9 £000	2007–8 £000
Academic departments costs reimbursed by NHS	13,910	13,702
Distinction and merit awards reimbursed by NHS	8,521	7,971
Residences, catering and conferences	16,502	15,436
Services rendered to NHS and related bodies	7,118	8,533
Self-financing activities	21,978	19,391
Released from deferred capital grants	1,695	2,578
Other income	18,473	20,777
	88,197	88,388

5. ENDOWMENT AND INVESTMENT INCOME

	2008–9 £000	2007–8 £000
Transferred from restricted permanent endowments *(note 20)*	2,439	2,517
Transferred from restricted expendable endowments *(note 20)*	1,076	1,223
Pension scheme investment income	–	451
Other interest receivable	8,268	6,863
	11,783	11,054

6. STAFF

	2008–9 £000	2007–8 £000
Staff costs:		
Wages and salaries	249,104	230,731
Social security costs	20,454	19,062
Other pension costs *(note 29)*	27,826	25,872
Restructuring provision	5,700	–
	303,084	275,665
Emoluments of the Principal:		
Other emoluments	264	247
Benefits-in-kind	5	5
	269	252
Pension scheme contributions	43	40
Total emoluments of the Principal	312	292

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.

	2008–9 Number	2007–8 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,743	2,629
Administrative and related staff	792	754
Technical	352	363
Clerical	886	864
Other	215	213
	4,988	4,823

Notes to the accounts *continued*

For the year ended 31 July 2009

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:

	2008–9 Number	2007–8 Number
£100,001 – £110,000	34	44
£110,001 – £120,000	30	19
£120,001 – £130,000	24	19
£130,001 – £140,000	21	19
£140,001 – £150,000	14	18
£150,001 – £160,000	15	16
£160,001 – £170,000	16	15
£170,001 – £180,000	11	7
£180,001 – £190,000	11	12
£190,001 – £200,000	9	3
£200,001 – £210,000	4	5
£210,001 – £220,000	6	6
£220,001 – £230,000	3	1
£230,001 – £240,000	2	1
£240,001 – £250,000	–	1
£250,001 – £260,000	1	1
£260,001 – £270,000	1	–
£370,001 – £380,000	–	1

The accounts include one severance payment for higher-paid employees (including the cost of additional pension benefits purchased by the College) amounting to £138,000 for 2009 (2008 – no severance payments).

7. OTHER OPERATING EXPENSES

	2008–9 £000	2007–8 £000
Research grants and contracts	44,448	40,189
Residences, catering and conferences operating expenses	7,866	6,979
Books and periodicals	3,968	3,195
Heat, light, water and power	8,329	7,402
Repairs and general maintenance	14,517	15,360
University of London charges	1,545	1,810
Services rendered to NHS and related bodies	2,095	3,185
Self-financing activities	10,471	8,800
Equipment items below £10,000 from general funds	2,376	2,672
Grants to King's College Students' Union	1,468	1,406
Bursaries and scholarships	3,311	2,153
Fee remission	1,470	1,053
Insurance	1,189	1,115
Legal fees	1,273	777
Professional fees	1,811	1,560
Staff training and recruitment	1,138	1,307
Communications, subscriptions and other services	3,799	3,536
Travelling, conference and related costs	4,290	3,718
Rents	3,846	3,473
Laboratory costs	1,452	1,853
Security and cleaning	8,846	9,194
Business rates and other premises costs	1,741	2,215
Auditors' remuneration	88	104
Auditors' remuneration in respect of non-audit services	139	66
Other expenses	16,027	13,389
	147,503	136,511

Notes to the accounts *continued*

For the year ended 31 July 2009

8. INTEREST PAYABLE

	2008–9 £000	2007–8 £000
Loans not wholly repayable within five years	10,599	8,729
Finance leases	2,066	2,137
	12,665	10,866

9. TAXATION

	2008–9 £000	2007–8 £000
UK corporation tax payable on the profits of subsidiary companies	5	7

