

# Financial Statements

*for the year to 31 July 2005*

---

---

# Contents

---

---

Report of the Treasurer and Director of Finance	1 - 4
Corporate governance	5
Full statement of internal control	6
Responsibilities of the College Council	7
Independent auditors' report to the Council of King's College London	8
Statement of principal accounting policies	9 - 10
Consolidated Income and Expenditure Account	11
Statement of Consolidated Total Recognised Gains and Losses	12
Consolidated and College Balance Sheets	13
Consolidated Cash Flow Statement	14
Notes to the Accounts	15 - 30

---

---

# Report of the Treasurer and Director of Finance on the Accounts for the year ended 31 July 2005

---

---

## 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 channelled 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 4.4 per cent to £364.0m (2003/04 £348.5m). Total expenditure for the year increased by 4.7 per cent to £354.0m (2003/04 £338.0m), giving a surplus on normal operations of £10.0m (2003/04 £10.6m). In addition there was a £1.2m profit on the disposal of Cobham Sportsground, giving an overall surplus for the year of £11.2m as follows:

	<b>2004/05</b>	<b>2003/04</b>
	<b>£000</b>	<b>£000</b>
Income	363,972	348,527
Expenditure	(353,978)	(337,962)
Surplus on normal operations	<u>9,994</u>	10,565
Surplus on disposal of property	1,215	-
Taxation	<u>(9)</u>	<u>(4)</u>
Surplus after depreciation of assets at cost and tax	<u><b>11,200</b></u>	<u><b>10,561</b></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:

	<b>2004/05</b> <b>£000</b>	<b>2003/04</b> <b>£000</b>
Surplus on operating activities	3,307	3,354
'Windfall' gains	2,165	3,498
Surplus on departmental activities	4,522	3,713
Surplus on normal operations	<u>9,994</u>	<u>10,565</u>
Surplus as a % of total income	2.7%	3.0%

The £3.3m surplus for the year on operating activities compares with a break-even budget and whilst it is pleasing to maintain the surplus in line with last year in the face of increasing cost pressures, this still falls some way short of the Strategic Plan objectives of a 3 per cent surplus on operating activities.

The operating result masks a number of relatively minor variances with income from tuition fees and education contracts up £1.5m against budget and investment income up a similar amount. On a less positive note, income from research grants and contracts increased by only 2.3%, with a significant shortfall in associated indirect cost recoveries. Operating expenditure was largely in line with forecasts but with some virement from pay and non-pay budget heads. As for last year the shortfall between the actual operating result and the Strategic Plan target surplus has been made good by some £2.2m of one-off 'windfall' gains and a £4.5m surplus on departmental activities. Increasingly these activities are being brought into the normal business planning and resource allocation processes of the College.

The £2.2m windfall gains relate to £1.2m in additional VAT recoveries including a one-off refund of under-recovered VAT, and £1.0m from sale of shares in

Proximagen Neuroscience, a College spin-out company. Proximagen was the first company formed in partnership with IP2IP0 and was successfully listed on the Alternative Investment Market in March 2005, at which time the College disposed of c. 25% of its equity holding.

The surplus of £4.5m on departmental activities is credited to departmental reserves, which increased to £26.8m as at 31 July 2005, and whilst the timing of expenditure is largely at the discretion of the designated account holders the use and applications of the funds is subject to the normal financial regulations and procedures of the College.

In summary, this year's results continue the positive trend of recent years as envisaged in the Strategic Plan. However, longer-term financial success will depend on the College's ability to increase the financial returns on core teaching and research activities 'the introduction of variable or 'top-up' fees and the full economic costing of research will be important factors here', whilst continuing to diversify funding streams and generate extra income from benefaction, alumni giving and increased commercialisation of the College's intellectual and knowledge base.

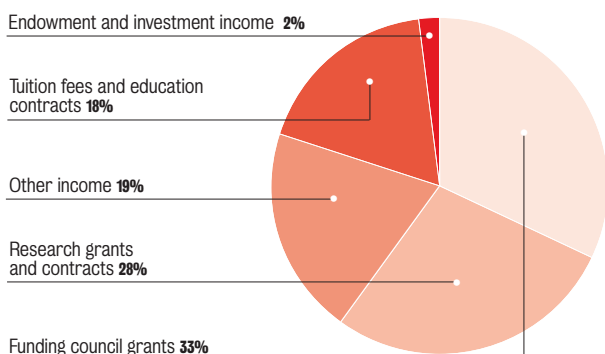
An analysis of the College's income by funding source together with a breakdown of expenditure by the Schools of the College is given below.

An analysis of student load which increased by 1.2 per cent compared with 2004, and total staff which reduced by 1.3 per cent from 2004 levels, is also given below.

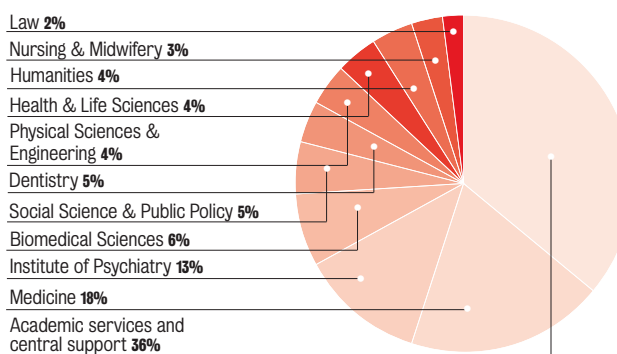
## Capital Projects

During the year the College made further progress towards achieving its estates strategic aims, investing some £53.8m (2003/04 £39.6m) in buildings and equipment replacement and renewal. Overall capital projects are progressing well and remain largely within budget. The Genetics and Dental projects in the Guy's Tower have been completed within the revised budget, and all outstanding accounts have been settled with the Administrators of the former

### Income



### Expenditure



insolvent contractor.

The biggest expenditure during the year was on Phase I of the Strand Redevelopment Project and the Centre for Cell and Integrative Biology on the Denmark Hill Campus, both of which are progressing well and should complete during the next academic year.

