King's College London

Financial Statements

for the year to 31 July 2012

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Chairman's foreword

I am pleased to present the Review and Accounts for King's College London for the year ended 31 July 2012.

It has been another eventful and active year for the College. We have produced an operating surplus of £31 million. In addition, a former student residence was sold for £5 million and shares in a start-up company were sold for £7 million. In order to continue to improve our facilities and the student experience, the College spent £73 million during the year on capital improvements, including our first contributions to the Francis Crick Institute. Over the next three years the College has further planned investment of about £100 million of capital each year. Capital grants from the Higher Education Funding Council are being reduced and it will therefore be necessary for the College to generate a substantial operating surplus each year in order to fund our capital investment programme.

One of the highlights of the year was the opening of Somerset House East Wing by Her Majesty The Queen in February 2012. The East Wing is the new home for the Dickson Poon School of Law and marks the beginning of a major transformation of the Strand Campus which will take place over the coming years.

The College's fund-raising campaign also had another successful year, and £394 million has so far been raised or pledged against our target of £500 million. The largest single donation was a personal gift of £20 million from Mr Dickson Poon CBE. His remarkably generous gift is the largest donation from an individual in the College's history, and the largest ever to a British or European law faculty.

I reported last year that the College had joined the Francis Crick Institute, which is to become a world-leading centre of biomedical research. We have committed to invest £40 million in the Institute, of which £12 million has now been disbursed. We are already beginning to see the benefits of membership, with the College attracting a number of world-class scientists excited by this partnership, in anticipation of the full establishment of the Institute.

Looking ahead, we are entering a period of significant change with reduced government funding for universities, higher student fees and increased competition for the very best students. The College's response to these challenges is to build on areas of strength to improve performance and the student experience. Whilst there remains much to do, particularly with regard to improving the quality of the College estate, I am encouraged by the progress made to date.

King's College London continues with its long-term strategy of being a world-class, leading university. On behalf of the Council I commend all our staff for their work and determination to secure this strategic objective.

The Marquess of Douro
Chairman of Council

Council and Council committee membership 2011–12

Council

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Professor Sir Richard Trainor KBE FKC *[Principal]*
Ms Hannah Barlow
Mr Adam Boulton
Mrs Blondel Cluff FKC
The Hon Sir David Foskett FKC
Rt Revd Christopher Hill, Bishop of Guildford
Professor Keith Hoggart FKC
Professor Brian Holden Reid FKC
The Hon Mrs Isabelle Laurent
Professor Robert Lechler FKC
Professor Eeva Leinonen
Professor Michael Marber *[from November 2011]*
Mr Chris Mottershead
Sir Michael Pakenham KBE CMG *[Vice-Chairman]*
Mr James Ritblat FKC
Mr Andrew Summers CMG
Mr Rory Tapner FKC *[Honorary Treasurer]*
Veena, Lady Williams of Mostyn
Professor Alison Wolf

Chairman's Committee

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Mr Adam Boulton
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Professor Eeva Leinonen
Mr Chris Mottershead
Sir Michael Pakenham KBE CMG *[Vice-Chairman]*
Mr James Ritblat FKC
Mr Andrew Summers CMG
Mr Rory Tapner FKC *[Honorary Treasurer]*

Finance Committee

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Mr Michael Kier
Mr Stephen Large
The Hon Mrs Isabelle Laurent
Mr Richard North
Mr Michael Urmston
Professor Alison Wolf

Audit and Compliance Committee

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Professor Susan Brain *[from November 2011]*
Professor Brian Holden Reid FKC
Mrs Sarah Hopwood *[from November 2011]*
Mr Keith Little
Mr Paul Mitchell
Ms Angela Pober *[from November 2011]*

Investment Subcommittee

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Mr John Harrison
Mr Patrick Johns
Mr Stephen Large
Mr Mark Laurence
Mr David Potter FKC

Estates Strategy Committee

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Professor Sir Richard Trainor KBE FKC *[Principal]*
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Mr Ian Creagh
Mr David Cripps
Mr Ian Ellis
Professor Keith Hoggart FKC
Mr Stephen Large
Professor Robert Lechler FKC

Operating and financial review for the year ended 31 July 2012

Key highlights

	2011–12	2010–11
Surplus on ordinary activities	£31.5m	£27.5m
Total income	£554.2m	£524.1m
Growth in forward order book for research grants and contracts	11.7%	18%
Historical cost surplus	£43.6m	£27.5m
Historical cost surplus as a % of income	7.9%	5.2%
Average staff numbers (full-time equivalent)	5,305	5,141
Staff costs	£324.6m	£307.7m
Staff costs as a % of income	58.6%	58.7%
Underlying % increase in pay costs	4.7%	0.3%
Total student numbers (full-time equivalent)	21,107	20,350
Number of undergraduate student applicants per place	13.9	11.2
Number of graduate applicants per place	5.5	5.7
Capital investment	£73.4m	£49.2m
Capital investment as a % of income	13.2%	9.4%
Planned capital investment 2013–2018	£661.6m	
Net cash inflow from operating activities	£43.4m	£43.6m
Net cash flow as a % of total income	7.8%	8.3%
Net liquidity days	162 days	181 days
External borrowings as a % of total income	31.8%	33.8%
Fund-raising: new cash and pledges	£38.1m	£18.3m

Operating highlights

Last year's report was written against a background of considerable uncertainty: there were few indicators of improvements to the UK or global economic environment; the impact of the new fees regime on student demand was unclear; the effect of partial deregulation of student recruitment on the competitive environment was unknown; and detail of phasing-out of the teaching block grant had yet to be clarified. Some of these conditions persist, and further economies may be applied as the government reacts to continuing pressures on the nation's finances.

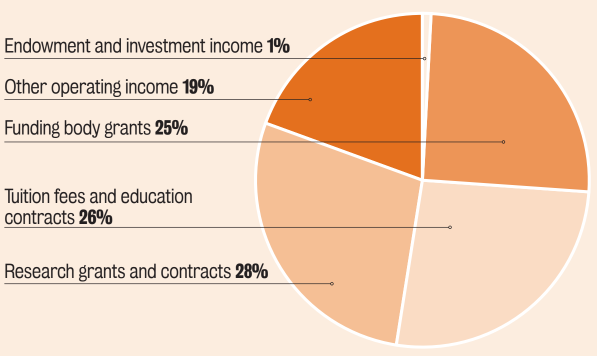
In response to these uncertainties, King's continues to base its financial modelling on a range of economic scenarios. This has allowed the College to be proactive in planning measured approaches to the opportunities and threats arising from a higher education policy and funding landscape more challenging than in the past.

The College's 2006–2016 Strategic Plan sets key targets in the areas of teaching, research, 'value added' activities and identity to achieve its vision of being one of the top six universities in the UK, and one of the top 25 universities in the world, by 2016. In June 2011 this strategy was reviewed by the College Council in light of the changing financial and global situation and was supplemented by a new document, 'Investing in Strength', setting out how the College will seek to achieve its objectives in the remainder of the planning period to 2016. It identified the following key foci of future academic endeavours:

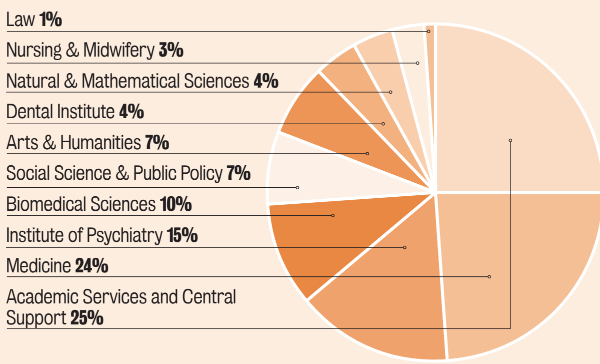
- partnership: through King's Health Partners and, in basic science, through the Francis Crick Institute; and
- targeted investment and growth to improve quality and competitiveness further.

