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Report of the Treasurer and Director of Finance on the Accounts for the year ended 31 July 2004

Scope of the Financial Statements

The Financial Statements presented to the Council comprise the consolidated results of the College, and its subsidiary undertakings KCL Enterprises Ltd, Closeworld Ltd, College Facilities Ltd, Doublerace Ltd and KCL Library and Archive Services Ltd.

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

KCL Library and Archive Services Ltd provides library and related services to parts of the College. The remaining subsidiary companies are associated with the delivery of major building projects, related services, and letting activity.

Results for the Year

Total income for the year increased by 6.4 per cent to £348.5m (2002/03 £327.4m). Total expenditure for the year increased by 4.3 per cent to £337.9m (2002/03 £323.9m) giving a surplus on normal operations of £10.6m (2002/03 £3.5m) as follows:

	2003/04 £000	2002/03 £000
Income	348,527	327,416
Expenditure	(337,962)	(323,896)
Surplus on normal operations	10,565	3,520
Surplus on disposal of property	-	2,903
Taxation	(4)	(3)
Surplus after depreciation of assets at cost and tax	<u>10,561</u>	<u>6,420</u>



The results for the year are consistent with management’s expectations and can be further analysed between the surplus on operating activities, one-off windfall gains, and the surplus of income over expenditure on departmental activities as follows:

	2003/04 £000’s	2002/03 £000’s
Surplus/(deficit) on operating activities	3,354	(855)
‘Windfall’ gains	3,498	-
Surplus on departmental activities	3,713	4,375
Surplus on normal operations	10,565	3,520

The £10.6m surplus for the year is due to increased income rather than reductions in expenditure which remain largely in line with budget with some variation between pay and non-pay spend.

The £3.3m surplus on operating activities, whilst a significant improvement on the operating deficits of the last few years, represents less than 1 per cent of income and falls some way short of the College’s Strategic Plan objective of a 3 per cent surplus on operating activities. However it is an indication that the College is beginning to see some of the financial benefits anticipated in the Strategic Plan with the surplus on operating activities primarily attributable to an increase of some 200 fte overseas students above target with consequent increase of some £2.2m in overseas tuition fee income. In addition research grant and contract income was some 6 per cent above budget with income rising to £99.2m during the year with an increase in associated indirect cost recoveries.

The £3.5m windfall gains relates to a one-off VAT refund of £2.8m net of advisor fees and £0.7m received from the sale of shares in LidCo, a College spin out company.

The surplus on departmental activities is credited to departmental reserves which increased to £22.3m as at 31 July 2004 (see note 21 to the accounts) and whilst these reserves are used to support the academic endeavour of the

College the application of funds and timing of expenditure is at the discretion of the designated account holders rather than general funds of the College.

In summary, whilst the results for the year are pleasing, the longer term financial health of the College depends on the realisation of increased income from teaching and research, and through further diversification of the resource base including increased benefaction and Alumni giving, and third stream activities. In this respect the partnership with IP2IP0 will be crucial to securing additional income from exploitation of the College’s intellectual property portfolio.

It will also be important to finalise the staff restructuring process and maintain tight control over expenditure. The College has made demonstrable progress during the year in this respect and whilst much remains to be done, the College is well placed to face up to the many challenges ahead with renewed confidence and optimism.

An analysis of the College’s income by funding source together with a breakdown of expenditure by the Schools of the College is given below.

An analysis of student load which increased by 2.9 per cent compared with 2003, and total staff which reduced by 1.0 per cent from 2003 levels, is also given below.

Capital Projects

The College continues to make good progress towards achieving its estates strategic aims, investing some £39.6m (2002/03 £36.7m) in buildings and equipment replacement and renewal during the year. Overall, capital projects are progressing well and remain largely to programme and within budget.

The difficulties experienced on the Medical and Molecular Genetics and Dental Institute projects in the Guy’s Tower have been addressed with the successful replacement of the insolvent contractor and with the new Dental laboratories being completed shortly after the year end.

Income

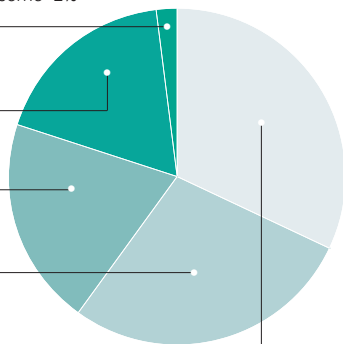
Endowment and investment income 2%

Tuition fees and education contracts 18%

Other income 20%

Research grants and contracts 28%

Funding council grants 32%



Expenditure

Law 2%

Nursing & Midwifery 3%

Humanities 4%

Dentistry 4%

Social Science & Public Policy 4%

Health & Life Sciences 4%

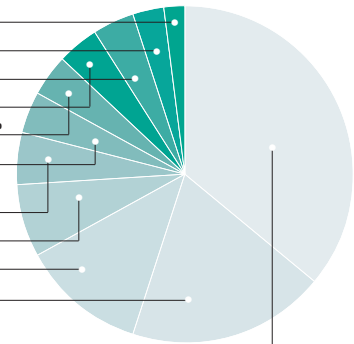
Physical Sciences & Engineering 5%

Biomedical Sciences 7%

Institute of Psychiatry 12%

Medicine 19%

Academic services and central support 36%



The biggest expenditure during the year was on the Strand redevelopment project with works commencing on the South Range of the Smirke building and related refurbishment of Drury Lane. In addition good progress was made with the Centre for Cell and Integrative Biology on the Denmark Hill Campus.

It is also pleasing to report that the new Infection and Immunity laboratories in New Guy's House were completed to budget during the year and opened by Archbishop Desmond Tutu. These works were funded by the Wellcome Trust and the Guy's and St Thomas' Charitable Foundation, who are also jointly funding the Medical and Molecular Genetics and Dental Institute projects referred to above.

In addition, during the year HEFCE confirmed there would be a further round of capital funding from April 2006, and whilst the amounts and conditions have yet to be confirmed this will enable the College to continue its programme of works to upgrade and improve the estate and general infrastructure in furtherance of the College's Strategic Plan.