The tax charge arises from taxable profits which 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 2009 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	135,867	4,146	17,516	–	157,529
Academic departments costs reimbursed by NHS	13,511	–	398	–	13,909
Distinction and merit awards reimbursed by NHS	8,521	–	–	–	8,521
Academic services	19,918	2,422	10,724	–	33,064
Research grants and contracts	66,624	3,640	44,448	–	114,712
Residences, catering and conferences	4,069	44	7,866	4,554	16,533
Premises	7,134	11,282	34,097	–	52,513
Administration	24,426	77	8,954	–	33,457
Staff and student facilities	2,967	12	3,947	–	6,926
General education expenditure	935	–	6,264	–	7,199
University of London federal subscription	–	–	344	–	344
Services rendered to NHS and related bodies	4,973	–	1,697	–	6,670
Self-financing activities	7,586	–	10,471	–	18,057
Pension costs	(63)	–	–	–	(63)
Restructuring provision	5,700	–	–	–	5,700
Other	916	8	777	8,111	9,812
Total per Income and Expenditure Account	303,084	21,631	147,503	12,665	484,883

The depreciation charge has been funded by:	
Deferred capital grants released *(note 19)*	14,935
General income	6,696
	21,631

Notes to the accounts *continued*

For the year ended 31 July 2009

11. TANGIBLE ASSETS

Consolidated	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Plant £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost								
At 1 August 2008	321,690	305,753	7,668	1,841	79,298	24,393	6,552	747,195
Additions	340	781	–	–	6,069	–	27,159	34,349
Transfers	1,522	2,082	69	1,139	112	–	(4,924)	–
Disposals	–	–	–	–	(11,563)	(2,367)	–	(13,930)
At 31 July 2009	323,552	308,616	7,737	2,980	73,916	22,026	28,787	767,614
Depreciation								
At 1 August 2008	41,933	42,009	3,742	123	56,278	5,558	–	149,643
Transfers	–	–	–	–	–	–	–	–
Charge for year	4,788	4,819	423	199	9,953	1,449	–	21,631
Eliminated on disposals	–	–	–	–	(11,558)	(2,366)	–	(13,924)
At 31 July 2009	46,721	46,828	4,165	322	54,673	4,641	–	157,350
Net book value								
At 31 July 2009	276,831	261,788	3,572	2,658	19,243	17,385	28,787	610,264
At 1 August 2008	279,757	263,744	3,926	1,718	23,020	18,835	6,552	597,552

College	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Plant £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost								
At 1 August 2008	282,536	259,161	7,680	1,841	79,226	24,393	6,552	661,389
Additions	39,995	48,100	–	–	6,064	–	27,173	121,332
Transfers	1,522	2,082	69	1,139	112	–	(4,924)	–
Disposals	–	–	–	–	(11,547)	(2,367)	–	(13,914)
At 31 July 2009	324,053	309,343	7,749	2,980	73,855	22,026	28,801	768,807
Depreciation								
At 1 August 2008	37,134	36,565	3,742	123	56,240	5,558	–	139,362
Transfers	4,799	5,444	–	–	–	–	–	10,243
Charge for year	4,788	4,819	423	199	9,937	1,449	–	21,615
Eliminated on disposals	–	–	–	–	(11,542)	(2,366)	–	(13,908)
At 31 July 2009	46,721	46,828	4,165	322	54,635	4,641	–	157,312
Net book value								
At 31 July 2009	277,332	262,515	3,584	2,658	19,220	17,385	28,801	611,495
At 1 August 2008	245,402	222,596	3,938	1,718	22,986	18,835	6,552	522,027

The total amount of interest included in assets above amounted to £1,740,000 (2008 – £1,740,000). Included within freehold and long leasehold land and buildings are a number of properties which are shared with third parties where title documentation may not exist at the present time. The net book value of these are £1,876,000 and £52,782,000 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 £372,945,000 (2008 – £351,644,000) funded by capital grants *(note 19)*.