Work overseen by the Council in 2011–12 focused on implementing the vision of 'Investing in Strength' to build on the opportunities offered by the changes in government policy towards student number controls, prepare for the Research Excellence Framework (REF) and ensure that the

Income 2011-12



Staff numbers by School 2011-12



College has an estate commensurate with the ambitions of a world-class institution. During the year, the Council approved a programme of carefully targeted expansion of staff and student numbers in selected areas, principally at the Strand Campus, to ensure that these sectors reach critical mass and become self-sustaining in terms of excellent research and teaching. The implementation of the programme is described in more detail in later sections of this Operating and Financial Review.

The College has long-standing partnerships with three NHS Foundation Trusts: Guy's and St Thomas'; South London and Maudsley; and King's College Hospital. It continued its engagement with them during the year via King's Health Partners (KHP), one of five Academic Health Sciences Centres accredited by the Department of Health. KHP's objective is the integration of research, education, training and clinical care for the benefit of patients and improvement of health. In February 2012 the KHP partners announced their decision to advance this aim by moving towards the creation of a single academic healthcare organisation bringing together the three NHS Trusts and strengthening KHP's academic ethos through closer working with the College in research and education. Building on the existing partnership between the organisations, the new institution should deliver benefits for patients, staff and students, enabling better care for patients, a faster translation of research into treatment and an integrated approach to mental and physical health. The Strategic Outline Case for this process was approved by the College and the other partners in July 2012, and work will continue in 2012–13 to develop the Full Business Case (FBC) for the proposal. If the FBC is accepted by the boards of the partner organisations and approval is forthcoming from the regulators, it is hoped that the merger of the NHS Foundation Trusts might take legal effect in 2014.

In October 2011 King's, together with Imperial College London, formally joined the partnership behind the Francis Crick Institute. The two universities have become part of a project founded by the Medical Research Council, Cancer Research UK, the Wellcome Trust and University College London to create a world-leading medical research institute in central London. The Institute will have a distinctive vision of how medical and scientific research should be conducted. Its work will focus on understanding the underlying causes of health and disease and accelerating the passage of discoveries made in the laboratory into the clinic. Through joint development of a science strategy, a wide range of opportunities for future collaboration between the partners has been identified. There will be collaborative research between the Crick and its university partners in thematic areas, ranging from basic biomedical sciences to physical and mathematical sciences. Newly established Crick Club seminar/networking events will give King's researchers fresh pathways for identifying research synergies and developing fundable collaborative research proposals across Crick partner organisations. The new Crick PhD Programme is expected to attract highly qualified candidates, who will register their studies with one of the three university partners on the basis of best scientific fit. The first cohort of Crick PhD students following a direct-entry pathway will start in autumn 2014, with an additional MRes route coming on-stream some two years later.

The School of Law at King's has enjoyed a tradition of excellence for over 175 years and is already recognised as one of the world's top 25 law schools (Quacquarelli Symonds 2011 rankings). It has recently moved into Somerset House East Wing, an iconic building in central London located at the heart of the British legal and political world and surrounded by major City law firms. The College is embarking on a £40 million programme of investment in the School of Law which has been made possible by a personal gift of £20 million from Mr Dickson Poon CBE, and the School has been renamed the Dickson Poon School of Law in recognition of his remarkable generosity. The £40 million investment strategy will establish the School of Law as a leader in the field of transnational law, with the donation used to drive a worldwide recruitment campaign for a number of senior positions, which will make it an unrivalled centre for legal research and teaching. In its new home in Somerset House, the Dickson Poon School of Law will become a dynamic international hub, bridging the worlds of higher education, policy and business. Up to 75 students a year will benefit from a generous scholarship programme, with 15 places reserved for students living in Hong Kong and mainland China who intend to return to their country of residence after their studies.

The REF, the new system for assessing the quality of research in UK higher education institutions and awarding research funding, is due for completion in 2014. It uses, among other measures, volume metrics to determine funding outcomes, and analysis showed that in some key units of assessment King's might potentially be disadvantaged by lack of size and scope. Accordingly, the College's 'Investing in Strength' strategy determined carefully targeted expansion in chosen areas, principally based on the Strand Campus. It will be underpinned by recruitment of a number of world-class academics, a process that started at the beginning of the 2011–12 academic year. As the faculty is enlarged there will be a measured expansion in student recruitment, partly facilitated by the relaxation of Higher Education Funding Council of England (HEFCE) rules on undergraduate student numbers – specifically, the policy permitting an unlimited number of quality students (defined as an entry tariff of AAB or equivalent at A level in certain subject areas), which provides the opportunity to recruit sufficient additional home undergraduate students to fund the expansion costs.

A strategy to increase the physical capacity and quality of the estate has been formulated to run in parallel with the expansion. As well as expanding its facilities to accommodate growth, King's will improve them to attract the best staff and students in an environment of rising student expectations, projecting an image of the College consistent with the ambition of a world-class academic institution. For the Strand Campus, a lease has been taken on a nearby property on Kingsway which will provide high-quality decant space while some of the existing areas are revitalised. Various development options for the campus are under active consideration, including redevelopment of the Strand Quadrangle to provide useful space for students and link a number of the present buildings.

Another consequence of higher student recruitment will be the need to increase the number of residential bed spaces available. In the short term King's is addressing the issue in partnership with third-party providers, while longer-term options are being identified and evaluated. In particular, assessments are being made of the potential for significant development at Canada Water, which may be able to satisfy the College's residential needs for some time to come.

Internationalisation

The King's Worldwide office oversees the development and implementation of the College's international strategy. Acting as the central hub for the organisation of global activity across the College, the office co-ordinates interactions with academic partners and promotes the exchange and dissemination of information on international collaborations.

King's has established a network of Global Institutes to promote understanding of fast-changing parts of the world and encourage engagement with twenty-first-century powers. These organisations are designed to build connections, in particular with the influential 'BRIC' economies and with North America.

The India Institute, established during 2010–11, was officially inaugurated at a ceremony held in January 2012 to coincide with India's Republic Day. In November 2011 the College received a £3.5 million gift from the Indian Avantha Group to endow a Chair associated with the Institute.

Since last year's report was issued, King's has established three further Global Institutes and a Centre, bringing the network to a total of seven. The new organisations are: the Institute of North American Studies, the Russia Institute, the International Development Institute and the Centre for Middle East & Mediterranean Studies.

The International Development Institute has been founded to complement the focus on twenty-first-century powers, with a remit to deepen understanding and bring positive impacts to nations and peoples with challenging development prospects. Part of its emphasis is an explicit focus on what lessons less prosperous nations and areas can learn by understanding the dynamism of fast-growing economies, while noting the causes and consequences of unevenness in societal gains brought about by rapid growth. This development theme fulfils the College's mission to advance global knowledge, learning and understanding in service to society. The International Development Institute will not only incorporate teaching and research on high-growth economies but, in order to promote understanding of other fast-changing parts of the world, will work closely with related academic units at the College, such as King's Global Health Centre and the African Leadership Centre.