In addition the College approved the next stage of its capital programme authorising some £54.6m of additional investment through to 2008, including Phase II of the Strand Redevelopment Project, Phase II of the Institute of Psychiatry main building redevelopment, new Biomedical Research facilities at the Guy's and St Thomas' Campuses, and improvement in the general teaching and learning infrastructure of the College. This programme will be funded largely from HEFCE capital grants together with contributions from the Charitable Foundation of Guy's and St Thomas'.

## Cash Reserves and Long-Term Liabilities

Cash inflow from operating activities was £20.8m during the year (2003/04 £32.7m) with year-end cash balances increasing by £4.9m to £69.4m (2003/04 £64.5m). Debtors reduced by £1.3m during the year, reflecting the continuing focus on working capital management, and in the short term liquidity is forecast to improve further following the planned disposal of the Hampstead Campus South Side sometime during 2006.

During the year the College drew down £10.9m of funding from National Australia Bank in relation to the Strand Phase I Redevelopment Project and the Centre for Cell and Integrative Biology, enabling the College to benefit from capital allowances that would otherwise be unused. A similar sum was placed in a sinking fund such that net debt reduced to £49.3m (2003/04 £50.8m).

## Endowment Assets and Investment Performance

The College continued to restructure the endowment portfolio under the supervision of the Investment Sub-Committee. The number of investment managers increased from seven to eight, with the addition of a hedge fund manager providing further diversification of asset classes to increase return and reduce risk and volatility in the long term. Additionally the College took advantage of the general power of investment conferred by the Kings College Act 1978 (Amendment) Order 2004 and merged the general and trustee investment pools into a single portfolio.

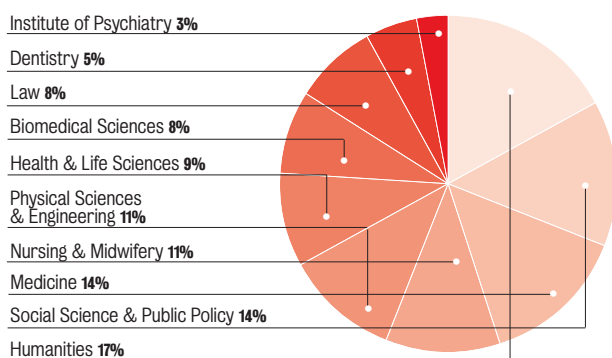
The College continues to move towards a 'total return' basis of investment with the objective of maximising the total return from both capital gains and income yield, both of which would be available to satisfy the College's expenditure commitments, subject to maintaining the real value of the endowment capital over time. This migration process will take some years to implement and in the meantime the College is adopting an intermediary position that moves the College towards a total return investment mix but ensures the College's need for income is satisfied within a more diversified portfolio.

Progress to date has been encouraging with the portfolio outperforming the College's weighted benchmark index for both income yield and capital growth. The market value of investments increased from £88.2m at 31 July 2004 to £103.3m at 31 July 2005, including £0.7m of new capital received from benefactors. The total return achieved by the investment managers was 18.7%, including income yield of 3.1%.

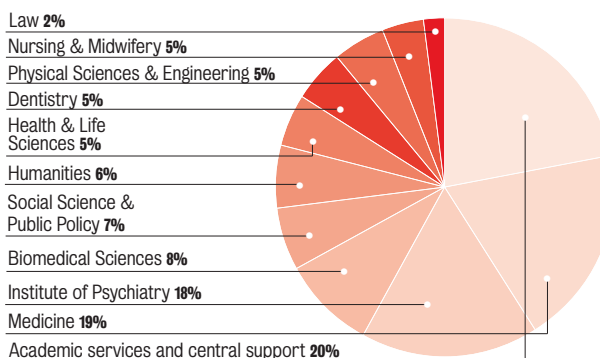
## Conclusions

It is pleasing to see the College maintain a strong financial performance two years running, ensuring the College is well placed to take advantage of any opportunities that might arise in the next few years.

### Student Load



### Staff



In some respects this is already happening through the creation of a strategic investment fund, which is enabling significant new investment, primarily in academic staff to strengthen and refresh the academic lifeblood of the College. This will help the College to meet and exceed increasing student expectations of the quality of the learning experience at King's in a more competitive and customer-focused higher-education market, and ensure the College is well placed for the 2008 RAE, both of which are crucial to the long-term academic and financial well being of the College.

However financial success cannot be taken for granted and there is no room for complacency given likely future changes to the funding regime and the many cost pressures on the horizon, particularly around the growing College estate, together with the need to reform and modernize the College's pay structures and processes to ensure the College is able to recruit and retain the very best staff.

The additional income anticipated from variable or 'top-up' fees and full economic costing, whilst welcome, is still relatively modest and will not on its own allow the College to achieve the ambitious strategy set for itself in the 2001 Strategic Plan and given renewed impetus and focus through the Principal's recent Green Paper. The College will need to be ever more resourceful and continue to diversify income streams through a blend of increased commercialisation, alumni giving and benefaction. Achieving the right balance of funding will require careful management, but I believe the professionalism and talent of both management and staff mean the College is well placed to meet the many challenges that lie ahead.

Against this background the College continues to make good progress with upgrading and replacing the estate, and has again maintained its Standard & Poors AA- rating, providing a measure of confidence in the overall strategic direction and financial management of the College.

In this respect I would like to pay my thanks to the College's finance team and in particular Mike Hansen, the former Director of Resources who retired at the end of July 2005, and Krishna Kirpalani, the former Chief Accountant who retired after 32 years' loyal service to the College. Both of these individuals made a big contribution to the financial success of the College in recent years.

In summary, I believe King's can be cautiously optimistic about the future. Much has been achieved in the recent past, although more needs to be done if the College is to move forward to yet higher levels of achievement. Success here will depend upon the College's ability to adapt its very strong record of educating undergraduates to a world of variable fees and pressures for improved social access, and accelerate its recent marked improvement in research and knowledge transfer while expanding its

portfolio of postgraduate programmes. In addition, while consolidating its ties to key communities in London and elsewhere in the UK, the College must strengthen its profile overseas, with regard to research links as well as student recruitment. Only then will the College have the necessary freedom and financial headroom to secure the Principal's vision for King's as a truly world-class institution.