Notes to the accounts *continued*

For the year ended 31 July 2009

12. INVESTMENTS

	Consolidated		College	
	2009	2008	2009	2008
	£000	£000	£000	£000
Investment in subsidiary companies at cost	–	–	–	89,680
Other fixed asset investments	48	48	48	48
	48	48	48	89,728

The College owns 100% of the issued ordinary share capital of King's College London Business Limited (for research administration, business development and consultancy), College Facilities Limited (for construction services), Doublerace Limited (non-trading and not consolidated), Closeworld Limited (non-trading and not consolidated) and KCL Library Services Limited (dormant and not consolidated).

All these companies are registered in England with any operating activity in the United Kingdom.

13. ENDOWMENT ASSEST INVESTMENTS

	Consolidated and College	
	2008–9	2007–8
	£000	£000
Balance at 1 August	110,780	121,899
Additions	18,158	16,542
Disposals	(31,404)	(15,359)
Revaluation	(7,984)	(13,307)
Increase in cash balances	14,132	1,005
Balance at 31 July	103,682	110,780
Fixed interest stocks	14,181	28,696
Equities	64,055	70,770
Bank balances	25,446	11,314
Total endowment asset investments	103,682	110,780
Fixed interest and equities at cost	82,638	99,943

14. DEBTORS

	Consolidated		College	
	2009	2008	2009	2008
	£000	£000	£000	£000
Trade debtors	15,040	12,351	15,040	12,351
Other debtors	3,175	2,178	2,309	2,175
Research grant debtors	17,582	11,697	17,582	11,697
Research grant work in progress	12,000	11,078	12,000	11,078
Prepayments and accrued income	1,224	2,861	1,224	2,861
Amounts owed by Group undertakings	–	–	798	4,367
	49,021	40,165	48,953	44,529

Notes to the accounts *continued*

For the year ended 31 July 2009

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade creditors	18,280	16,514	16,404	15,299
Payments received on account	68,107	59,386	67,898	58,919
Other creditors and accruals	30,211	23,753	29,114	23,133
Social security and other taxation payable	6,989	10,327	6,985	7,529
Amounts owed to group undertakings	–	–	26	18,052
Obligations under finance leases *(note 17)*	2,210	2,224	2,210	2,224
Current element of long-term liabilities *(note 17)*	3,016	2,871	3,016	2,871
	128,813	115,075	125,653	128,027

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		College	
	2009 £000	2008 £000	2009 £000	2008 £000
Obligations under finance leases *(note 17)*	35,332	35,170	35,332	35,170
Term deposits for loan repayments	(23,656)	(23,142)	(23,656)	(23,142)
	11,676	12,028	11,676	12,028
Loans *(note 17)*	162,167	162,514	162,167	162,514
Total long-term borrowings	173,843	174,542	173,843	174,542
Capital goods scheme VAT	564	1,014	564	1,014
Total	174,407	175,556	174,407	175,556

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

17. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2009 £000	2008 £000	2009 £000	2008 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	2,210	2,224	3,170	3,016
Between two and five years	26,455	6,671	10,452	10,007
Total between one and five years	28,665	8,895	13,622	13,023
Over five years	6,667	26,275	148,545	149,491
Total over one year *(note 16)*	35,332	35,170	162,167	162,514
Within one year *(note 15)*	2,210	2,224	3,016	2,871
	37,542	37,394	165,183	165,385

Loans with interest rates between 6.75% and 9.60% amounting to £42,167,000 are repayable by instalments falling due between 1 August 2010 and 17 September 2027.

On 27 April 2001, the College issued £60,000,000 Senior Notes (Notes) with a fixed interest rate of 6.22%. The principal amount is repayable on 27 April 2031. Interest payments are semi-annual on 27 April and 27 October. The College, at its option, may prepay at any time all or part of the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes

Notes to the accounts *continued*

For the year ended 31 July 2009

17. BORROWINGS *(continued)*

then outstanding, at 100% of the principal amount so prepaid, plus the discounted value of the remaining scheduled payments with respect to the principal amount.