The Global Institutes span the multiple disciplines offered by the nine Schools of study at King's, covering a range of research areas from arts, humanities and cultural studies to social science and policy, health and medicine. They serve as a hub for the development of long-lasting relationships with university partners in their respective countries, based on mutuality and reciprocity.

King's also has a wide range of partnerships with leading, like-minded institutions across the world. Through agreements at College, School and Department level, the College's partnerships further its strategic vision to encourage progressive research, facilitate the transfer of knowledge, elevate learning and enhance the student experience. As an example, during the year the Schools of Arts & Humanities and Social Science & Public Policy at King's cemented a new partnership with the Faculty of Arts and Social Sciences at the University of Sydney.

King's has seven key strategic partners with whom it has particularly strong alliances and ongoing commitment, involving a wide range of disciplines and departments. The relationship with each is unique, but common areas of collaboration include joint research, staff and student exchange and joint PhD programmes. The College's international strategic partners are: the University of Hong Kong; the National University of Singapore; Jawaharlal Nehru University (New Delhi); the University of São Paulo; the University of North Carolina at Chapel Hill; the University of California, San Francisco; and the Renmin University of China.

King's is involved in a range of research projects around the world that have global impact. They include high-profile collaborations, interdisciplinary studies and pioneering projects; examples recorded in news reports this year include:

- Department of Political Economy emerging economies research
- Latin America deforestation tracker
- Birth complications and mental health research
- Heart failure study with Osaka University

- Stem cell research
- Tropical coral sunscreen research.

Teaching and learning

The College is a significant teaching institution, with over 24,500 undergraduate and graduate students during the year 2011–12 and, as indicated, it seeks to expand student numbers in selected areas to achieve its strategic objectives. King's continues to focus on attracting the best students by offering them world-class, research-led teaching and learning experiences. This places them in a strong position to gain the best degrees and to progress beyond graduation.

Students leave the College with excellent degrees, as shown in the following table (from the Higher Education Information Database for Institutions, run by the Higher Education Statistics Agency), which ranks universities according to highest percentage of first- and upper-second-class degrees combined.

Institution	Percentage 1 & 2:1 2010–11	Ranking 2010–11	Ranking 2009–10
University of Oxford	90.9	1	1
University of Cambridge	86.4	2	2
University of Edinburgh	84.0	3	4 =
Imperial College London	83.4	4	6 =
University of Bristol	83.2	5	4 =
University College London	81.4	6	3
London School of Economics	81.0	7	8
University of Warwick	80.9	8	6 =
King's College London	79.0	9	10 =

Data published during the year by the Careers Group, University of London, based on institutional Employment Performance Indicators for full-time, first-degree, UK-domiciled graduates in work or further study showed that King's offers its graduates the best job prospects of any London or Russell Group university, with an employment rate of 95.2%, an increase of 2.6% on last year. These results placed the College third overall in the UK as reported in the *Telegraph*'s 'Top 10 universities for getting a job'. King's was named best university in the UK for graduate employment in the 2013 *Sunday Times* University Guide (published September 2012).

King's remains dedicated to providing opportunities for the best students; all bright pupils and young people with the potential to succeed are welcome at the College, regardless of their background. To this end a number of widening participation and access initiatives have been launched, and these are described more fully later in this Operating and Financial Review.

As mentioned above, the College's 'Investing in Strength' strategy is focusing on recruiting the best faculty to exploit the research strengths of King's and to inform teaching. Measured increases in the numbers of student admissions will follow this recruitment, thereby protecting the ratio of staff to students.

The expansion plans are carefully targeted to improve quality, as reflected in the raised entry tariffs in a number of subject areas. These changes to entry standards, together with the new fees regime and increased market competitiveness, made for a challenging admissions cycle for entry in September 2012, but the College was able to meet its undergraduate intake targets and did not enter clearing.

As stated earlier, King's is investing significant sums to provide a physical environment for its students consistent with the ambition of a world-class academic institution and cognisant of rising student expectations. The first £18 million phase of investment in the teaching and learning environment is nearing completion, and the College has approved a second phase which will cost approximately £35 million over the next seven years. This work will continue to focus on improving teaching rooms, social space and the related technology. There are also plans for major development at the Strand Campus and for expansion of the College's portfolio of student accommodation.

The National Student Survey (NSS) is an annual survey of final-year undergraduate students across the UK, commissioned by HEFCE and conducted by the independent body Ipsos-Mori.

National Student Survey satisfaction scores

	2012 Sector	2012 College	2011 College	2010 College	2009 College
Teaching on my course	86%	86%	87%	88%	85%
Assessment and feedback	69%	58%	60%	61%	57%
Academic support	79%	75%	76%	74%	72%
Organisation and management	78%	75%	73%	73%	68%
Learning resources	82%	84%	86%	81%	85%
Personal development	81%	80%	81%	79%	80%
Overall satisfaction	85%	82%	84%	86%	83%

In the 2011 NSS, the overall satisfaction score for King's was higher than the sector average of 83% although below the previous score of 86% in 2010 (which in turn represented a rise of 3% on 2009). While the College's overall satisfaction rate in the 2012 NSS, published in September 2012, was 3% below the national average, King's fielded many strong performances: 10 of the College's 27 subject groups scored 90% or above, and a further 14 were rated between 80% and 89%. Nursing was one of several areas to experience a significant rise.

More than two-thirds of the main subject areas have seen improvements in scores for questions in the sub-category of organisation and management compared to the previous year, even though King's as a whole remains three percentage points below the sector aggregate.

The Council and its Chairman's Committee will oversee short- and medium-term measures in 2012–13 to improve the College's performance in the area of student satisfaction, focused in particular on the Department of Management and the School of Medicine, where falls in the 2012 NSS affected its overall score (which would have been 89% if Management and Medicine had been excluded).

Three working groups have been established for Medicine, Management and Classics (which dropped from 97% overall satisfaction to 80% in the 2012 NSS) to consider immediate remedial action leading up to the 2013 NSS. In addition, an independent review of the School of Medicine's education and student management systems is being undertaken by three external reviewers, who will report back with recommendations for improvement. It is the aspiration of King's that all subjects should have a satisfaction level of at least 85% and that any areas of the survey scoring below-sector averages should demonstrate sustained improvement year on year.

The College's performance in experience surveys of graduate students was positive. 87.6% of students questioned in the most recent Postgraduate Research Experience Survey (2011) indicated that their experience at King's had met or exceeded expectations. In the 2012 Postgraduate Taught Experience Survey, overall satisfaction was 87.3% (up from 86.6%). The area of Learning Resources showed the biggest increase in satisfaction, and scores for the quality of staff remained above Russell Group averages.

To help staff with teaching responsibilities, King's Learning Institute (KLI) launched a new qualifications framework, providing support for all levels, from senior academics to Graduate Teaching Assistants. Also in hand is a major curriculum renewal initiative, the King's Experience Project, aiming to ensure a distinctive curriculum for all students. The Centre for Technology Enhanced Learning, reporting through KLI, was set up to build on the College's existing achievements in evaluating, developing and supporting the pedagogically sound use of technology in learning settings across King's and to establish it as a leader in technology-enhanced learning.

Student facilities

The College has an ongoing commitment to improving student learning facilities across all campuses and has already made a number of upgrades to the College estate, undertaken in response to feedback from students and staff.