David Potter  
*Treasurer*

13 December 2005

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

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

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

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

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

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

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

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

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

The Audit Committee is responsible for meeting, at least once annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors, to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. They receive and consider reports from the Higher Education Funding Council for England and the 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 2005 and up to the date of the approval of the financial statements, and accords with HEFCE guidance.

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

- The Council considers the plans and strategic direction of the College on an annual basis.
- The Council has delegated to the Audit Committee responsibility for reviewing the effectiveness of internal control systems and the risk management process.
- The Council receives periodic reports from the Chairman of the Audit Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from vice-principals and other managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Audit Committee reports to Council its findings in respect of the effectiveness of the risk management process. This is informed by the categorisation of risks and the maintenance of a College-wide risk register.
- The Audit Committee receives regular reports from the head of internal audit on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The Principal's central team is the focal point within the College for the enhancement of the risk

management process and receives regular reports from heads of schools and departments in support of this.

- The business planning process requires heads of schools and departments to identify and keep up-to-date the record of risks facing the College and to report on internal control activities.
- A programme of risk awareness training is underway.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.
- A research project aimed at enhancing management decision-making in the area of risk management through the development of practices at the operational level is underway and is actively seeking to embed risk management into all of the College's activities.

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

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2005 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 web site.

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

## 15. Provisions

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

## Consolidated Income and Expenditure Account

For the year ended 31 July 2005

	<i>Note</i>	<b>2004/05</b> <b>£000</b>	<b>2003/04</b> <b>£000</b>
<b>Income</b>			
Funding Council grants	<i>1</i>	120,233	112,316
Tuition fees and education contracts	<i>2</i>	65,557	61,468
Research grants and contracts	<i>3</i>	101,463	99,198
Other operating income	<i>4</i>	69,843	70,172
Endowment income and interest receivable	<i>5</i>	6,876	5,373
Total income		<u>363,972</u>	<u>348,527</u>
<b>Expenditure</b>			
Staff costs	<i>6</i>	225,984	214,636
Depreciation	<i>11</i>	14,756	13,549
Other operating expenses	<i>7</i>	103,606	100,220
Interest payable	<i>8</i>	9,632	9,557
Total expenditure	<i>10</i>	<u>353,978</u>	<u>337,962</u>
Surplus on ordinary activities		9,994	10,565
Surplus on disposal of property		<u>1,215</u>	<u>-</u>
Surplus after depreciation of assets at cost and before tax		11,209	10,565
Taxation	<i>9</i>	9	4
<b>Surplus after depreciation of assets at cost, disposal of property and tax</b>		<u><b>11,200</b></u>	<u><b>10,561</b></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 2005

	<i>Note</i>	<b>2004/05</b> <b>£000</b>	<b>2003/04</b> <b>£000</b>
<b>Surplus after depreciation of assets at cost and tax</b>	11,200	10,561	
<b>Change in value of endowment asset investments</b>	20 13,705	3,544	
<b>Endowment income movement for the year</b>	20	(415)	187
<b>New endowments</b>	20	669	1,076
<b>Decrease in unexpended endowment income</b>		1,150	281
<b>Total recognised gains relating to the year</b>		<u>26,309</u>	<u>15,649</u>
Reconciliation			
<b>Opening reserves and endowments</b>		212,907	197,258
<b>Total recognised gains for the year</b>		26,309	15,649
<b>Closing reserves and endowments</b>		<u>239,216</u>	<u>212,907</u>

## Consolidated and College Balance Sheets

As at 31 July 2005

	Note	Consolidated		College	
		2005 £000	2004 £000	2005 £000	2004 £000
<b>Fixed assets</b>					
Tangible assets	11	543,986	504,995	407,756	366,692
Investments	12	48	48	89,728	89,728
		<u>544,034</u>	<u>505,043</u>	<u>497,484</u>	<u>456,420</u>
<b>Endowment asset investments</b>	13	<u>103,321</u>	<u>88,212</u>	<u>103,321</u>	<u>88,212</u>
<b>Current assets</b>					
Debtors	14	38,029	39,364	92,839	98,848
Cash at bank and in hand		<u>69,440</u>	<u>64,512</u>	<u>66,785</u>	<u>61,115</u>
		<u>107,469</u>	<u>103,876</u>	<u>159,624</u>	<u>159,963</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(103,960)</u>	<u>(99,886)</u>	<u>(109,131)</u>	<u>(106,846)</u>
<b>Net current assets</b>		<u>3,509</u>	<u>3,990</u>	<u>50,493</u>	<u>53,117</u>
<b>Total assets less current liabilities</b>		<u>650,864</u>	<u>597,245</u>	<u>651,298</u>	<u>597,749</u>
<b>Creditors: amounts falling due after more than one year</b>	16	<u>(119,444)</u>	<u>(120,706)</u>	<u>(116,143)</u>	<u>(116,580)</u>
<b>Provisions for liabilities and charges</b>	18	<u>(4,350)</u>	<u>(7,271)</u>	<u>(4,350)</u>	<u>(7,271)</u>
<b>Total net assets</b>		<u>527,070</u>	<u>469,268</u>	<u>530,805</u>	<u>473,898</u>
<b>Deferred capital grants</b>	19	<u>287,854</u>	<u>256,361</u>	<u>287,854</u>	<u>256,361</u>
<b>Endowments</b>					
Specific	20	103,321	87,337	103,321	87,337
General	20	-	875	-	875
		<u>103,321</u>	<u>88,212</u>	<u>103,321</u>	<u>88,212</u>
<b>Reserves</b>					
Income and expenditure account	21	135,895	124,695	139,630	129,325
<b>Total funds</b>		<u>527,070</u>	<u>469,268</u>	<u>530,805</u>	<u>473,898</u>

The financial statements on pages 9 to 30 were approved by the Council on 13 December 2005 and signed on its behalf by:

Professor Richard Trainor  
Principal

David Potter  
Treasurer

## Consolidated Cash Flow Statement

For the year ended 31 July 2005

	<i>Note</i>	<b>2004/05 £000</b>	<b>2003/04 £000</b>
<b>Net cash inflow from operating activities</b>	23	20,791	32,671
<b>Returns on investments and servicing of finance</b>	24	959	12
<b>Capital expenditure and financial investment</b>	25	<u>(16,142)</u>	<u>(1,285)</u>
<b>Cash inflow before use of liquid resources and financing</b>		5,608	31,398
<b>Management of liquid resources</b>	26	3,455	3,129
<b>Financing</b>	27	(4,135)	(4,003)
<b>Increase in cash</b>	28	<u>4,928</u>	<u>30,524</u>

### Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	<b>2004/05 £000</b>	<b>2003/04 £000</b>
<b>Increase in cash in the year</b>		4,928	30,524
<b>Cash outflow from liquid resources</b>		(3,455)	(3,129)
<b>Increase in debt</b>		<u>(1)</u>	<u>(12)</u>
<b>Movement in net debt in the year</b>		1,472	27,383
<b>Net debt at 1 August</b>		(50,755)	(78,138)
<b>Net debt at 31 July</b>	28	<u>(49,283)</u>	<u>(50,755)</u>



## Notes to the Accounts

For the year ended 31 July 2005

1. FUNDING COUNCIL GRANTS	2004/05 £000	2003/04 £000
<b>Higher Education Funding Council for England grants</b>		
Recurrent grant	107,966	97,964
Specific grants:		
Human resource supplement	-	3,600
Other	3,624	2,311
Deferred capital grants released in the year:		
Buildings ( <i>note 19</i> )	2,889	2,610
Equipment ( <i>note 19</i> )	1,593	287
	116,072	106,772
<b>Joint Information Systems Committee grants</b>	2,841	4,341
<b>Teacher Training Agency grants</b>		
Recurrent grant	1,198	1,037
Specific grants	122	166
	1,320	1,203
Total Funding Council and Agency grants	120,233	112,316
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Full-time students charged home fees	16,525	15,486
Full-time students charged overseas fees	22,795	22,096
Regional health authorities contracted student fees	19,951	17,557
Part-time fees	2,679	2,534
Special and short course fees	3,554	3,701
Research training support grants	53	94
	65,557	61,468
<b>3. RESEARCH GRANTS AND CONTRACTS</b>	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Research councils	21,046	20,395
UK central government, local authorities, health and hospital authorities	19,879	16,375
UK industry, commerce and public corporations	10,769	11,129
UK charitable bodies	35,960	37,149
EU government and other bodies	5,126	4,452
Other overseas	6,830	7,103
Other	1,853	2,595
	101,463	99,198

Notes to the Accounts *continued*

For the year ended 31 July 2005

4. OTHER OPERATING INCOME	2004/05 £000	2003/04 £000
Academic departments' costs reimbursed by NHS	14,350	14,476
Distinction and merit awards reimbursed by NHS	8,377	7,350
Residences, catering and conferences	12,938	12,820
Services rendered to NHS and related bodies	5,472	3,077
Self-financing activities	16,188	19,777
Released from deferred capital grants	2,155	1,692
Other income	10,363	10,980
	<u>69,843</u>	<u>70,172</u>
5. ENDOWMENT INCOME AND INTEREST RECEIVABLE	2004/05 £000	2003/04 £000
Transferred from specific endowments ( <i>note 20</i> )	3,402	3,578
Transferred from general endowments ( <i>note 20</i> )	-	123
Other interest receivable	3,474	1,672
	<u>6,876</u>	<u>5,373</u>
6. STAFF	2004/05 £000	2003/04 £000
Staff costs:		
Wages and salaries	190,359	181,259
Social security costs	15,449	15,015
Other pension costs ( <i>note 29</i> )	20,176	18,362
	<u>225,984</u>	<u>214,636</u>
Emoluments of the Principal:		
Other emoluments	169	26
Benefits-in-kind	4	1
	<u>173</u>	<u>27</u>
Pension scheme contributions	34	4
	<u>207</u>	<u>31</u>
Emoluments of the Acting Principal:		
Other emoluments	14	161
Benefits-in-kind	-	-
	<u>14</u>	<u>161</u>
Pension scheme contributions	1	14
	<u>15</u>	<u>175</u>
	<u>222</u>	<u>206</u>

Emoluments of the Principal reflect the retirement of the previous Principal on 30 September 2003, the appointment of the Acting Principal for the period 1 October 2003 to 31 August 2004 and the appointment of the current Principal on 1 September 2004.

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

Notes to the Accounts *continued*

For the year ended 31 July 2005

**6. STAFF (CONTINUED)**

	<b>2004/05 Number</b>	<b>2003/04 Number</b>
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,511	2,556
Administrative and related staff	685	605
Technical	362	457
Clerical	846	838
Other	130	186
	<u>4,534</u>	<u>4,642</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:

	<b>2004/05 Number</b>	<b>2003/04 Number</b>
£ 70,001 - £ 80,000	77	90
£ 80,001 - £ 90,000	43	47
£ 90,001 - £ 100,000	36	35
£ 100,001 - £ 110,000	37	43
£ 110,001 - £ 120,000	22	20
£ 120,001 - £ 130,000	31	24
£ 130,001 - £ 140,000	12	14
£ 140,001 - £ 150,000	1	8
£ 150,001 - £ 160,000	10	2
£ 160,001 - £ 170,000	5	3
£ 170,001 - £ 180,000	5	-
£ 180,001 - £ 190,000	2	-
£ 190,001 - £ 200,000	2	-
£ 200,001 - £ 210,000	3	-
£ 210,001 - £ 220,000	4	-

The Accounts include severance payments (including the cost of additional pension benefits purchased by the College) amounting to £109,000 (2004 - £803,000) for three (2004 - eight) higher-paid employees.