As at the year end, it is the College's intention to hold the Notes until its final maturity date.

On 16 May 2008, the College recieved a £60,000,000 secured loan with a fixed interest rate of 4.855%, repayable on 16 May 2048.

At 31 July 2009, the College had an interest rate swap agreement in place with a notional amount of £60,000,000, which enabled the College to benefit from the interest rate differential between 1- and 3-month LIBOR, providing a 0.20% benefit against the swapped loan rate of 4.855%.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and College £000
At 1 August 2008	69
Utilised in year	(69)
Transfer from Income and Expenditure Account	5,700
At 31 July 2009	5,700

The provision relates to restructuring costs arising in order to achieve the College's Strategic Plan.

As explained in the Statement of Principal Accounting Policies, note 12, 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 and benefactions £000**	**Total £000**
At 1 August 2008			
Buildings	200,840	116,158	316,998
Equipment	28,330	6,316	34,646
Total	229,170	122,474	351,644
Cash received			
Buildings	25,334	4,112	29,446
Equipment	2,213	4,577	6,790
Total	27,547	8,689	36,236
Released to income and expenditure			
Buildings *(note 1)*	(4,801)	(2,381)	(7,182)
Equipment *(note 1)*	(4,799)	(2,954)	(7,753)
Total *(note 10)*	(9,600)	(5,335)	(14,935)
At 31 July 2009			
Buildings	221,373	117,889	339,262
Equipment	25,744	7,939	33,683
Total	247,117	125,828	372,945

Notes to the accounts *continued*

For the year ended 31 July 2009

20. ENDOWMENTS

	Consolidated and College		
	Restricted permanent £000	Restricted expendable £000	Total £000
At 1 August 2008	99,837	10,943	110,780
Transfer	(49)	49	–
Additions	180	25	205
Change in value of endowment asset investments	(7,169)	(815)	(7,984)
Income for year	3,668	528	4,196
Transferred to Income and Expenditure Account *(note 5)*	(2,439)	(1,076)	(3,515)
At 31 July 2009	94,028	9,654	103,682
Endowment capital	90,394	10,089	100,483
Accumulated income	3,634	(435)	3,199
	94,028	9,654	103,682
Representing:			
Fellowships and scholarships	12,769	942	13,711
Prize funds	3,434	1,355	4,789
Chairs and lectureships	70,180	6,679	76,859
Other funds	7,645	678	8,323
	94,028	9,654	103,682

There are two material trusts included in endowments: the Dimbleby Endowment Fund used for cancer research, endowment capital £5,607k (2008 – £6,003k), accumulated income £78k (2008 – £108k); and the Newland-Pedley Fund, used for dental scholarship, endowment capital £5,192k (2008 – £5,605k), accumulated income £60k (2008 – £276k).

21. RESERVES

	Consolidated £000	College £000
Balance at 1 August 2008	152,384	153,704
Surplus after depreciation of assets at cost and tax	734	660
Actuarial loss on pension scheme liability	(2,921)	(2,921)
Balance at 31 July 2009	150,197	151,443
The reserves are allocated to:		
The income and expenditure reserve, which is nominally allocated to:		
Departmental reserves	38,789	38,789
Revenue reserve	120,821	122,067
Income and expenditure reserve	159,610	160,856
Pension reserve	(9,413)	(9,413)
	150,197	151,443

22. CAPITAL COMMITMENTS

	Consolidated		College	
	2009 £000	2008 £000	2009 £000	2008 £000
Commitments contracted at 31 July	18,057	19,635	18,057	19,635
Authorised but not contracted at 31 July	111,032	3,471	111,032	3,471
	129,089	23,106	129,089	23,106