Cash Reserves and Long-Term Liabilities

The College's continued focus on working capital management has seen cash resources exceeding forecasts for most of the year with balances increasing to £64.5m at the year end (2002/03 £34.0m) and net current assets exceeding net current liabilities by £4.0m (2002/03 net current liabilities £10.9m).

Whilst this is a significant improvement on previous years, liquidity remains tight with working capital utilised to finance staff restructuring and capital works. Cash management continues to receive careful attention with general liquidity forecast to improve through further planned asset disposals, in particular part south side of the Hampstead Campus, and in the medium term realisation of the 3 per cent operating surplus will provide the main source of cash generation.

During the year the College entered into a £10m facility with National Australia Finance (Commercial Leasing) Ltd as a means to access the capital allowance benefits of the Strand redevelopment project, although the facility remained undrawn at the year end. The College has a similar facility of £14m relating to the Centre for Cell and Integrative Biology at Denmark Hill, but again funds had not been drawn down at the year end.

Long term borrowings and other long term liabilities otherwise remain unchanged at £120.7m (2002/03 £121.6m) with net debt reducing to £50.7m (2002/03 £78.1m) as a consequence of the increase in cash balances.

Endowment Assets and Investment Performance

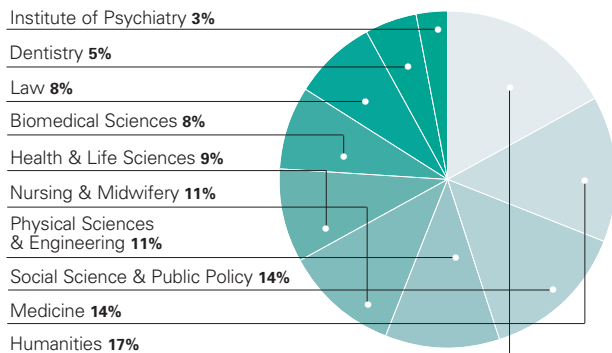
On 30 July 2004 the Kings College Act 1978 (Amendment) Order 2004 came into force conferring on the College the general power of investment permitted under section 3 of the Trustees Act 2000, and simplifying the administration of the funds by merging the general and trustee investment pools.

This legislation enables the restructuring of the College's endowment asset investments away from the more traditional equity and bond portfolio to funds being spread over a larger number of specialist managers with greater diversification of asset classes to increase return and reduce risk and volatility in the long term.

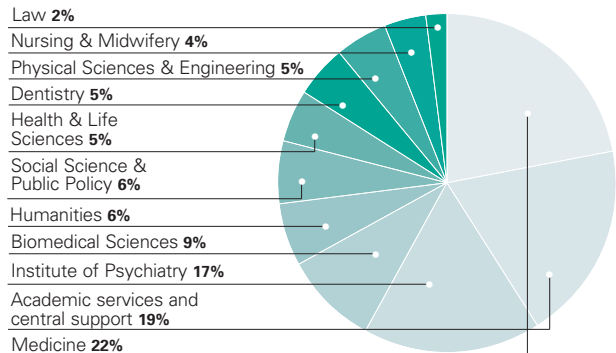
Ultimately the College will adopt a 'total return' basis of investment with the objective of maximising the total return from both capital gains and income yield, both of which would be available to satisfy the College's expenditure commitments, subject to maintaining the real value of the endowment asset base over time.

This migration process is likely to take 3-4 years and in the meantime the College is adopting an intermediary position which moves the College towards a total return investment mix but ensures the College's need for income is satisfied within a more diversified portfolio. During the

Student Load



Staff



year the College made good progress towards appointing the various specialist fund managers, which has led to a transfer of funds from the existing fund managers, and a reduction in endowment asset cash balances. On behalf of the College I would like to express my thanks to Mr David Price for his leadership in Chairing the Investment Sub-Committee who have had a heavy load instituting these changes.

The market value of endowment investments increased from £83.1m at 31 July 2003 to £88.2m at 31 July 2004. New capital donations of £1.1m were also received from benefactors. Total returns for the year including income yield, achieved by the investment managers averaged 9.1 per cent. Asset value increased by 4.8 per cent during the year, after adjusting for income paid over to the College.

Guy's Campus Flood

As previously reported, a major flood occurred at the College's premises on the Guy's Campus in October 1999.

During the year the College settled all claims against Thames Water and its insurers and all payments have now been received.

Conclusions

The improvement in the College's finances during the year is a strong indication that the Strategic Plan is beginning to bear fruit. Much has been achieved although not without pain at times as the College has sought to focus resources and play to its strengths.

Restructuring continues in a number of areas, notably Medicine where significant progress has been made through the creation of research divisions across the Health Schools, and in basic sciences where the College has withdrawn from teaching Chemistry and Biological Sciences in its traditional form. These changes have given the College a clearer profile and increasingly will enable resources to be deployed to better effect.

This should ensure the College is well placed to take advantage of the changing funding regime over the next few years, although the College is concerned to ensure that the Government delivers on the funding promises set out in the Ten Year Science Strategy, and that the introduction of variable fees from 2006 translates into real additional income for institutions. The announcement of a third round of SRIF funding in 2006 is a positive indication of the Government's intention in this regard.

The College is also concerned to ensure that the additional funding is not accompanied by additional regulation, inspection and control which seem increasingly burdensome and overly prescriptive. The College will be

watching with particular interest to see how the role of the new Office for Fair Access develops.

The College continues to make significant investments in its estates, particularly the Strand where investment is long overdue. Whilst such investment by its very nature involves financial risks, the College has a good track record in this regard and is indebted to Mr Paul Allison, Chair of the Estates Strategy Committee and the College's estates management team who continue to deliver large complex projects to time and budget.

Against this background the College has again maintained its Standard & Poors AA- rating and strives to achieve the medium term financial objective of a 3 per cent surplus for reinvestment much of which is already underway given the significant changes in the academic shape of the College over the last few years.

I would like to pay great tribute to the Finance team. This is the best set of figures for several years. Coupled with that I would thank Barry Ife for his contribution in his year as Acting Principal and was largely responsible for developing the College's Strategic Plan. I believe that the College is at the forefront of adopting and developing its financial and risk management, and would like to thank my colleague Fields Wicker-Miurin for her work Chairing the Audit Committee and to the Internal Audit staff for the quality of their work.