**7. OTHER OPERATING EXPENSES**

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Research grants and contracts	35,826	31,831
Residences, catering and conferences operating expenses	5,802	5,870
Books and periodicals	2,628	2,573
Heat, light, water and power	5,091	4,361
Repairs and general maintenance	11,123	9,831
University of London charges	1,721	1,642
Services rendered to NHS and related bodies	2,474	970
Self-financing activities	4,469	7,442
Equipment items below £10,000 from general funds	1,952	1,966
Grants to King's College Students' Union	881	1,014
Communications, advertising and other services	7,134	8,354
Travelling, conference and related costs	3,011	2,621
Rents	3,428	2,600
Laboratory costs	2,979	3,567
Security and cleaning	6,699	6,414
Business rates and other premises costs	1,670	1,591
Auditors' remuneration	90	81
Auditors' remuneration in respect of non-audit services	68	97
Other expenses	6,560	7,395
	<u>103,606</u>	<u>100,220</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

8. INTEREST PAYABLE	2004/05 £000	2003/04 £000
Loans not wholly repayable within five years	7,959	7,956
Finance leases	1,673	1,601
	<u>9,632</u>	<u>9,557</u>

9. TAXATION	2004/05 £000	2003/04 £000
UK corporation tax payable on the profits of subsidiary companies	<u>9</u>	<u>4</u>

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

## 10. ANALYSIS OF 2005 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	101,795	2,752	10,402	-	114,949
Academic departments costs reimbursed by NHS	13,926	-	457	-	14,383
Distinction and merit awards reimbursed by NHS	8,377	-	-	-	8,377
Academic services	14,451	1,270	7,503	-	23,224
Research grants and contracts	52,557	2,450	35,826	-	90,833
Residences, catering and conferences	3,083	-	5,802	4,053	12,938
Premises	6,045	8,103	26,581	-	40,729
Administration	14,274	134	4,403	-	18,811
Staff and student facilities	1,281	40	2,688	-	4,009
General education expenditure	387	3	1,369	-	1,759
University of London federal subscription	-	-	576	-	576
Services rendered to NHS and related bodies	2,344	-	2,474	-	4,818
Self-financing activities	7,312	-	4,469	-	11,781
Other	152	4	1,056	5,579	6,791
<b>Total per income and expenditure account</b>	<u>225,984</u>	<u>14,756</u>	<u>103,606</u>	<u>9,632</u>	<u>353,978</u>

The depreciation charge has been funded by:

Deferred capital grants released ( <i>note 19</i> )	9,087
General income	5,669
	<u>14,756</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

**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				
<b>Cost</b>							
At 1 August 2004	260,413	237,858	6,877	44,164	2,660	43,479	595,451
Additions	2,386	699	218	4,965	10,908	34,636	53,812
Transfers	2,548	26,869	-	6,917	-	(36,334)	-
Disposals	(86)	-	-	(1,181)	-	-	(1,267)
At 31 July 2005	<u>265,261</u>	<u>265,426</u>	<u>7,095</u>	<u>54,865</u>	<u>13,568</u>	<u>41,781</u>	<u>647,996</u>
<b>Depreciation</b>							
At 1 August 2004	27,882	24,865	2,390	32,659	2,660	-	90,456
Charge for year	3,612	3,965	381	6,798	-	-	14,756
Eliminated on disposals	(21)	-	-	(1,181)	-	-	(1,202)
At 31 July 2005	<u>31,473</u>	<u>28,830</u>	<u>2,771</u>	<u>38,276</u>	<u>2,660</u>	<u>-</u>	<u>104,010</u>
<b>Net book value</b>							
At 31 July 2005	<u>233,788</u>	<u>236,596</u>	<u>4,324</u>	<u>16,589</u>	<u>10,908</u>	<u>41,781</u>	<u>543,986</u>
At 1 August 2004	<u>232,531</u>	<u>212,993</u>	<u>4,487</u>	<u>11,505</u>	<u>-</u>	<u>43,479</u>	<u>504,995</u>

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				
<b>Cost</b>							
At 1 August 2004	205,290	147,455	6,877	43,666	2,660	43,479	449,427
Additions	2,648	1,030	218	4,925	10,908	34,289	54,018
Transfers	2,289	26,781	-	6,917	-	(35,987)	-
Disposals	(86)	-	-	(1,160)	-	-	(1,246)
At 31 July 2005	<u>210,141</u>	<u>175,266</u>	<u>7,095</u>	<u>54,348</u>	<u>13,568</u>	<u>41,781</u>	<u>502,199</u>
<b>Depreciation</b>							
At 1 August 2004	25,143	20,140	2,390	32,402	2,660	-	82,735
Charge for year	3,058	2,768	381	6,682	-	-	12,889
Eliminated on disposals	(21)	-	-	(1,160)	-	-	(1,181)
At 31 July 2005	<u>28,180</u>	<u>22,908</u>	<u>2,771</u>	<u>37,924</u>	<u>2,660</u>	<u>-</u>	<u>94,443</u>
<b>Net book value</b>							
At 31 July 2005	<u>181,961</u>	<u>152,358</u>	<u>4,324</u>	<u>16,424</u>	<u>10,908</u>	<u>41,781</u>	<u>407,756</u>
At 1 August 2004	<u>180,147</u>	<u>127,315</u>	<u>4,487</u>	<u>11,264</u>	<u>-</u>	<u>43,479</u>	<u>366,692</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

**11. TANGIBLE ASSETS (CONTINUED)**

The total amount of interest included in assets above amounted to £1,740,000 (2004 - £1,740,000). Included within freehold and long leasehold land and buildings are a number of properties that are shared with third parties where title documentation may not exist at the present time. The net book value of these are £2,211,000 and £26,545,000 respectively.

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

Included in the above are assets with a net book value of £287,854,000 (2004 - £256,361,000) funded by capital grants (*note 19*).

**12. INVESTMENTS**

	Consolidated		College	
	2005 £000	2004 £000	2005 £000	2004 £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, Doublerace Limited, Closeworld Limited and College Facilities Limited, which are all companies registered in England and operating in the United Kingdom.

**13. ENDOWMENT ASSET INVESTMENTS**

	Consolidated and College	
	2005 £000	2004 £000
Balance at 1 August	88,212	83,124
Additions	31,448	63,510
Disposals	(23,473)	(58,955)
Revaluation	10,589	3,662
Decrease in cash balances	(3,455)	(3,129)
Balance at 31 July	<u>103,321</u>	<u>88,212</u>
Fixed interest stocks	25,247	21,106
Equities	76,207	61,784
Bank balances	1,867	5,322
Total endowment asset investments	<u>103,321</u>	<u>88,212</u>
Fixed interest and equities at cost	<u>83,871</u>	<u>75,679</u>

**14. DEBTORS**

	Consolidated		College	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade debtors	13,453	9,380	13,453	9,380
Other debtors	1,304	1,668	1,051	1,035
Research grant debtors	13,414	12,701	13,414	12,701
Research grant work in progress	6,534	9,482	6,534	9,482
Prepayments and accrued income	3,324	6,133	3,100	5,909
Amounts owed by Group undertakings	-	-	55,287	60,341
	<u>38,029</u>	<u>39,364</u>	<u>92,839</u>	<u>98,848</u>

Included within College Group debtors is £55,287,000 (2004 - £56,488,000) payable over more than one year.