- On 29 February 2012, Her Majesty The Queen officially opened Somerset House East Wing on the Strand Campus. The Queen watched a student Moot Court in session before meeting staff and students in this historic building, which now houses the Dickson Poon School of Law and the King's Cultural Institute.
- At Guy's Campus, King's has invested £3 million to redevelop the Chantler Clinical Skills Centre in Shepherd's House. The new facility, which opened at the start of the 2012–13 academic year, offers simulated wards, clinical equipment and anatomical models for specialised teaching linked with e-learning for around 4,000 medical, nursing and midwifery students. A new student social and dining space was also opened in the adjacent Henriette Raphael Building.
- At Denmark Hill work began on a major refurbishment at the College's Institute of Psychiatry, creating a state-of-the-art educational hub in the quadrant and modernising the Wolfson Lecture Theatre. It included the development of a new reception area, a 100-seat lecture theatre and three seminar rooms. In addition, the café and reception areas of the Weston Education Centre were upgraded.
- The College has refurbished the Franklin Wilkins Library on the Waterloo Campus, transforming it into a multifunctional, technology-rich environment with an increased number of study spaces and expanded silent study areas. The library has extended its opening hours to suit more flexible learning, including group study on collaborative work. Nearby social spaces and the café were also upgraded.
- In 2011–12 King's invested an additional £700,000 to provide extra books and journals, taking the total annual spend on library resources to £5.5 million. There are currently 2 million print books in the library and 400,000 e-books available for access. Since January 2012, all document delivery services and inter-library loans have been made available free-of-charge to staff and students across the College.

Widening participation

In spring 2012, the College submitted a revised Access Agreement which was subsequently approved by the Office for Fair Access (OFFA). This was the second Access Agreement to be approved by OFFA under the new tuition-fees regime.

King's will continue to set aside 30% of its additional fee income to invest in widening access and participation initiatives. Historically, about 95% of the College's expenditure in these areas has been on financial support of students once they have enrolled. However, as evidence from OFFA indicates that such assistance is often of limited influence in terms of widening participation, the second Access Agreement saw a rebalancing of investment, with an increased proportion spent on outreach and access measures. By 2016–17 the expected split of investment will be approximately 85% on financial support and 15% on outreach, partnership and progression activities.

During 2011–12 King's continued to offer its long-standing flagship Extended Medical Degree Programme (EMDP), providing support for entry into medicine for students from non-selective state schools in London, Kent and Medway. Building on the success of the EMDP, in November 2011 the College launched an Enhanced Support Dentistry Programme, a widening participation initiative that aims to give talented students from any background the opportunity to embark on a career in dentistry. At the end of the course students will be awarded the same qualification as their peers on the regular Bachelor of Dental Surgery (BDS) course, having undertaken the same assessments. However, those following the Enhanced Support Dentistry Programme will receive additional academic and pastoral support as well as financial assistance for the duration of their study.

In March 2012 the College was made a partner university in a new national programme aimed at raising the aspirations of young people across England. Unveiled by Schools Minister Nick Gibb, the Dux Award Scheme recognises both achievement and potential by inviting state schools to select a Year 9 pupil who will be rewarded with a visit to a Russell Group institution.

During May 2012 King's celebrated the launch of a new widening participation initiative, K+, which focuses on building long-term relationships with local sixth-form students who have the potential to succeed at the College but may face barriers. K+ works with young people who would be the first in their family to go to university. After joining the scheme in Year 12, pupils are invited to attend regular events and workshops, including a week-long summer school. Members also receive e-mentoring from a current King's student and complete a supported academic assignment. Teaching staff from King's provide subject-specific master-classes, and pupils take part in events held by the Students' Union and cultural experiences such as visits to museums.

Collaboration is integral to the College's approach to widening participation. With the help of strategic partners, King's is able to provide a diverse, long-term programme. Partners support the College in a range of ways, from working with primary school pupils to approaching other research-intensive institutions to raise the aspirations of young people across the UK. During the year King's continued working in partnership with, among others, the charity IntoUniversity (which seeks to raise aspiration and attainment among disadvantaged young people inside and outside London) and the Harris Federation of South London Schools. The College is in the process of agreeing new partnerships and it aims to expand the network between now and 2016–17. A number of the partnerships are distinctive because they are based on alumni links.

Extensive outreach activity is embedded within the King's staff community, reflecting the College's ethos of 'in service to society' and, as it is focused further, even more will be achieved. A new K-Link initiative seeks to pair academics with local schools and colleges to raise awareness of higher education.

King's has already done much to diversify its student profile. During 2010–11 71.5% of the College's full-time first-degree entrants were drawn from state schools and colleges, with 41.7% defining themselves as non-white, 4.3% from low-participation neighbourhoods and 23.5% from classes 4 to 7 in the National Statistics age-adjusted Socio-Economic Classification system (NS-SEC). The 2013–14 Access Agreement commits King's to expanding the first three categories to 77.5%, 44% and 5%, respectively, by 2016–17, and to ensuring that the proportion of students from NS-SEC classes 4 to 7 remains constant. (The College scored above its location-adjusted benchmark for the proportion of young, full-time, first-degree entrants from lower socio-economic groups in 2010–11.)

King's expects that the student community will play a key role in promoting the widening participation and fair access agenda, through such initiatives as volunteering and student mentoring. A post has been funded within King's College London Students' Union to support student societies in developing, monitoring and evaluating the extensive outreach work undertaken by King's students.

The College is committed to providing its students – including those who initially lack the relevant skills, networks or financial means – with opportunities for enhancing their learning and employability. It enables engagement with the external world through such activities as study abroad, volunteering, attendance at summer schools, internships and work experience.

Research

During the year King's made some significant new academic appointments to support its 'Investing in Strength' strategy; they will also contribute to the REF assessment due for completion in 2014.

The forward order book of new and renewed research awards shows a pleasing growth year on year of almost

12%, which bodes well for 2012–13 and beyond despite the stagnant general economic environment. Key successes during the year include the following:

- In August 2011 the Department of Health announced a pledge of more than £112 million of funding over the next five years for a new National Institute of Health Research (NIHR) Biomedical Research Unit for Dementia and for two NIHR Biomedical Research Centres (BRCs): a general BRC and a Specialist BRC for Mental Health at the Institute of Psychiatry. With a strong focus on translational research – taking advances in medical research out of the laboratory and into the clinic – the BRCs are external evidence of the College's unparalleled translational research portfolio.
- In acknowledgement of the College's translational research strength in dementia, the Institute of Psychiatry was awarded £4.5 million of the Department of Health funding for the new Biomedical Research Unit, in partnership with South London and Maudsley and King's College Hospital NHS Foundation Trusts.
- Recent discoveries at the general BRC include: a gene responsible for a condition that causes birth defects of the heart, limbs or blood vessels; a gene linked to possible causes of osteoporosis; and a new cell therapy to prevent organ rejection, which potentially replaces lifelong medication and boosts the longevity of transplants.
- The Specialist BRC for Mental Health at the Institute of Psychiatry – which brings together scientists, clinicians, mental health professionals, service users and carers to improve clinical care and services across 10 mental health research themes – was awarded more than £48 million of the Department of Health funding. Among its recent successes are: a brain scan that diagnoses adult autism; a new blood test to detect early pathology in Alzheimer's disease; and an advanced computer programme that recognises early signs of Alzheimer's disease from a routine clinical brain scan.
- It was announced in September 2011 that the Centre for Culture, Media and Creative Industries at King's would receive £4 million of funding from the Arts and Humanities Research Council, to be used to build new partnerships and commercial opportunities as part of 'Creativeworks London'. The College will join a consortium of universities, artistic and cultural organisations and businesses to establish one of four 'Knowledge Exchange Hubs for the Creative Economy'.
- Imanova, a new state-of-the-art imaging centre, opened in October 2011 and was formally launched in May 2012 at an event attended by David Willetts, Minister for Universities and Science. It represents a pioneering public–private collaboration formed by King's with University College London, Imperial College London and the Medical Research Council (MRC). By offering both positron emission tomography (PET) and magnetic resonance imaging (MRI) scanning, Imanova is unique in the UK. This allows researchers to image not only the activity of a medicine in the body, but also its effect on the body systems being studied, enabling them to gauge the usefulness of investigational medicines at an early stage and potentially shortening drug development times. Imanova is gaining a firm standing in academic research and starting to secure its first private partnerships with industry.
- In November 2011 King's began to construct an innovative facility that will accelerate neuroscience research, aiming to fast-track the development of treatments for people suffering from such disorders as Alzheimer's disease, Parkinson's disease and epilepsy. The £37 million Maurice Wohl Clinical Neuroscience Institute is located at the College's Institute of Psychiatry on its Denmark Hill Campus. It will be Europe's leading research centre focusing on neurological and psychiatric illnesses, bringing together 250 clinicians and scientists dedicated to researching the mind and brain.
- A £4 million boost for asthma research was announced in February 2012, when the MRC and GlaxoSmithKline agreed to co-fund a groundbreaking programme at the MRC-Asthma UK Centre in Allergic Mechanisms of Asthma, an institution that draws together expertise from King's and Imperial College London. The new study will investigate the interplay between allergy and viral infections in acute asthma attacks, which are often resistant to the few available treatments and can be life-threatening.
- A sum of £5 million, shared between five universities, to establish platform technology for the emerging field of synthetic biology was announced by David Willetts in May 2012. The Engineering and Physical Sciences Research Council's grant will be divided amongst the Flowers Consortium: King's, Imperial College London and the universities of Cambridge, Edinburgh and Newcastle. Establishing a web-based information system that will host modelling tools to enable high-level software design of bioparts and devices is the crucial next step necessary for applications to be produced and commercialised.
- In June 2012 the NIHR awarded £1.9 million to researchers at the Institute of Psychiatry, in collaboration with the South London and Maudsley NHS Foundation Trust, to fund a five-year investigation into visual hallucinations. The aim is to develop a much-needed evidence base to inform NHS practice in managing and treating the symptoms.
- The School of Social Science & Public Policy's Department of Political Economy was awarded £720,000 in June 2012 for two projects in the Economic and Social

Research Council's Rising Powers and Future Research Leaders programmes. The studies will address key policy issues faced by the UK government, both domestically and in its dealings with other national and international modes of governance.

- In July 2012 John Ellis, Professor of Theoretical Physics at King's, joined colleagues in CERN as they revealed compelling evidence that they had discovered a new particle consistent with the Higgs boson. Scientists believe they have captured the elusive particle that gives matter mass and holds the physical fabric of the universe together. A King's alumnus and Fellow, Professor Peter Higgs FRS, first proposed the Higgs boson particle in 1964. Researchers have since been carrying out the world's biggest experiment at the Large Hadron Collider in Geneva, where they have been smashing atoms together at almost the speed of light and scouring the debris for traces of particles that sprang into existence for just a fraction of a second before disintegrating. The discovery ranks as one of the most important scientific advances of the past hundred years.

Public benefit and service to society

King's is an 'exempt' charity under the Charities Act 2011 and as such is regulated by HEFCE on behalf of the Charity Commission. The College's objects, as defined in its Charter, are to advance education and promote research for the public benefit. In so doing, King's gives due regard both to its Anglican traditions and to the diverse beliefs and backgrounds of its members. The College considers its mission to be the advancement of knowledge, learning and understanding in service to society.

As the College's trustee, the College Council is responsible for defining the strategic aims of King's and directing the activities of its executive in the furtherance of these objects. When setting objectives and planning activities, the College Council and the King's executive give careful consideration to the Charity Commission's general guidance and to its supplementary guidance on public benefit. Attention is also paid to guidance issued by HEFCE in its role as principal regulator on behalf of the Commission.

The beneficiaries of the College's activities during the year included the following.

- The College's undergraduate, graduate taught and graduate research students, who benefit from the education provided by King's in their development as individuals and in their employment prospects. As indicated earlier in this Operating and Financial Review, data published during the year by the Careers Group, University of London, showed that King's performed at the top of Russell Group and London institutions in terms of the employment rate of its graduates.
- Society at large (reflected in the College's mission 'in service to society'), which benefits in particular from the advancement of research by King's on its own and in partnership with other bodies. Examples of the impact of the College's research nationally and globally have been provided earlier in this Operating and Financial Review. They include patient benefit from the translational research in biomedicine carried out in the College's Health Schools; the input of the Centre for Culture, Media and Creative Industries within a consortium setting up 'Knowledge Exchange Hubs for the Creative Economy'; and the contributions to society arising from the establishment of an International Development Institute to conduct research into global development and offer lessons on public policy for less prosperous nations.

The College's strategic goals and the progress in 2011–12 towards achieving them are described in detail in other parts of this Operating and Financial Review. This section highlights the areas in which King's carried out its activities for the public benefit during the year in furtherance of its objects and its mission 'in service to society'.

Benefit and service related to teaching and learning

As indicated earlier, King's is a significant teaching institution at both undergraduate and graduate level, and it seeks to expand its student headcount in selected strategic areas. The College's commitment to the highest standards in learning, teaching and academic quality was affirmed through a judgement of 'confidence' – the highest that can be obtained – in the most recent institutional audit of King's by the Quality Assurance Agency for Higher Education published in April 2010. Examples of innovative teaching and learning during the year include the King's Experience Project (aimed at enhancing learning opportunities for students); the work of the King's Learning Institute in supporting the professional development of staff responsible for teaching and learning; and the establishment of a Centre for Technology Enhanced Learning (TEL) as part the College's TEL strategy. During the year King's continued to invest in its learning and teaching facilities; some notable highlights are summarised earlier in this report. The NSS and equivalent surveys for graduate students have already been discussed as indicators of student satisfaction. There were many individual areas of strength in this year's results, although the College acknowledges that there is also scope for improvement.

King's recognises that tuition fees are a potential barrier to access by students and has long had measures in place to address this. During 2011–12 the College continued to provide undergraduate students with a range of financial support under its Access Agreement with OFFA, including bursaries and scholarships that go significantly beyond statutory requirements. (For example, all UK and EU students in receipt of the state maintenance grant in 2011–12 were eligible for a King's myBursary, while students getting the full maintenance grant were awarded a bursary of four times the statutory minimum.) The College additionally provided a range of scholarships, studentships and bursaries for graduate students.