The management of the complex interfaces of the academic, financial and estates strategies we are pursuing (many of which are in tandem with our partner NHS Trusts) calls for a high level of management skills and direction. I believe that the College is doing a good job of harnessing the professionalism of its staff and management to the wide range of outside knowledge and experience of the lay members of Council and its sub-committees.

While the recent (and promised future) increases in Government funding are very welcome, as will be the addition of variable fees, there is no ground for complacency and there remains a planning risk that the Government will invest with one hand but remove resource with the other, therefore we need to make a prudent assessment of likely future income streams.

However, ultimate success will depend on the ability of the College to diversify funding streams and generate extra income from benefaction, patronage, alumni giving and the exploitation of our intellectual property. Only then will the College have the necessary freedom and financial headroom to secure a truly world class university unequivocally dedicated to the pursuit of excellence.

David Potter
Treasurer

Stephen Large
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 which has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities in England and Wales.

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

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

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

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

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

significant proportion of lay members, from whom its Chairman is drawn; each reports regularly to the Council.

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

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

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

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

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

Full statement of internal control

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

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks; to evaluate the nature and extent of those risks; and to manage them efficiently and effectively. This process was in place for the year ended 31 July 2004 and up to the date of the approval of the financial statements, and accords with HEFCE guidance.

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

- The Council considers the plans and strategic direction of the College on an annual basis.
- The Council has delegated to the Audit Committee responsibility for reviewing the effectiveness of internal control systems and the risk management process.
- The Council receives periodic reports from the Chairman of the Audit Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Audit Committee reports to Council its findings in respect of the effectiveness of the risk management process. This is informed by the categorisation of risks and the maintenance of a College-wide risk register.
- The Audit Committee receives regular reports from the head of internal audit on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The business planning process requires heads of schools and departments to identify and keep up to

date the record of risks facing the College and to report on internal control activities.

- A programme of risk awareness training is underway.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.
- A research project aimed at enhancing management decision-making in the area of risk management through the development of practices at the operational level is underway.

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

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2004 was informed by the Audit Committee, the work of the internal audit department and the executive managers within the College who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Responsibilities of the College Council

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

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

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

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

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and Teacher Training Agency are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and the Funding Agreement with these bodies;
- ensure that professional financial management is in place in terms of numbers of staff and their quality;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;

- safeguard the assets of the College and prevent and detect fraud;
- secure the economical, efficient and effective management of the College's resources and expenditure.

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

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

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

We have audited the financial statements on pages 9 to 29 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 9 to 10.

This report is made solely to the Council, in accordance with the Charter and Statutes of the College. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the College Council and the Auditors

The College Council is responsible for preparing the financial statements. Our responsibilities as independent auditors are established by statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

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 on Accounting for Further and Higher Education Institutions. 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 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 Teacher Training Agency.

We also report to you if, in our opinion, the Report of the Treasurer and Director of Finance is not consistent with the financial statements, if the College has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

Bases of opinions

We conducted our audit in accordance with Auditing Standards 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 Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the group circumstances, consistently applied and adequately disclosed.

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

Opinions

In our opinion:

- i) the financial statements give a true and fair view of the state of affairs of the College and the group as at 31 July 2004 and of the group's surplus of income over expenditure, recognised gains and losses and cash flows for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions;
- ii) in all material respects, income from the Higher Education Funding Council for England, the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2004 have been applied for the purposes for which they were received;
- iii) in all material respects, income during the year ended 31 July 2004 has been applied in accordance with the College's statutes and, where appropriate, with the financial memoranda (00/25 and 03/54) with the Higher Education Funding Council for England, and the funding agreement with the Teacher Training Agency.

14 December 2004

KPMG LLP

Chartered Accountants, Registered Auditor

1 Forest Gate, Brighton Road, Crawley, West Sussex RH11 9PT

Disclaimer

- 1 The maintenance and integrity of the King's College London's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ to legislation in other jurisdictions.

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

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

4. Pension schemes

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

5. Foreign currencies

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

6. Leases

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

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

7. Land and buildings

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

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

8. Furniture and equipment

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

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

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

9. Investments

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

10. Cash flows and liquid resources

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

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

11. Maintenance of premises

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

12. Taxation status

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

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

13. Related party transactions

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

14. Endowments

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

15. Provisions

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

Consolidated Income and Expenditure Account

For the year ended 31 July 2004

	<i>Note</i>	2003/04 £000	2002/03 £000
Income			
Funding Council grants	<i>1</i>	112,316	105,935
Tuition fees and education contracts	<i>2</i>	61,468	55,248
Research grants and contracts	<i>3</i>	99,198	93,376
Other operating income	<i>4</i>	70,172	66,830
Endowment income and interest receivable	<i>5</i>	5,373	6,027
Total income		<u>348,527</u>	<u>327,416</u>
Expenditure			
Staff costs	<i>6</i>	214,636	205,972
Depreciation	<i>11</i>	13,549	12,051
Other operating expenses	<i>7</i>	100,220	96,321
Interest payable	<i>8</i>	9,557	9,552
Total expenditure	<i>10</i>	<u>337,962</u>	<u>323,896</u>
Surplus on ordinary activities		10,565	3,520
Surplus on disposal of property		<u>-</u>	<u>2,903</u>
Surplus after depreciation of assets at cost and before tax		10,565	6,423
Taxation	<i>9</i>	4	3
Surplus after depreciation of assets at cost, disposal of property and tax		<u>10,561</u>	<u>6,420</u>

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 2004

	<i>Note</i>	2003/04 £000	2002/03 £000
Surplus after depreciation of assets at cost and tax		10,561	6,420
Change in value of endowment asset investments	20	3,544	747
Endowment income movement for the year	20	187	(944)
New endowments	20	1,076	194
Decrease in unexpended endowment income	15	281	245
Total recognised gains relating to the year		<u>15,649</u>	<u>6,662</u>
Reconciliation			
Opening reserves and endowments		197,258	190,596
Total recognised gains for the year		15,649	6,662
Closing reserves and endowments		<u>212,907</u>	<u>197,258</u>