Notes to the Accounts *continued*

For the year ended 31 July 2005

## 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade creditors	15,520	16,136	14,507	13,520
Payments received on account	43,539	46,316	43,732	46,316
Other creditors and accruals	31,610	24,232	25,883	20,550
Social security and other taxation payable	6,732	5,931	5,082	5,102
Amounts owed to group undertakings	-	-	13,368	14,087
Obligations under finance leases ( <i>note 17</i> )	1,966	1,644	1,966	1,644
Unexpended endowment income	2,112	3,262	2,112	3,262
Current element of long-term liabilities ( <i>note 17</i> )	2,481	2,365	2,481	2,365
	<u>103,960</u>	<u>99,886</u>	<u>109,131</u>	<u>106,846</u>

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

	Consolidated		College	
	2005 £000	2004 £000	2005 £000	2004 £000
Obligations under finance leases ( <i>note 17</i> )	25,055	14,571	25,055	14,571
Term deposits for loan repayments	(12,020)	(1,118)	(12,020)	(1,118)
	<u>13,035</u>	<u>13,453</u>	<u>13,035</u>	<u>13,453</u>
Loans ( <i>note 17</i> )	103,108	103,127	103,108	103,127
Total long-term borrowings	<u>116,143</u>	<u>116,580</u>	<u>116,143</u>	<u>116,580</u>
Capital goods scheme VAT	3,301	4,126	-	-
Total	<u>119,444</u>	<u>120,706</u>	<u>116,143</u>	<u>116,580</u>

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

## 17. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2005 £000	2004 £000	2005 £000	2004 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	2,011	1,644	2,604	2,482
Between two and five years	6,034	4,933	8,618	8,205
Total between one and five years	<u>8,045</u>	<u>6,577</u>	<u>11,222</u>	<u>10,687</u>
Over five years	17,010	7,994	91,886	92,440
Total over one year ( <i>note 16</i> )	<u>25,055</u>	<u>14,571</u>	<u>103,108</u>	<u>103,127</u>
Within one year ( <i>note 15</i> )	<u>1,966</u>	<u>1,644</u>	<u>2,481</u>	<u>2,365</u>
	<u>27,021</u>	<u>16,215</u>	<u>105,589</u>	<u>105,492</u>

Loans amounting to £43,108,000 are repayable by instalments falling due between 1 August 2006 and 17 September 2027; the remaining loan is repayable by a single instalment on 31 July 2031.



Notes to the Accounts *continued*

For the year ended 31 July 2005

**18. PROVISIONS FOR LIABILITIES AND CHARGES****Consolidated and College  
Restructuring  
£000**

At 1 August 2004	7,271
Utilised in year	(2,921)
At 31 July 2005	<u>4,350</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****Consolidated and College**

	<b>Funding Council £000</b>	<b>Other grants &amp; benefactions £000</b>	<b>Total £000</b>
--	-------------------------------------	---	-----------------------

At 1 August 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>
Cash received			
Buildings	22,865	11,433	34,298
Equipment	3,958	2,324	6,282
Total	<u>26,823</u>	<u>13,757</u>	<u>40,580</u>
Released to income and expenditure			
Buildings ( <i>note 1</i> )	(2,889)	(1,985)	(4,874)
Equipment ( <i>note 1</i> )	(1,593)	(2,620)	(4,213)
Total ( <i>note 10</i> )	<u>(4,482)</u>	<u>(4,605)</u>	<u>(9,087)</u>
At 31 July 2005			
Buildings	168,765	101,935	270,700
Equipment	11,932	5,222	17,154
Total	<u>180,697</u>	<u>107,157</u>	<u>287,854</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

**20. ENDOWMENTS**

	<b>Consolidated and College</b>		
	<b>Specific £000</b>	<b>General £000</b>	<b>Total £000</b>
At 1 August 2004	90,544	930	91,474
Transfer	930	(930)	-
Additions	669	-	669
Change in value of endowment asset investments	13,705	-	13,705
Income for year	2,987	-	2,987
Transferred to income and expenditure account ( <i>note 5</i> )	(3,402)	-	(3,402)
At 31 July 2005	<u>105,433</u>	<u>-</u>	<u>105,433</u>
Creditors ( <i>note 15</i> )	2,112	-	2,112
Endowment capital	103,321	-	103,321
	<u>105,433</u>	<u>-</u>	<u>105,433</u>
Representing:			
Fellowships and scholarships	11,136	-	11,136
Prize funds	4,178	-	4,178
Chairs and lectureships	80,715	-	80,715
Other funds	7,292	-	7,292
	<u>103,321</u>	<u>-</u>	<u>103,321</u>

**21. INCOME AND EXPENDITURE ACCOUNT**

	<b>Consolidated £000</b>	<b>College £000</b>
Surplus after depreciation of assets at cost and tax	11,200	10,305
Balance at 1 August 2004	124,695	129,325
Balance at 31 July 2005	<u>135,895</u>	<u>139,630</u>
The income and expenditure account is nominally allocated to:		
Departmental reserves	26,798	26,798
Revenue reserve	109,097	112,832
	<u>135,895</u>	<u>139,630</u>

**22. CAPITAL COMMITMENTS**

	<b>Consolidated</b>		<b>College</b>	
	<b>2005 £000</b>	<b>2004 £000</b>	<b>2005 £000</b>	<b>2004 £000</b>
Commitments contracted at 31 July	28,400	60,050	28,400	60,050
Authorised but not contracted at 31 July	88,800	7,459	88,800	7,459
	<u>117,200</u>	<u>67,509</u>	<u>117,200</u>	<u>67,509</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