Notes to the accounts *continued*

For the year ended 31 July 2009

23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	2008–9 £000	2007–8 £000
Surplus before tax	739	9,169
Depreciation *(note 11)*	21,631	21,377
Deferred capital grants released to income *(note 19)*	(14,935)	(14,839)
Investment income *(note 5)*	(11,783)	(11,054)
Interest payable *(note 8)*	12,665	10,866
Pension scheme income and costs	(63)	(407)
Surplus on disposal of tangible fixed assets	–	(5,717)
Increase in debtors	(8,856)	(2,080)
Increase in creditors	13,793	9,406
Decrease in capital goods scheme VAT *(note 16)*	(450)	(2,031)
Increase/(decrease) in provisions	5,631	(423)
Net cash inflow from operating activities	18,372	14,267

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2008–9 £000	2007–8 £000
Income from endowments *(note 20)*	4,196	4,576
Pension scheme investment income *(note 5)*	–	451
Interest received *(note 5)*	8,268	6,863
Interest paid	(8,121)	(5,362)
Net cash inflow from returns on investments and servicing of finance	4,343	6,528

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2008–9 £000	2007–8 £000
Tangible assets acquired *(note 11)*	(34,349)	(38,488)
Endowment asset investments acquired *(note 13)*	(18,158)	(16,542)
Total tangible and investment assets acquired	(52,507)	(55,030)
Receipts from sale of tangible assets	6	12,713
Receipts from sale of endowment assets *(note 13)*	31,404	15,359
Deferred capital grants received *(note 19)*	36,236	33,349
Endowments received *(note 20)*	205	1,352
Net cash inflow from capital expenditure and financial investment	15,344	7,743

26. MANAGEMENT OF LIQUID RESOURCES

	2008–9 £000	2007–8 £000
Movement in endowment assets	(14,132)	(1,005)
Net cash movement from management of liquid resources *(note 13)*	(14,132)	(1,005)

Notes to the accounts *continued*

For the year ended 31 July 2009

27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2008–9 £000	2007–8 £000
Borrowings repaid	(2,871)	(2,730)
New long-term loans	–	59,904
Repayment of capital element of finance leases	(2,432)	(2,432)
Net cash (outflow)/inflow from financing	(5,303)	54,742

28. ANALYSIS OF CHANGES IN NET CASH

	At 1 August 2008 £000	Cash flows £000	Other changes £000	At 31 July 2009 £000
Cash at bank and in hand	163,518	18,624	–	182,142
Endowment asset investments *(note 13)*	11,314	14,132	–	25,446
	174,832	32,756	–	207,588
Debt due within one year	(5,095)	4,788	(4,919)	(5,226)
Debt due after one year	(174,542)	515	184	(173,843)
Net (debt)/cash	(4,805)	38,059	(4,735)	28,519

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 FRS17.

Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was as at 31 March 2008 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	4.4%	6.4%
Salary scale increases per annum	4.3%	4.3%
Pensions increases per annum	3.3%	3.3%
Market value of assets at date of last valuation	£28,842 million	
Value of past service liabilities at date of last valuation	£28,135 million	
Deficit of assets at date of last valuation	£707 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	103%	
Male members' mortality	PA92 MC YoB tables – rated down 1 year	
Female members' mortality	PA92 MC YoB tables – no age rating	

The College's contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the College's contribution rate to 16% of pensionable salaries from 1 October 2009. The contribution rate prior to 1 October 2009 was 14% of pensionable salaries.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation.

Notes to the accounts *continued*

For the year ended 31 July 2009

29. PENSIONS *(continued)*

Superannuation Arrangements of the University of London (SAUL)

The last available valuation was carried out as at 31 March 2008 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities.

	Past service	Future service
Investment returns on liabilities per annum before retirement	6.90%	7.00%
Investment returns on liabilities per annum after retirement	4.80%	5.00%
Salary scale increases per annum	4.85%	4.85%
Pensions increases per annum	3.35%	3.35%
Market value of assets at date of last valuation	£1,266 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	100%	

Based on the strength of the employer covenant and the trustee's long-term investment strategy, the trustee and the employers agreed to maintain employer and member contributions at 13% and 6% of salaries respectively following the valuation.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in surplus at the last formal valuation (31 March 2008).