Consolidated and College Balance Sheets

As at 31 July 2004

	Note	Consolidated		College	
		2004 £000	2003 £000	2004 £000	2003 £000
Fixed assets					
Tangible assets	11	504,995	478,967	366,692	338,919
Investments	12	48	48	89,728	89,728
		<u>505,043</u>	<u>479,015</u>	<u>456,420</u>	<u>428,647</u>
Endowment asset investments	13	<u>88,212</u>	<u>83,124</u>	<u>88,212</u>	<u>83,124</u>
Current assets					
Debtors	14	39,364	48,018	98,848	110,182
Cash at bank and in hand		64,512	33,988	61,115	33,364
		<u>103,876</u>	<u>82,006</u>	<u>159,963</u>	<u>143,546</u>
Creditors: amounts falling due within one year	15	(99,886)	(92,914)	(106,846)	(103,272)
Net current assets/(liabilities)		<u>3,990</u>	<u>(10,908)</u>	<u>53,117</u>	<u>40,274</u>
Total assets less current liabilities		<u>597,245</u>	<u>551,231</u>	<u>597,749</u>	<u>552,045</u>
Creditors: amounts falling due after more than one year	16	(120,706)	(121,564)	(116,580)	(116,613)
Provisions for liabilities and charges	18	(7,271)	(10,822)	(7,271)	(10,822)
Total net assets		<u>469,268</u>	<u>418,845</u>	<u>473,898</u>	<u>424,610</u>
Deferred capital grants	19	256,361	221,587	256,361	221,587
Endowments					
Specific	20	87,337	82,201	87,337	82,201
General	20	875	923	875	923
		<u>88,212</u>	<u>83,124</u>	<u>88,212</u>	<u>83,124</u>
Reserves					
Income and expenditure account	21	124,695	114,134	129,325	119,899
Total funds		<u>469,268</u>	<u>418,845</u>	<u>473,898</u>	<u>424,610</u>

The financial statements on pages 9 to 29 were approved by the Council on 14 December 2004 and signed on its behalf by:

Professor Richard Trainor
Principal

Mr David Potter
Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2004

	<i>Note</i>	2003/04 £000	2002/03 £000
Net cash inflow from operating activities	23	32,671	13,098
Returns on investments and servicing of finance	24	12	(522)
Capital expenditure and financial investment	25	<u>(1,285)</u>	<u>(9,053)</u>
Cash inflow before use of liquid resources and financing		31,398	3,523
Management of liquid resources	26	3,129	(724)
Financing	27	(4,003)	(3,860)
Increase/(decrease) in cash	28	<u>30,524</u>	<u>(1,061)</u>

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2003/04 £000	2002/03 £000
Increase/(decrease) in cash in the year		30,524	(1,061)
Cash inflow/(outflow) from liquid resources		(3,129)	724
Increase in debt		<u>(12)</u>	<u>(92)</u>
Movement in net debt in the year		27,383	(429)
Net debt at 1 August		(78,138)	(77,709)
Net debt at 31 July	28	<u>(50,755)</u>	<u>(78,138)</u>

Notes to the Accounts

For the year ended 31 July 2004

1. FUNDING COUNCIL GRANTS

	2003/04 £000	2002/03 £000
Higher Education Funding Council for England grants		
Recurrent grant	97,964	93,829
Specific grants:		
Human resource supplement	3,600	2,561
Other	2,311	2,468
Deferred capital grants released in the year:		
Buildings (<i>note 19</i>)	2,610	2,445
Equipment (<i>note 19</i>)	287	393
	<u>106,772</u>	<u>101,696</u>
Joint Information Systems Committee grants	<u>4,341</u>	<u>3,287</u>
Teacher Training Agency grants		
Recurrent grant	1,037	898
Specific grants	166	54
	<u>1,203</u>	<u>952</u>
Total Funding Council and Agency grants	<u>112,316</u>	<u>105,935</u>

2. TUITION FEES AND EDUCATION CONTRACTS

	2003/04 £000	2002/03 £000
Full-time students charged home fees	15,486	14,395
Full-time students charged overseas fees	22,096	19,288
Regional health authorities contracted student fees	17,557	16,693
Part-time fees	2,534	2,468
Special and short course fees	3,701	2,295
Research training support grants	94	109
	<u>61,468</u>	<u>55,248</u>

3. RESEARCH GRANTS AND CONTRACTS

	2003/04 £000	2002/03 £000
Research councils	20,395	19,071
UK central government, local authorities, health and hospital authorities	16,375	13,870
UK industry, commerce and public corporations	11,129	11,151
UK charitable bodies	37,149	36,387
EU government and other bodies	4,452	4,912
Other overseas	7,103	5,633
Other	2,595	2,352
	<u>99,198</u>	<u>93,376</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

4. OTHER OPERATING INCOME

	2003/04 £000	2002/03 £000
Academic departments costs reimbursed by NHS	14,476	14,183
Distinction and merit awards reimbursed by NHS	7,350	6,983
Residences, catering and conferences	12,820	12,008
Services rendered to NHS and related bodies	3,077	4,285
Self-financing activities	19,777	22,396
Released from deferred capital grants	1,692	1,358
Other income	10,980	5,617
	<u>70,172</u>	<u>66,830</u>

5. ENDOWMENT INCOME AND INTEREST RECEIVABLE

	2003/04 £000	2002/03 £000
Transferred from specific endowments (<i>note 20</i>)	3,578	3,692
Transferred from general endowments (<i>note 20</i>)	123	1,080
Other interest receivable	1,672	1,255
	<u>5,373</u>	<u>6,027</u>

6. STAFF

	2003/04 £000	2002/03 £000
Staff costs:		
Wages and salaries	181,259	175,050
Social security costs	15,015	13,534
Other pension costs (<i>note 29</i>)	18,362	17,388
	<u>214,636</u>	<u>205,972</u>
Emoluments of the Principal:		
Other emoluments	26	157
Benefits-in-kind	1	10
	<u>27</u>	<u>167</u>
Pension scheme contributions	4	23
	<u>31</u>	<u>190</u>

The pension contributions for the Principal are in respect of employer's contributions to the Universities Superannuation Scheme and are paid at the same rate as for other employees. The Principal retired on the 30th September 2003.