King's will charge tuition fees of £9,000 for undergraduate UK and EU students entering from 2012 and, as discussed, will invest a substantial proportion of the additional fees income in its widening participation and fair access responsibilities. Under the Access Agreement approved in 2011 for students starting in 2012–13, the College will participate in the National Scholarship Programme with a matched £3,000 fee waiver, which will be means tested. Undergraduate students arriving in 2012–13 will also have a range of other means-tested support, including the STEM Enterprise Scholarship (a fee waiver and bursary for eligible students pursuing science, technology, engineering and maths), the King's Living Bursary (assistance of up to £1,000 towards living costs, available to all students in receipt of a maintenance grant) and the King's Student Fund (a discretionary grant of up to £3,000 for students in financial need who are unable to access help from other sources). The College will additionally offer 85 Access to Professions scholarships in 2012–13, providing first-year fee waivers to means-tested students pursuing the Extended Medical Degree or Enhanced Support Dentistry programmes, with priority given to students from partner schools and colleges. The existing myBursary and myScholarship programmes will be phased out as earlier cohorts of students graduate.

The College's activities in widening participation in 2011–12 have been highlighted elsewhere in this Operating and Financial Review. King's joined the new national Dux programme, launched K+ as its new widening participation initiative aimed at Year 12 pupils in state schools in the Greater London area and continued working in conjunction with a range of partner bodies.

Benefit and service related to research

King's is among the top research universities in the UK and in 2010–11 was among the top seven recipients of quality-related research funding. In the 2008 Research Assessment Exercise, 60% of research activity was deemed either 4* (world-leading) or 3* (internationally excellent), and 14 departments (comprising over 50% of the College's academics) were ranked in the top 10% in the country. With its NHS partners, King's is home to five MRC research centres. As previously indicated, the College secured renewed Department of Health funding in 2011 for its two NIHR Biomedical Research Centres and was awarded funds for a new NIHR Biomedical Research Unit for Dementia. During 2011–12 King's continued to prepare for the REF 2014 by targeting investment and ensuring that robust policies and procedures were in place. Further information on key research successes during the year is provided elsewhere in this Operating and Financial Review.

Exemplifying the College's commitment to research and teaching in service to society, King's Health Partners (KHP) has continued to pursue its objective of integrating research, education, training and clinical care for the benefit of patients. As discussed above, the College maintained its participation in KHP during the year and, in conjunction with the other partners, initiated the process of taking KHP towards becoming an integrated academic healthcare organisation. King's also continued to collaborate with its NHS Trust partners and three registered charities associated with them to ensure the effective delivery of fund-raising operations around mutual support for KHP, enabling King's and the other charity partners to better achieve their objects. The College retains a separate fund-raising function in support of its non-KHP activities.

As noted earlier in this Operating and Financial Review, King's and Imperial College London formally joined the Francis Crick Institute in October 2011. The College Council and its Chairman's Committee supervised the progress of the College's investment in this groundbreaking initiative during the year.

King's is committed to innovation based on partnership with external organisations as a way of delivering societal benefit and, as noted above, it experienced strong growth in new and renewed research awards during the year. Consistent with its obligations as a charity, the College maintains codes of practice and guidance for staff on intellectual property, commercialisation, contract work, consultancy and the use of spin-off companies to undertake activities in these areas as appropriate.

Value added

Located at the heart of London, the College has continued to pursue partnerships with major cultural institutions such as the British Museum, the British Library, Tate Modern, the Southbank Centre, the National Gallery and Shakespeare's Globe. This year saw the appointment of the first executive director of the King's Cultural Institute (KCI), established to act as a bridge between the College and the cultural and creative industries and based in Somerset House East Wing. Through Creative Futures, administered by KCI, the College will direct investment towards furthering innovation, engagement and knowledge exchange between academic faculty from across the College and the wider cultural and creative sector.

King's is committed to the principles of equality and diversity of opportunity and to compliance with the Equality

Act 2010. During the year the College published equality objectives and actions to 2016, as required by the Act, and it is working to regain its Athena SWAN Charter (which recognises commitment within higher education institutions to advancing women's careers in science, technology, engineering, maths and medicine). In conjunction with four other London universities, King's launched a pan-London mentoring scheme for academic and research staff from black and minority ethnic (BME) backgrounds to address the under-representation of BME staff at senior levels across the partners. The College maintains a Disability Advisory Service to provide support to disabled students and staff and enable inclusivity and accessibility. Reflecting its religious traditions, the College offers students and staff a range of opportunities for religious worship and expression. In addition it runs the unique Associateship of King's College, a voluntary course open to students and staff of all beliefs and backgrounds, focusing on questions of theology, philosophy, religion and ethics in a contemporary context.

The College's commitment to environmental sustainability was acknowledged during the year by the award of a 'first-class degree' in the annual survey of environmental management and performance conducted by the student network People and Planet.

Summary

In 2011–12 the College fulfilled its educational and research mission, bringing direct benefit to its members and to society at large. Although performance in league tables over the year was variable (in some cases reflecting changes to methodology), King's rose in the Times Higher Education World University Rankings, published in October 2011, from 77th to 56th based on 13 performance indicators designed to capture the full range of university activities, making it the 8th-highest-ranked UK university. It maintained this position, scoring 57th in the world and 8th in the UK, in October 2012. During the year King's continued its efforts to oversee process and data improvements in order to ensure that league tables accurately reflect the College's activities 'in service to society'.

Financial highlights

Scope of the financial statements

The financial results comprise the consolidated results of the College and its subsidiary undertakings, King's College London Business Ltd (King's Business) and College Facilities Ltd. Both subsidiaries donate the bulk of their profits to the College using gift aid. King's Business ceased trading in March 2012 following a change in the approach to supporting commercialisation activities within the College, and the financial statements consolidate the results of King's Business to that date. College Facilities Ltd undertakes major building and related works on behalf of King's and traded throughout the year.

Results

	2011–12 £000	2010–11 £000
Income	554,220	524,110
Expenditure	522,707	496,605
Surplus on ordinary activities	31,513	27,505
Taxation	8	(2)
Surplus after taxation	31,521	27,503
Surplus on disposal of property	5,060	–
Profit on sale of shares	7,054	–
Surplus after depreciation and tax	43,635	27,503

Against a background of significant cuts in the capital grants receivable from HEFCE, the surplus generated over the past two years and that planned for future years will be set aside to fund the College's capital investment plan.

Total income increased by 6% year on year while total expenditure rose at a slower rate of 5%, generating a surplus on ordinary activities of £31.5m. This financial performance was delivered against the backdrop of the rapidly changing and competitive higher education landscape of the past year, including further anticipated reductions in HEFCE block grant funding. It reflects a combination of continuing student demand for places at King's, positive research grant and contract income, and cost management as the College has continued to pursue the investment set out in the 'Investing in Strength' strategy.

In August 2011 the College resolved a long-running contractual dispute with Barratt Homes related to the redevelopment of the Hampstead Campus, and the surplus on disposal of property includes £4.6m in compensation payments. The remaining £0.5m is the sum of the surplus on a number of sundry small property disposals. Total receipts from property transactions of £5.1m are shown separately in the financial statements.

King's additionally realised a £7m surplus on disposal of a 3.5% holding in a spin-out company, Proximagen Group plc. Proximagen, which specialises in drug development for neurodegenerative disorders, has proved to be one of the College's most successful spin-out companies since its creation in 2003. In August 2012, the whole of the share capital of Proximagen was bought out by its American partner, Upsher-Smith Laboratories, Inc, for £356.8m. As the College entered into an irrevocable undertaking to sell its shares prior to July 2012, the sale proceeds have been recognised in these financial statements.

There has been tight control of the balance sheet, with careful prioritisation of the capital investment plan. Cash at the bank has decreased by some £15m year on year; the bulk of this is explained by a £12m investment in the Francis Crick Institute. The College's liquidity ratios remain strong and compare well with those of comparable institutions. Standard & Poor's continues to assess the College's credit rating as AA.