The next formal actuarial valuation is due as at 31 March 2011, when the above rates will be reviewed.

Federated Pension Scheme (FPS) and London 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 (FPS). The pension scheme offered to staff at the former 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 2006 and 31 March 2007 respectively.

For the purposes of reporting under FRS17, projected unit method valuations were carried out as at 31 July 2009. The assumptions used and the valuation results are set out below.

	Federated Pension Scheme		**Local Government Pension Scheme**	
	31 July 2009	31 July 2008	31 July 2009	31 July 2008
Price increases per annum	3.50%	3.75%	3.60%	3.80%
Salary increases per annum	4.75%	5.25%	5.10%	5.30%
Pension increases per annum	3.50%	3.75%	3.60%	3.80%
Discount rate per annum	6.00%	6.30%	6.00%	6.70%
Expected return on assets	7.23%	6.79%	4.80%	4.90%
Post-retirement mortality assumption	PxA92(b=yob)mc	PxA92(b=yob)mc	PMA/PFA92	PMA/PFA92

Total expense recognised in the Income and Expenditure Account

	Federated Pension Scheme		**Local Government Pension Scheme**	
	31 July 2009	31 July 2008	31 July 2009	31 July 2008
	£000	£000	£000	£000
Current service cost	730	778	8	8
Interest cost on obligation	2,779	2,412	367	311
Expected return on scheme assets	(2,644)	(2,972)	(189)	(202)
Past service cost	–	233	–	5
Total Income and Expenditure charge	865	451	186	122
Expected employer contribution to the scheme in the year to 31 July 2010	1,024		10	

Notes to the accounts *continued*

For the year ended 31 July 2009

29. PENSIONS *(continued)*

Expected return on assets

Fair value of assets and the net expected return on assets by category:

	Federated Pension Scheme				Local Government Pension Scheme			
	31 July 2009		31 July 2008		31 July 2009		31 July 2008	
	Rate of return	£000	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	8.00%	28,901	7.25%	29,121	7.70%	338	7.80%	336
Property	6.00%	1,261	7.25%	1,908	–	–	–	–
Insured annuity contracts	6.00%	1,246	6.30%	1,287	–	–	–	–
Bonds	5.00%	5,563	4.90%	5,977	–	–	–	–
Cash flow matching	–	–	–	–	4.50%	3,195	4.60%	3,463
Cash and other	0.50%	1,159	4.70%	1,134	3.00%	25	4.80%	183
Total fair value of assets		38,130		39,427		3,558		3,982
Value of liabilities (defined-benefit obligation)		(45,060)		(44,307)		(5,330)		(4,967)
Value of unfunded obligations		–		–		(711)		(690)
Recognised pension (liability)		(6,930)		(4,880)		(2,483)		(1,675)

Changes in the present value of the defined-benefit obligation

	Federated Pension Scheme		Local Government Pension Scheme	
	2008–9	2007–8	2008–9	2007–8
	£000	£000	£000	£000
Opening defined-benefit obligation	44,307	41,751	5,657	5,580
Current service cost	730	778	8	8
Interest cost on obligation	2,779	2,412	367	311
Actuarial loss/(gain) on obligation	(886)	472	389	200
Past service cost	–	233	–	5
Member contributions	182	193	3	2
Unfunded benefits paid	–	–	(52)	(52)
Benefits paid	(2,052)	(1,532)	(331)	(397)
Closing defined-benefit obligation	45,060	44,307	6,041	5,657

Changes in the fair value of scheme assets

	Federated Pension Scheme		Local Government Pension Scheme	
	2008–9	2007–8	2008–9	2007–8
	£000	£000	£000	£000
Opening fair value of scheme assets	39,427	43,419	3,982	4,075
Expected return	2,644	2,972	189	202
Actuarial (loss)/gain	(3,061)	(6,517)	(357)	64
Employer contributions	990	892	72	36
Member contributions	182	193	3	2
Contributions in respect of unfunded benefits	–	–	52	52
Unfunded benefits paid	–	–	(52)	(52)
Benefits paid	(2,052)	(1,532)	(331)	(397)
Closing fair value of scheme assets	38,130	39,427	3,558	3,982