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

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Surplus before tax	11,200	10,561
Depreciation ( <i>note 11</i> )	14,756	13,549
Deferred capital grants released to income ( <i>note 19</i> )	(9,087)	(7,165)
Investment income ( <i>note 5</i> )	(6,876)	(5,373)
Interest payable ( <i>note 8</i> )	9,632	9,557
(Surplus)/deficit on disposal of tangible fixed assets	(1,215)	50
Decrease in debtors	1,335	8,654
Increase in creditors	4,792	7,214
Decrease in capital goods scheme VAT ( <i>note 16</i> )	(825)	(825)
Decrease in provisions	(2,921)	(3,551)
Net cash inflow from operating activities	<u>20,791</u>	<u>32,671</u>

**24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE**

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Income from endowments ( <i>note 20</i> )	2,987	3,888
Interest received ( <i>note 5</i> )	3,474	1,672
Interest paid	(5,502)	(5,548)
Net cash inflow from returns on investments and servicing of finance	<u>959</u>	<u>12</u>

**25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT**

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Tangible assets acquired ( <i>note 11</i> )	(53,812)	(39,627)
Endowment asset investments acquired ( <i>note 13</i> )	(31,448)	(63,510)
Total tangible and investment assets acquired	<u>(85,260)</u>	<u>(103,137)</u>
Receipts from sale of tangible assets	1,280	-
Receipts from sale of endowment assets	26,589	58,837
Deferred capital grants received ( <i>note 19</i> )	40,580	41,939
Endowments received ( <i>note 20</i> )	669	1,076
Net cash outflow from capital expenditure and financial investment	<u>(16,142)</u>	<u>(1,285)</u>

**26. MANAGEMENT OF LIQUID RESOURCES**

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Movement in endowment assets	3,455	3,129
Net cash movement from management of liquid resources	<u>3,455</u>	<u>3,129</u>

**27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR**

	<b>2004/05 £000</b>	<b>2003/04 £000</b>
Borrowings repaid	(2,365)	(2,320)
New long term loans	10,880	-
Repayment of capital element of finance leases	(12,650)	(1,683)
Net cash outflow from financing	<u>(4,135)</u>	<u>(4,003)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

**28. ANALYSIS OF CHANGES IN NET DEBT**

	<b>At 1 August 04 £000</b>	<b>Cash flows £000</b>	<b>Other changes £000</b>	<b>At 31 July 05 £000</b>
Cash at bank and in hand	64,512	4,928	-	69,440
Endowment asset investments ( <i>note 13</i> )	5,322	(3,455)	-	1,867
	<u>69,834</u>	<u>1,473</u>	<u>-</u>	<u>71,307</u>
Debt due within one year	(4,009)	4,009	(4,447)	(4,447)
Debt due after one year	(116,580)	126	311	(116,143)
Net debt	<u>(50,755)</u>	<u>5,608</u>	<u>(4,136)</u>	<u>(49,283)</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 that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns 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, when the above rates will be reviewed as at 31 March 2005.

**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 that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Investment returns on liabilities per annum before retirement	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 2005

**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, when the above rates will be reviewed as at 31 March 2005.

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

The pension scheme offered to non-academic staff at United Medical and Dental Schools of Guy's and St Thomas' Hospitals (UMDS) was the Federated Pension Scheme for UMDS (FPS). The pension scheme offered to staff at Chelsea College was the Local Government Pension Scheme (LGPS). These schemes are closed to new entrants, and the service cost as a proportion of payroll will increase as the members approach retirement age.

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

For the purposes of reporting under FRS 17, projected unit method valuations were carried out as at 31 July 2005. The assumptions used and the valuation results are set out below.

	Federated Pension Scheme			Local Government Pension Scheme		
	31 July 2005	31 July 2004	31 July 2003	31 July 2005	31 July 2004	31 July 2003
Price increases per annum	2.50%	2.75%	2.50%	2.80%	2.90%	2.60%
Salary increases per annum	4.00%	4.25%	4.00%	4.30%	4.40%	4.10%
Pensions increases per annum	2.50%	2.75%	2.50%	2.80%	2.90%	2.60%
Discount rate per annum	5.00%	5.75%	5.25%	5.00%	5.80%	5.50%

The amounts to be included within operating profit are as follows:

	Federated Pension Scheme		Local Government Pension Scheme	
	Year ended	Year ended	Year ended	Year ended
	31 July 2005	31 July 2004	31 July 2005	31 July 2004
	£000	£000	£000	£000
Current service cost	669	809	5	5
Past service cost	-	-	-	-
Total operating charge	<u>669</u>	<u>809</u>	<u>5</u>	<u>5</u>

The amounts to be included as other finance income are as follows:

	Federated Pension Scheme		Local Government Pension Scheme	
	Year ended	Year ended	Year ended	Year ended
	31 July 2005	31 July 2004	31 July 2005	31 July 2004
	£000	£000	£000	£000
Expected return on scheme/employer assets	1,985	1,853	262	250
Interest on scheme liabilities	(1,933)	(1,777)	(310)	(301)
Net return	<u>52</u>	<u>76</u>	<u>(48)</u>	<u>(51)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2005

## 29. PENSIONS (CONTINUED)

Details required for the statement of total recognised gains and losses (STRGL) for the year to 31 July 2005 are as follows:

	<b>Federated Pension Scheme</b>		<b>Local Government Pension Scheme</b>	
	<b>Year ended</b>		<b>Year ended</b>	
	<b>31 July 2005</b>	<b>31 July 2004</b>	<b>31 July 2005</b>	<b>31 July 2004</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Actual return less expected return on scheme assets	3,885	17	365	(12)
Experience gains and losses arising on scheme liabilities	(376)	(2,987)	(690)	(9)
Changes in assumptions underlying value of scheme liabilities	(3,208)	5,176	(347)	(5)
Actuarial gain recognised in STRGL	301	2,206	(672)	(26)
The estimated return on the scheme's investments was:	19.5%		14.7%	