Emoluments of the Acting Principal:

Other emoluments	161
Benefits-in-kind	-
	<u>161</u>
Pension scheme contributions	14
	<u>175</u>

The pension contributions for the Acting Principal are in respect of employer's contributions to the Universities Superannuation Scheme and are paid at the same rate as for other employees.

Notes to the Accounts *continued*

For the year ended 31 July 2004

6. STAFF (CONTINUED)

	2003/04 Number	2002/03 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,556	2,583
Administrative and related staff	605	590
Technical	457	462
Clerical	838	848
Other	186	210
	<u>4,642</u>	<u>4,693</u>

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 from 1 August 1994:

	2003/04 Number	2002/03 Number
£ 70,001 - £ 80,000	90	113
£ 80,001 - £ 90,000	47	48
£ 90,001 - £ 100,000	35	61
£ 100,001 - £ 110,000	43	30
£ 110,001 - £ 120,000	20	17
£ 120,001 - £ 130,000	24	20
£ 130,001 - £ 140,000	14	10
£ 140,001 - £ 150,000	8	4
£ 150,001 - £ 160,000	2	2
£ 160,001 - £ 170,000	3	2

The Accounts include severance payments (including the cost of additional pension benefits purchased by the College) amounting to £803,000 (2003 – £35,000) for eight (2003 – one) higher paid employee.

7. OTHER OPERATING EXPENSES

	2003/04 £000	2002/03 £000
Research grants and contracts	31,831	28,942
Residences, catering and conferences operating expenses	5,870	5,333
Books and periodicals	2,573	2,256
Heat, light, water and power	4,361	4,565
Repairs and general maintenance	9,831	10,052
University of London charges	1,642	1,594
Services rendered to NHS and related bodies	970	874
Self-financing activities	7,442	8,470
Equipment items below £10,000 from general funds	1,966	1,959
Grants to King's College Students' Union	1,014	834
Communications, advertising and other services	8,354	7,222
Travelling, conference and related costs	2,621	3,073
Rents	2,600	2,280
Laboratory costs	3,567	3,376
Security and cleaning	6,414	6,529
Business rates and other premises costs	1,591	1,559
Auditors' remuneration	81	79
Auditors' remuneration in respect of non-audit services	97	238
Other expenses	7,395	7,086
	<u>100,220</u>	<u>96,321</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

8. INTEREST PAYABLE

	2003/04 £000	2002/03 £000
Bank and other loans wholly repayable within five years	-	15
Loans not wholly repayable within five years	7,956	7,936
Finance leases	1,601	1,601
	<u>9,557</u>	<u>9,552</u>

9. TAXATION

	2003/04 £000	2002/03 £000
UK corporation tax payable on the profits of subsidiary companies	<u>4</u>	<u>3</u>

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 2004 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	93,315	1,769	12,460	-	107,544
Academic departments costs reimbursed by NHS	13,782	-	684	-	14,466
Distinction and merit awards reimbursed by NHS	7,360	-	-	-	7,360
Academic services	10,982	1,424	8,470	-	20,876
Research grants and contracts	53,002	2,576	31,831	-	87,409
Residences, catering and conferences	2,910	-	5,870	3,953	12,733
Premises	5,809	7,583	23,185	-	36,577
Administration	13,975	154	4,686	-	18,815
Staff and student facilities	1,116	34	1,706	-	2,856
General education expenditure	346	5	1,550	-	1,901
University of London federal subscription	-	-	561	-	561
Services rendered to NHS and related bodies	1,582	-	970	-	2,552
Self-financing activities	8,527	-	7,442	-	15,969
Other	1,930	4	805	5,604	8,343
Total per income and expenditure account	<u>214,636</u>	<u>13,549</u>	<u>100,220</u>	<u>9,557</u>	<u>337,962</u>

The depreciation charge has been funded by:

Deferred capital grants released (<i>note 19</i>)	7,165
General income	6,384
	<u>13,549</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

11. TANGIBLE ASSETS

Consolidated	Land and buildings			Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000				
Cost							
At 1 August 2003	250,903	213,255	3,851	42,607	2,660	47,909	561,185
Additions	9,964	1,394	3,026	4,903	-	20,340	39,627
Transfers	(454)	23,209	-	2,015	-	(24,770)	-
Disposals	-	-	-	(5,361)	-	-	(5,361)
At 31 July 2004	260,413	237,858	6,877	44,164	2,660	43,479	595,451
Depreciation							
At 1 August 2003	24,369	21,410	2,024	31,755	2,660	-	82,218
Charge for year	3,513	3,455	366	6,215	-	-	13,549
Eliminated on disposals	-	-	-	(5,311)	-	-	(5,311)
At 31 July 2004	27,882	24,865	2,390	32,659	2,660	-	90,456
Net book value							
At 31 July 2004	232,531	212,993	4,487	11,505	-	43,479	504,995
At 1 August 2003	226,534	191,845	1,827	10,852	-	47,909	478,967

College	Land and buildings			Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000				
Cost							
At 1 August 2003	195,780	122,906	3,851	42,103	2,660	47,909	415,209
Additions	9,964	1,340	3,026	4,843	-	20,340	39,513
Transfers	(454)	23,209	-	2,015	-	(24,770)	-
Disposals	-	-	-	(5,295)	-	-	(5,295)
At 31 July 2004	205,290	147,455	6,877	43,666	2,660	43,479	449,427
Depreciation							
At 1 August 2003	22,182	17,875	2,024	31,549	2,660	-	76,290
Charge for year	2,961	2,265	366	6,135	-	-	11,727
Eliminated on disposals	-	-	-	(5,282)	-	-	(5,282)
At 31 July 2004	25,143	20,140	2,390	32,402	2,660	-	82,735
Net book value							
At 31 July 2004	180,147	127,315	4,487	11,264	-	43,479	366,692
At 1 August 2003	173,598	105,031	1,827	10,554	-	47,909	338,919

Notes to the Accounts *continued*

For the year ended 31 July 2004

11. TANGIBLE ASSETS (CONTINUED)

The total amount of interest included in assets above amounted to £1,740,000 (2003 - £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 £2,211,000 and £26,545,000 respectively.

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

Included in the above are assets with a net book value of £256,361,000 (2003 - £221,587,000) funded by capital grants (*note 19*).