Notes to the accounts *continued*

For the year ended 31 July 2009

29. PENSIONS *(continued)*

Total amounts recognised in the Statement of Total Recognised Gains and Losses

	Federated Pension Scheme		Local Government Pension Scheme	
	2008–9	2007–8	2008–9	2007–8
	£000	£000	£000	£000
Pension scheme asset/(liability) at 1 August	(4,880)	1,668	(1,675)	(1,505)
Current service cost	(730)	(778)	(8)	(8)
Employer contributions	990	892	72	36
Past service cost	–	(233)	–	(5)
Contributions in respect of unfunded benefits	–	–	52	52
Net return on assets	(135)	560	(178)	(109)
Actuarial (loss)/gain on obligation	886	(472)	(389)	(200)
Actuarial (loss)/gain on assets	(3,061)	(6,517)	(357)	64
Pension scheme (liability) at 31 July	(6,930)	(4,880)	(2,483)	(1,675)

Actual return on scheme assets

	Federated Pension Scheme		Local Government Pension Scheme	
	2008–9	2007–8	2008–9	2007–8
	£000	£000	£000	£000
Actual return on scheme assets	(417)	(3,545)	(168)	266
Expected return on scheme assets	2,644	2,972	189	202
Actual less expected return on scheme assets	(3,061)	(6,517)	(357)	64

History of experience gains and losses Federated Pension Scheme

	31 July 2009	31 July 2008	31 July 2007	31 July 2006	31 July 2005
	£000	£000	£000	£000	£000
Fair value of scheme assets	38,130	39,427	43,419	40,183	36,029
Value of liabilities (funded obligations)	(45,060)	(44,307)	(41,751)	(48,106)	(39,221)
(Deficit)/Surplus	(6,930)	(4,880)	1,668	(7,923)	(3,192)
Experience (loss)/gain on liabilities	–	(246)	2,135	–	(376)
Experience (loss)/gain on assets	(3,061)	(6,517)	1,213	2,444	3,885

History of experience gains and losses Local Government Pension Scheme

	31 July 2009	31 July 2008	31 July 2007	31 July 2006	31 July 2005
	£000	£000	£000	£000	£000
Fair value of scheme assets	3,558	3,982	4,075	4,284	4,459
Value of liabilities (funded obligations)	(6,041)	(5,657)	(5,580)	(5,898)	(5,903)
Deficit	(2,483)	(1,675)	(1,505)	(1,614)	(1,444)
Experience gain/(loss) on liabilities	–	17	20	(7)	(690)
Experience gain/(loss) on assets	(357)	64	(61)	(42)	365

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

Notes to the accounts *continued*

For the year ended 31 July 2009

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 in which the College is unable to identify its share of the underlying liabilities and assets, and it is therefore accounted for on a contributions basis.

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

	Consolidated		College	
	2009 £000	2008 £000	2009 £000	2008 £000
Contributions to USS	19,268	17,784	19,027	17,488
Contributions to SAUL	3,902	3,513	3,902	3,513
Contributions to NHSPS	3,724	3,469	3,724	3,469
Contributions to other pension schemes	932	1,106	932	1,106
Total pension cost *(note 6)*	27,826	25,872	27,585	25,576

30. ACCESS FUNDS AND TRAINING SALARIES

	Consolidated and College			
	Access funds		Training salaries	
	2008–9 £000	2007–8 £000	2008–9 £000	2007–8 £000
Balance underspent at 1 August	53	97	461	177
Funding Council and Training and Development Agency for Schools grants	325	449	1,492	1,776
Interest earned	2	13	–	–
	327	462	1,492	1,776
Disbursed to students	(348)	(493)	(1,710)	(1,492)
Administrative expenses	(12)	(13)	–	–
	(360)	(506)	(1,710)	(1,492)
Balance underspent at 31 July	20	53	243	461

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.