The £31.5m surplus on ordinary activities benefited from an £8.4m surplus on departmental activities. After adjusting for these items, the underlying surplus on operating activities was £23.1m, compared with £23.8m the previous year.

	2011–12 £000	2010–11 £000
Surplus on operating activities	23,055	23,789
Impact of FRS17	33	20
Surplus on departmental activities	8,425	2,998
Surplus on disposal of property	–	698
Surplus on ordinary activities	31,513	27,505
Surplus on ordinary activities as a %	5.7%	5.2%

On materiality grounds, the surplus on disposal of property of £5m and profit on sale of shares of £7m in the 2011–12 results are shown separately and not as ordinary activities. The movement in respect of the pension accounting standard FRS17 relates to the Local Government Pension Scheme (LGPS) for 2011–12.

Income growth and diversification

The College's overall income rose by 6% year on year. Within this was a reduction of £5.1m/4% in HEFCE funding, which was in line with expectations.

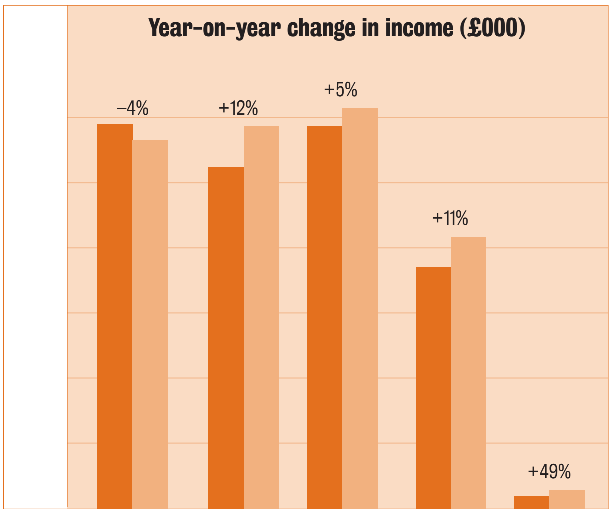
Student numbers (full-time equivalent, 1 December)	2011–12	2010–11	Change
Undergraduate	13,322	13,286	36
Graduate taught	5,639	5,055	584
Graduate research	2,146	2,009	137
Total	21,107	20,350	757

Tuition-fee income was 12% higher than in 2010–11 and, although some of this related to changes in fee levels, most was due to increased numbers, particularly of graduates and overseas students.

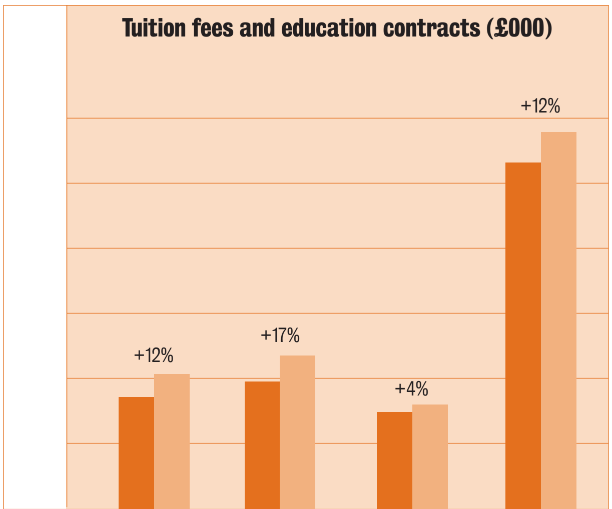
Applications were very strong, and the following table shows the distribution of growth.

Year-on-year change in applications, 2010 to 2011	UK and EU	Overseas	Total
Undergraduate	–2.0%	+27.0%	+4.4%
Graduate	+6.8%	+18.5%	+12.5%
Total	+1.0%	+21.0%	+7.3%

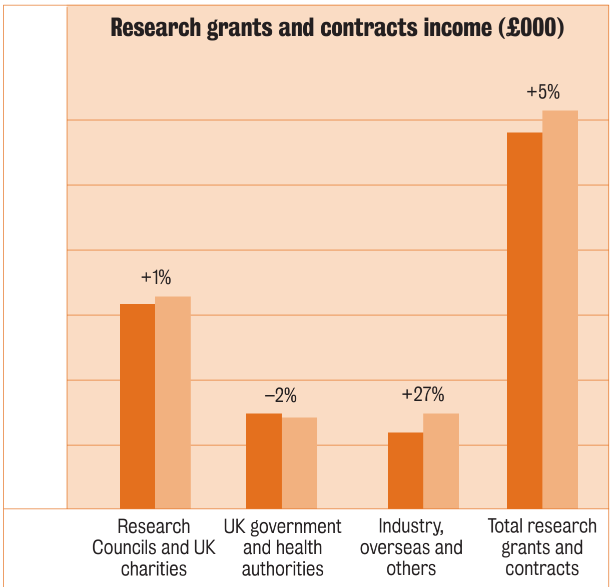
Other income is some £10.3m higher than last year, primarily reflecting higher volumes of self-financing activities, although it includes a £1.7m increase in external funds received to fund graduate research bursaries, £2m from the College's KHP partners as a contribution to certain shared services and a further £1m of additional income from trading activities (vacation lettings and conference income) linked to the Olympic Games. These increases are mainly offset by matched expenditure.



	Funding body grants	Tuition fees and education contracts	Research grants and contracts	Other operating income	Endowment and investment income
2010–11	147,211	130,746	147,099	93,561	5,493
2011–12	140,908	146,544	154,745	103,832	8,191



	Full-time UK and EU students	Full-time overseas students	NHS and other teaching contracts	Total tuition fees and education contracts
2010–11	44,849	49,705	36,192	130,746
2011–12	50,432	58,301	37,811	146,544



	Research Councils and UK charities	UK government and health authorities	Industry, overseas and others	Total research grants and contracts
2010–11	79,971	37,436	29,692	147,099
2011–12	80,376	36,797	37,572	154,745

Total income from research grants and contracts increased by 5% year on year, a highly creditable performance in the current economic environment. There was some variation in the growth rates for different types of research grants and contracts so, as anticipated, overall levels of income from the Research Councils and from UK charities grew by only 1%, whereas grants from industry and overseas funders grew by 27%.

The forward order book of new and renewed research awards shows 11.7% growth year on year, which bodes well for 2012–13 and beyond as the activity associated with the awards becomes established and the related income begins to be recorded in the financial results.

	2011–12 £000	2010–11 £000
Research grant income	154,745	147,099
Research grant expenditure	127,953	121,782
Overhead recovery	26,792	25,317
Overhead recovery as a % of income	17.3%	17.2%

Fund-raising

In 2010 the College publicly launched the World questions | King's *answers* campaign, one of the largest and most imaginative fund-raising appeals in higher education, with a target of raising £500m by 2015. During 2011–12 supporters contributed £38.1m of new cash and pledges for the College, a sum considerably in excess of its target for the year. The fund-raising team also brought in a further £5m for KHP and NHS Trust and charity partners. A total income of £43.1m was spread across the following campaign priorities.

Fund-raising income	£000
Neuroscience & mental health	4,587
Leadership & society	30,129
Cancer	1,059
Global power	867
Children's health	4,268
Local priorities	2,187
Total	43,097

King's is grateful to all its friends and supporters, thanking those who have generously given donations, whether small or big. Some of the larger gifts and pledges received during the year included the following.