12. INVESTMENTS

	Consolidated		College	
	2004 £000	2003 £000	2004 £000	2003 £000
Investment in subsidiary companies at cost	-	-	89,680	89,680
Other fixed asset investments	48	48	48	48
	<u>48</u>	<u>48</u>	<u>89,728</u>	<u>89,728</u>

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

13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College	
	2004 £000	2003 £000
Balance at 1 August	83,124	82,882
Additions	63,510	39,752
Disposals	(58,955)	(46,194)
Revaluation	3,662	5,960
(Decrease) increase in cash balances	(3,129)	724
Balance at 31 July	<u>88,212</u>	<u>83,124</u>
Fixed interest stocks	21,106	20,275
Equities	61,784	54,398
Bank balances	5,322	8,451
Total endowment asset investments	<u>88,212</u>	<u>83,124</u>
Fixed interest and equities at cost	<u>75,679</u>	<u>71,591</u>

14. DEBTORS

	Consolidated		College	
	2004 £000	2003 £000	2004 £000	2003 £000
Trade debtors	9,380	8,922	9,380	8,922
Other debtors	1,668	9,986	1,035	4,481
Research grant debtors	12,701	15,796	12,701	15,796
Research grant work in progress	9,482	8,177	9,482	8,177
Payments and accrued income	6,133	5,137	5,909	4,271
Amounts owed by Group undertakings	-	-	60,341	68,535
	<u>39,364</u>	<u>48,018</u>	<u>98,848</u>	<u>110,182</u>

Included within College Group debtors is £56,488,000 (2003 - £55,688,000) payable over more than one year.

Notes to the Accounts *continued*

For the year ended 31 July 2004

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2004 £000	2003 £000	2004 £000	2003 £000
Trade creditors	16,136	13,266	13,520	13,063
Payments received on account	46,316	43,997	46,316	43,997
Other creditors and accruals	24,232	22,273	20,550	18,624
Social security and other taxation payable	5,931	5,871	5,102	4,797
Amounts owed to group undertakings	-	-	14,087	15,284
Obligations under finance leases (<i>note 17</i>)	1,644	1,644	1,644	1,644
Unexpended endowment income	3,262	3,543	3,262	3,543
Current element of long-term liabilities (<i>note 17</i>)	2,365	2,320	2,365	2,320
	<u>99,886</u>	<u>92,914</u>	<u>106,846</u>	<u>103,272</u>

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

	Consolidated		College	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations under finance leases (<i>note 17</i>)	14,571	14,614	14,571	14,614
Term deposits for loan repayments	(1,118)	(1,080)	(1,118)	(1,080)
	<u>13,453</u>	<u>13,534</u>	<u>13,453</u>	<u>13,534</u>
Loans (<i>note 17</i>)	103,127	103,079	103,127	103,079
	<u>116,580</u>	<u>116,613</u>	<u>116,580</u>	<u>116,613</u>
Total long-term borrowings	116,580	116,613	116,580	116,613
Capital goods scheme VAT	4,126	4,951	-	-
Total	<u>120,706</u>	<u>121,564</u>	<u>116,580</u>	<u>116,613</u>

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

17. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	1,644	1,644	2,482	2,365
Between two and five years	4,933	4,932	8,205	7,816
Total between one and five years	<u>6,577</u>	<u>6,576</u>	<u>10,687</u>	<u>10,181</u>
Over five years	7,994	8,038	92,440	92,898
Total over one year (<i>note 16</i>)	<u>14,571</u>	<u>14,614</u>	<u>103,127</u>	<u>103,079</u>
Within one year (<i>note 15</i>)	1,644	1,644	2,365	2,320
	<u>16,215</u>	<u>16,258</u>	<u>105,492</u>	<u>105,399</u>

Loans amounting to £43,127,000 are repayable by instalments falling due between 1 August 2005 and 31 July 2033: the remaining loans are repayable by single instalments by 31 July 2031.

Notes to the Accounts *continued**For the year ended 31 July 2004*

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and College Restructuring £000
At 1 August 2003	10,822
Utilised in year	(3,551)
At 31 July 2004	<u>7,271</u>

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

As explained in the accounting policies note, no provision has been made for 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

	Funding Council £000	Other grants & benefactions £000	Total £000
At 1 August 2003			
Buildings	125,929	82,831	208,760
Equipment	6,670	6,157	12,827
Total	<u>132,599</u>	<u>88,988</u>	<u>221,587</u>
Cash received			
Buildings	25,470	11,280	36,750
Equipment	3,184	2,005	5,189
Total	<u>28,654</u>	<u>13,285</u>	<u>41,939</u>
Released to income and expenditure			
Buildings (<i>note 1</i>)	(2,610)	(1,624)	(4,234)
Equipment (<i>note 1</i>)	(287)	(2,644)	(2,931)
Total (<i>note 10</i>)	<u>(2,897)</u>	<u>(4,268)</u>	<u>(7,165)</u>
At 31 July 2004			
Buildings	148,789	92,487	241,276
Equipment	9,567	5,518	15,085
Total	<u>158,356</u>	<u>98,005</u>	<u>256,361</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

20. ENDOWMENTS

	Consolidated and College		
	Specific £000	General £000	Total £000
At 1 August 2003	85,699	968	86,667
Additions	1,076	-	1,076
Change in value of endowment asset investments	3,594	(50)	3,544
Income for year	3,753	135	3,888
Transferred to income and expenditure account (<i>note 5</i>)	(3,578)	(123)	(3,701)
At 31 July 2004	<u>90,544</u>	<u>930</u>	<u>91,474</u>
Creditors (<i>note 15</i>)	3,207	55	3,262
Endowment capital	<u>87,337</u>	<u>875</u>	<u>88,212</u>
	<u>90,544</u>	<u>930</u>	<u>91,474</u>
Representing:			
Fellowships and scholarships	10,157	-	10,157
Prize funds	3,820	-	3,820
Chairs and lectureships	70,541	-	70,541
Other funds	6,026	930	6,956
	<u>90,544</u>	<u>930</u>	<u>91,474</u>