**Federated Pension Scheme**

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

	<b>31 July 2005</b>		<b>31 July 2004</b>		<b>31 July 2003</b>	
	<b>Rate of return</b>	<b>£000</b>	<b>Rate of return</b>	<b>£000</b>	<b>Rate of return</b>	<b>£000</b>
Equities	6.75%	28,660	7.00%	24,381	7.00%	22,527
Annuities	5.00%	1,845	5.75%	1,806	5.25%	1,868
Bonds	5.50%	5,474	5.25%	2,700	5.00%	2,985
Cash	4.00%	50	4.00%	1,193	3.00%	902
Total market value of assets		<u>36,029</u>		<u>30,080</u>		<u>28,282</u>
Actuarial value of scheme liabilities		<u>(39,221)</u>		<u>(33,630)</u>		<u>(33,845)</u>
Deficit in the scheme		<u>(3,192)</u>		<u>(3,550)</u>		<u>(5,563)</u>

History of experience gains and losses

	<b>31 July 2005</b>	<b>31 July 2004</b>	<b>31 July 2003</b>	<b>31 July 2002</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Difference between expected and actual return on scheme assets:				
Amount	3,885	17	(10)	(6,464)
Percentage of scheme assets	11%	0%	0%	(26%)
Experience gains and losses on scheme liabilities:				
Amount	(376)	(2,987)	(93)	(124)
Percentage of present value of scheme liabilities	(1.0%)	(9.0%)	(0.3%)	(0.5%)
Total amount recognised in statement of total recognised gains and losses:				
Amount	301	2,206	(2,108)	(7,512)
Percentage of scheme liabilities	1%	7%	(6%)	(27%)
Employer contribution to scheme	674	540	518	533
Percentage of salary contributed	19.00%	19.00%	13.25%	13.25%
Percentage of salary contributed 1 August 2003 to 31 March 2004		13.25%		

Notes to the Accounts *continued*  
For the year ended 31 July 2005

29. PENSIONS (CONTINUED)

**Local Government Pension Scheme**

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

	31 July 2005		31 July 2004		31 July 2003	
	Rate of return	£000	Rate of return	£000	Rate of return	£000
Equities	7.3%	233,400	7.9%	186,591	8.0%	169,400
Bonds	4.7%	1,121,400	5.4%	1,121,368	5.0%	1,106,700
Cash	4.5%	99,900	4.5%	39,204	3.5%	98,500
Total market value of assets for whole fund		<u>1,454,700</u>		<u>1,347,163</u>		<u>1,374,600</u>
Estimated employer share of assets		4,459		4,779		4,902
Present value of scheme liabilities		(5,228)		(4,889)		(4,981)
Present value of unfunded liabilities		(675)		(669)		(678)
Total value of liabilities		<u>(5,903)</u>		<u>(5,558)</u>		<u>(5,659)</u>
Net pension liabilities		<u>(1,444)</u>		<u>(779)</u>		<u>(757)</u>

History of experience gains and losses

	31 July 2005	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000	£000
Difference between expected and actual return on scheme assets:				
Amount	365	(12)	75	(178)
Percentage of scheme assets	8.2%	(0.3%)	1.5%	(3.6%)
Experience gains and losses on scheme liabilities:				
Amount	(690)	(9)	(84)	(57)
Percentage of present value of scheme liabilities	(11.7%)	(0.2%)	(1.5%)	1.2%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(672)	(26)	(310)	(4,644)
Percentage of scheme liabilities	(11.4%)	(0.5%)	(5.5%)	(2.9%)
Employer contribution to scheme	5	4	4	3
Percentage of salary contributed	15.3%	15.3%	15.3%	15.3%

The College is making additional annual payments from 1 April 2005 of £551, from 1 April 2006 of £31,000, from 1 April 2007 of £61,449 and from 1 April 2008 for 17 years of £31,000.

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

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2005	31 July 2004	31 July 2005	31 July 2004
	£000	£000	£000	£000
Deficit in scheme at beginning of year	(3,550)	(5,563)	(779)	(757)
Movement in year:				
Current service cost	(669)	(809)	(5)	(5)
Employer's contribution	674	540	5	4
Contributions in respect of unfunded benefits	-	-	55	55
Net return on assets	52	76	(48)	(50)
Actuarial gain/(loss)	301	2,206	(672)	(26)
Deficit in scheme at end of year	<u>(3,192)</u>	<u>(3,550)</u>	<u>(1,444)</u>	<u>(779)</u>



Notes to the Accounts *continued*

For the year ended 31 July 2005

**29. PENSIONS (CONTINUED)**

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:

	<b>31 July 2005</b>	<b>31 July 2004</b>
	<b>£000</b>	<b>£000</b>
Net assets excluding pension asset	527,070	469,268
FPS pension liability	(3,192)	(3,550)
LGPS pension liability	(1,444)	(779)
Net assets including pension liability	<u>522,434</u>	<u>464,939</u>
Income and expenditure reserve excluding pension asset	135,895	124,695
Pension reserve	(4,636)	(4,329)
Income and expenditure reserve including pension liability	<u>131,259</u>	<u>120,366</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%.

**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. Surpluses or deficits that arise at future valuations may impact on the College's future contribution commitment. A formal valuation is being carried out as at 31 March 2005; this will include a review of the rate being paid by the College.

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

	<b>Consolidated</b>		<b>College</b>	
	<b>2004/05</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2003/04</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Contributions to USS	13,614	13,064	13,489	12,949
Contributions to SAUL	2,301	2,207	2,301	2,207
Contributions to NHSS	3,394	2,321	3,394	2,321
Contributions to other pension schemes	867	770	867	770
Total pension cost ( <i>note 6</i> )	<u>20,176</u>	<u>18,362</u>	<u>20,051</u>	<u>18,247</u>

Notes to the Accounts *continued**For the year ended 31 July 2005***30. ACCESS FUNDS AND TRAINING SALARIES**

	<b>Consolidated and College</b>		<b>Access funds</b>	
	<b>2004/05</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2003/04</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance unspent/(overspent) at 1 August	49	48	100	(3)
Funding Council and Teacher Training Agency grants	880	796	1,335	1,405
Interest earned	9	4	-	-
	<u>889</u>	<u>800</u>	<u>1,335</u>	<u>1,405</u>
Disbursed to students	(784)	(798)	(1,217)	(1,302)
Administrative expenses	(26)	(1)	-	-
	<u>(810)</u>	<u>(799)</u>	<u>(1,217)</u>	<u>(1,302)</u>
Balance unspent at 31 July	<u>128</u>	<u>49</u>	<u>218</u>	<u>100</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