21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated £000	College £000
Surplus after depreciation of assets at cost and tax	10,561	9,426
Balance at 1 August 2003	114,134	119,899
Balance at 31 July 2004	<u>124,695</u>	<u>129,325</u>
The income and expenditure account is nominally allocated to:		
Departmental reserves	22,276	22,276
Revenue reserve	102,419	107,049
	<u>124,695</u>	<u>129,325</u>

22. CAPITAL COMMITMENTS

	Consolidated		College	
	2004 £000	2003 £000	2004 £000	2003 £000
Commitments contracted at 31 July	60,050	16,000	60,050	16,000
Authorised but not contracted at 31 July	7,459	98,200	7,459	98,200
	<u>67,509</u>	<u>114,200</u>	<u>67,509</u>	<u>114,200</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

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

	2003/04	2002/03
	£000	£000
Surplus before tax	10,561	6,420
Depreciation (<i>note 11</i>)	13,549	12,051
Deferred capital grants released to income (<i>note 19</i>)	(7,165)	(6,576)
Investment income (<i>note 5</i>)	(5,373)	(6,027)
Interest payable (<i>note 8</i>)	9,557	9,552
Deficit/(surplus) on disposal of tangible fixed assets	50	(2,903)
Decrease in stocks	-	98
Decrease in debtors	8,654	873
Increase in creditors	7,214	3,237
Decrease in capital goods scheme VAT (<i>note 16</i>)	(825)	-
(Decrease) in provisions	(3,551)	(3,627)
Net cash inflow from operating activities	<u>32,671</u>	<u>13,098</u>

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2003/04	2002/03
	£000	£000
Income from endowments (<i>note 20</i>)	3,888	3,828
Interest received (<i>note 5</i>)	1,672	1,255
Interest paid	(5,548)	(5,605)
Net cash inflow/(outflow) from returns on investments and servicing of finance	<u>12</u>	<u>(522)</u>

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2003/04	2002/03
	£000	£000
Tangible assets acquired (<i>note 11</i>)	(39,627)	(36,708)
Endowment asset investments acquired (<i>note 13</i>)	(63,510)	(39,752)
Total tangible and investment assets acquired	<u>(103,137)</u>	<u>(76,460)</u>
Receipts from sale of tangible assets	-	3,232
Receipts from sale of endowment assets	58,837	40,981
Deferred capital grants received (<i>note 19</i>)	41,939	23,000
Endowments received (<i>note 20</i>)	1,076	194
Net cash outflow from capital expenditure and financial investment	<u>(1,285)</u>	<u>(9,053)</u>

26. MANAGEMENT OF LIQUID RESOURCES

	2003/04	2002/03
	£000	£000
Movement in endowment assets	3,129	(724)
Net cash movement from management of liquid resources	<u>3,129</u>	<u>(724)</u>

27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2003/04	2002/03
	£000	£000
Borrowings repaid	(2,320)	(2,222)
New long term loans	-	-
Repayment of capital element of finance leases	(1,683)	(1,638)
Net cash outflow from financing	<u>(4,003)</u>	<u>(3,860)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

28. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 03 £000	Cash flows £000	Other changes £000	At 31 July 04 £000
Cash at bank and in hand	33,988	30,524	-	64,512
Endowment asset investments (<i>note 13</i>)	8,451	(3,129)	-	5,322
	<u>42,439</u>	<u>27,395</u>	<u>-</u>	<u>69,834</u>
Debt due within one year	(3,964)	3,964	(4,009)	(4,009)
Debt due after one year	(116,613)	39	(6)	(116,580)
Debt due after one year	<u>(78,138)</u>	<u>31,398</u>	<u>(4,015)</u>	<u>(50,755)</u>

29. PENSIONS

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

Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was as at 31 March 2002 using the projected unit method. The assumptions which have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns per annum	5.0%	6.0%
Salary scale increases per annum	3.7%	3.7%
Pensions increases per annum	2.7%	2.7%
Market value of assets at date of last valuation	£19,938 million	
Value of past service liabilities at date of last valuation	£19,776 million	
Surplus of assets at date of last valuation	£162 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	101%	

The contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

Superannuation Arrangements of the University of London (SAUL)

The last available actuarial valuation of the scheme was as at 31 March 2002 using the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns on liabilities per annum before retirement	6.0%	7.0%
Investment returns on liabilities per annum after retirement	5.0%	5.0%
Salary scale increases per annum	4.2%	4.2%
Pensions increases per annum	2.7%	2.7%
Market value of assets at date of last valuation	£941 million	
Proportion of members' accrued benefits covered by the actuarial value of the assets	121%	

Notes to the Accounts *continued*

For the year ended 31 July 2004

29. PENSIONS (CONTINUED)

The contribution rate required for future service benefits alone at the date of the valuation was 17.4% of salaries.

Employers who have recently joined SAUL and certain employee groups (as agreed by the Trustee of SAUL) pay 17.4% of salaries until the second actuarial valuation after entry (or some other period as agreed with the Trustee). The past service surplus allows all other employers to pay contributions at the rate of 10.5% of pensionable salaries, subject to review at future valuations. The surplus also supports the continuation of the employee contribution rate of 5% of salaries, again subject to review.

The next formal actuarial valuation is due as at 31 March 2005 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 for UMDS (FPS). The pension scheme offered to staff at Chelsea College was the Local Government Pension Scheme (LGPS). No new members are admitted to these schemes.

FPS and LGPS are defined benefit schemes, the last triennial valuations were undertaken on 31 March 2003 and 31 March 2001 respectively.

For the purposes of reporting under FRS 17, projected unit method valuations were carried out as at 31 July 2004. The assumptions used and the valuation results are set out below.

	Federated Pension Scheme			Local Government Pension Scheme		
	31 July 2004	31 July 2003	31 July 2002	31 July 2004	31 July 2003	31 July 2002
Price increases per annum	2.75%	2.5%	2.6%	2.9%	2.6%	2.4%
Salary increases per annum	4.25%	4.0%	4.1%	4.4%	4.1%	3.9%
Pensions increases per annum	2.75%	2.5%	2.4%	2.9%	2.6%	2.4%
Discount rate per annum	5.75%	5.25%	5.7%	5.8%	5.5%	6.0%

Federated Pension Scheme

The assets and liabilities in the schemes and the expected rate of return were:

	31 July 2004		31 July 2003		31 July 2002	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	7.0%	24,381	7.0%	22,527	6.9%	19,165
Annuities	5.75%	1,806	5.25%	1,868	-	-
Bonds	5.25%	2,700	5.0%	2,985	5.3%	4,001
Cash	4.0%	1,193	3.0%	902	4.0%	1,561
Total market value of assets		<u>30,080</u>		<u>28,282</u>		<u>24,727</u>
Actuarial value of scheme liabilities		<u>(33,630)</u>		<u>(33,845)</u>		<u>(27,954)</u>
Deficit in the scheme		<u>(3,550)</u>		<u>(5,563)</u>		<u>(3,227)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

29. PENSIONS (CONTINUED)

History of experience gains and losses

	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000
Difference between the expected and actual return on scheme assets:			
Amount	17	(10)	(6,464)
Percentage of scheme assets	0%	0%	(26%)
Experience gains and losses on scheme liabilities:			
Amount	(2,987)	(93)	(124)
Percentage of the present value of scheme liabilities	(9.0%)	(0.3%)	(0.5%)
Total amount recognised in the statement of total recognised gains and losses:			
Amount	2,206	(2,108)	(7,512)
Percentage of the scheme liabilities	7%	(6%)	(27%)
Employers contribution to the scheme	561	518	533
Percentage of salary contributed 1 August 2003 to 31 March 2004	13.25%	13.25%	13.25%
Percentage of salary contributed 1 April 2004 to 31 July 2004	19.0%		

Local Government Pension Scheme

The assets and liabilities in the schemes and the expected rate of return were:

	31 July 2004		31 July 2003		31 July 2002	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	7.9%	186,591	8.0%	169,400	8.0%	105,870
Bonds	5.4%	1,121,368	5.0%	1,106,700	5.5%	1,153,320
Cash	4.0%	39,204	3.5%	98,500	3.5%	106,790
Total market value of assets for whole fund		<u>1,347,163</u>		<u>1,374,600</u>		<u>1,365,980</u>
Estimated employer share of assets		4,779		4,902		4,898
Present value of scheme liabilities		(4,889)		(4,981)		(4,644)
Present value of unfunded liabilities		(669)		(678)		(651)
Total value of liabilities		<u>(5,558)</u>		<u>(5,659)</u>		<u>(5,295)</u>
Net pension liabilities		<u>(779)</u>		<u>(757)</u>		<u>(397)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2004

29. PENSIONS (CONTINUED)

History of experience gains and losses

	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000
Difference between the expected and actual return on scheme assets:			
Amount	(12)	75	(178)
Percentage of scheme assets	(0.3%)	1.5%	(3.6%)
Experience gains and losses on scheme liabilities:			
Amount	(9)	(84)	(57)
Percentage of the present value of scheme liabilities	(0.2%)	(1.5%)	1.2%
Total amount recognised in the statement of total recognised gains and losses:			
Amount	(26)	(310)	(4,644)
Percentage of the scheme liabilities	(0.5%)	(5.5%)	(2.9%)
Employers contribution to the scheme	4	4	3
Percentage of salary contributed	16.7%	16.7%	16.7%

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

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2004	31 July 2003	31 July 2004	31 July 2003
	£000	£000	£000	£000
Deficit in scheme at beginning of year	(5,563)	(3,227)	(757)	(397)
Movement in year:				
current service cost	(809)	(809)	(5)	(3)
employer's contribution	540	579	4	4
past service cost	-	-	55	-
net return on assets	76	2	(50)	(51)
actuarial gain/(loss)	2,206	(2,108)	(26)	(310)
Deficit in scheme at end of year	<u>(3,550)</u>	<u>(5,563)</u>	<u>(779)</u>	<u>(757)</u>

If the above amounts had been recognised in the financial statements, the College's net assets and income and expenditure reserve would have been as follows:

	31 July 2004	31 July 2003
	£000	£000
Net assets excluding pension asset	469,268	418,845
FPS pension liability	(3,550)	(5,563)
LGPS pension liability	(779)	(757)
Net assets including pension liability	<u>464,939</u>	<u>412,525</u>
Income and expenditure reserve excluding pension asset	124,695	114,134
Pension reserve	(4,329)	(6,320)
Income and expenditure reserve including pension liability	<u>120,366</u>	<u>107,814</u>

The above statements are made in compliance with FRS 17. However, under current legislation, the College's obligation to fund the pension scheme is defined by the Minimum Funding Requirement (MFR). At the time of the last actuarial valuation of the pension scheme and at the time the appropriate Schedule of Contributions was prepared following that valuation, the pension scheme had an MFR funding level in excess of 100%.

Notes to the Accounts *continued*

For the year ended 31 July 2004

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 is therefore accounted for on a contributions basis.

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

	Consolidated		College	
	2003/04 £000	2002/03 £000	2003/04 £000	2002/03 £000
Contributions to USS	13,064	12,790	12,949	12,673
Contributions to SAUL	2,207	2,103	2,207	2,092
Contributions to NHSS	2,321	1,759	2,321	1,759
Contributions to other pension schemes	770	736	770	732
Total pension cost (<i>note 6</i>)	<u>18,362</u>	<u>17,388</u>	<u>18,247</u>	<u>17,256</u>

30. ACCESS FUNDS AND TRAINING SALARIES

	Consolidated and College			
	Access funds		Training salaries	
	2003/04 £000	2002/03 £000	2003/04 £000	2002/03 £000
Balance (overspent)/unspent at 1 August	48	(49)	(3)	221
Funding Council and Teacher Training Agency grants	796	747	1,405	1,169
Interest earned	4	3	-	-
	<u>800</u>	<u>750</u>	<u>1,405</u>	<u>1,169</u>
Disbursed to students	(798)	(652)	(1,302)	(1,370)
Administrative expenses	(1)	(1)	-	(23)
	<u>(799)</u>	<u>(653)</u>	<u>(1,302)</u>	<u>(1,393)</u>
Balance unspent/(overspent) at 31 July	<u>49</u>	<u>48</u>	<u>100</u>	<u>(3)</u>

Funding Council and Teacher Training Agency 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.