- Mr Dickson Poon, a well-known Hong Kong-based philanthropist, gave King's an extraordinarily generous personal gift of £20m. This is the largest donation from an individual in the College's history and the greatest ever received by a British or European law faculty. It will be the cornerstone of an investment strategy that will establish the School as a leader in transnational law, seeking global solutions to the world's legal challenges and pioneering a new standard of legal education for the twenty-first century. The School has been renamed the Dickson Poon School of Law in recognition of his benevolence.
- The Carnegie Corporation of New York awarded a grant of £1.2m to the African Leadership Centre for training and mentoring of young Africans in peace, security and development studies, building the capacity not only of individuals, but also of the communities and organisations in which they live and work.
- The Garfield Weston Foundation donated a gift of £1m to support a family-centred research programme based at St Thomas' Hospital which focuses on reducing brain damage in babies.
- The Maurice Wohl Charitable Foundation made a pledge of £1m, enabling the establishment of the Maurice Wohl Chair in Primary Dental Care and Advanced General Dental Practice and the Vivienne Wohl PhD Studentship in General Dental Practice.

Patterns of expenditure

Staff costs increased by 5.5% year on year, but this included some £2.5m of restructuring costs for deferred departures agreed during the Academic and Financial Sustainability programme. Adjusting for that, the underlying increase in the pay bill was 4.7%. Annual pay awards, incremental progression, promotion and performance reward accounted for about 2% of the increase in costs, with the remainder attributable to increasing staff numbers.

Total headcount, including research staff whose costs are offset by income from grants and contracts, rose by 164.

Some of these positions reflect strategic appointments made as part of 'Investing in Strength' initiatives.

Average staff numbers (full-time equivalent)	**2011–12**	**2010–11**
Academic/clinical (including staff on research grants)	3,043	2,923
Administrative and related staff	815	794
Technical	338	329
Clerical	956	925
Other	153	170
Total	5,305	5,141

Capital investment programme

During the year King's continued to review and develop its long-term capital programme. Over the 10-year period to 2017–18 the College plans to invest some £850m, with the investment spread as follows.

Capital investment	**2008 to July 2012 £m**	**Plans to 2018 £m**
Teaching- and learning-focused		
Strand Campus	31.3	125.4
Other campuses	6.1	16.4
College-wide student teaching space improvement	18.8	38.2
Residences and sports grounds	13.0	269.6
	69.2	449.6
Research-focused		
Denmark Hill	51.6	21.0
Guy's	8.7	30.9
Strand and Waterloo	2.3	11.8
St Thomas'	14.0	31.1
Francis Crick Institute	12.0	28.0
	88.6	122.8
Infrastructure		
General infrastructure and long-term maintenance	14.0	39.6
Power and other efficiency programmes	6.7	35.7
College-wide technology	9.5	14.0
	30.2	89.3
Total investment	188.0	661.7

As mentioned in the discussion of student facilities above, Her Majesty The Queen officially opened Somerset House East Wing in February 2012. The launch was held after 18 months of restoration, initiated in 2009 when King's secured a 78-year lease for the building. It will play a key role in the College's continued development as a world-class university, extending the Strand Campus and providing high-quality accommodation for teaching and research.

At its new home in Somerset House, the Dickson Poon School of Law has premises befitting its standing as one of Europe's premier law schools and reflecting the grandeur of the faculty's tradition of excellence over more than 175 years. The site also houses King's Cultural Institute, a cross-disciplinary teaching and research initiative involving innovative collaboration across the cultural sector. King's Executive Centre is based on the first floor of the East Wing and offers a range of training suites, seminar and meeting rooms, lounges and a business centre, complete with state-of-the-art audio-visual technology and quality catering. The facility is aimed at the executive education market and is also available for external meetings, video conferencing, launches and prestige events.

After a six-month campus-wide consultation with students and staff, the College launched a design competition through the Royal Institute of British Architects to redevelop the Strand Campus Quadrangle and associated structures. It has been suggested that the new Quadrangle will form a bridge between King's Building and Somerset House East Wing, involving regeneration of the deck and lower floors and transforming an underused subterranean area into an innovative, light and flexible space for students, suitable for both formal and informal study.

Further work to support the proposed increase in student numbers on the Strand Campus will involve significant development of the area as a whole.

King's approved a second tranche of investment in the teaching and learning environment which will amount to approximately £35m over the next seven years. It will continue the type of work started in the first £18m phase, focusing on improving teaching rooms, social space and the related technology.

During the year construction began on a £4m project to redevelop the learning hub at the Institute of Psychiatry, with significant improvements to lecture rooms and social space. The project was completed on time and to budget shortly after the year end.

As noted earlier, in November 2011 King's started to build the £37m Maurice Wohl Clinical Neuroscience Institute at the Institute of Psychiatry, intended to be Europe's leading research centre specialising in neurological and psychiatric illnesses. When completed in spring 2013, it should bring about a step change in the rate of discoveries. The Institute is one of three buildings constructed through the College's five-year, £500m World questions | King's *answers* fund-raising campaign.

As discussed above, the College has begun to plan for major investment to expand the number of residential bed spaces available to students. There are various options under review which will be developed during the coming year.

Endowment asset investments

The College's investments achieved a return of +6.1% for the year to 31 July 2012, outperforming the policy benchmark of +2.8%.

Performance for the year to 31 July 2012	
Actual performance	+6.1%
Policy benchmark	+2.8%
Value added	+3.3%

There were no major changes in asset allocation during the year, and the policy remains as follows.

Asset allocation	%
UK equity	35
Global equity	20
Emerging markets equity	5
Property	10
Global inflation-linked bonds	5
Fixed income	25

Within this framework, however, there has been a move away from high-yield equities and, to compensate for the resulting reduction in income, part of the allocation to global equity has been moved to an active manager, while greater prominence has been given to corporate bonds over sovereign bonds in the fixed-income allocation.

King's continues to hold back from adopting a total return investment policy as it has an insufficient cushion (unapplied total return) for a number of its major trust funds to withstand large stock-market fluctuations. However, a total return approach to investment remains the College's goal and it is currently seeking advice as to whether there are alternative routes to achieving it.

Working capital management

Net current assets	31 July 2012 £000	31 July 2011 £000	Change £000
Cash at bank	220,613	234,174	(13,561)
Debtors	70,493	54,942	15,551
Current assets	291,106	289,116	1,990
Creditors < one year	(166,680)	(156,775)	(9,905)
Net current assets	124,426	132,341	(7,915)

Cash at the bank has decreased by some £13.6m. Cash generated from operations was some £43m, consistent with last year, but 2011–12 saw significant expenditure on tangible fixed assets and investment in the Francis Crick Institute of some £12m.

The actual position of liquid assets to annual expenditure excluding depreciation was 162 days, compared with a target of 90 days.

Debtors	31 July 2012 £000	31 July 2011 £000	Change £000
Trade debtors	13,020	14,487	(1,467)
Other debtors	13,612	5,483	8,129
Research grant debtors	25,652	20,183	5,469
Research grant work in progress	17,603	14,087	3,516
Prepayments and accruals	606	702	(96)
	70,493	54,942	15,551

The rise in research debtors (invoiced and work in progress) has increased debt turnover to 102 days, compared with 85 days in the previous year. However, grants in credit have also increased (see below), and if payments on account were also taken into consideration the net balance this year would be a credit of £23.3m, compared with £24.9m last year. The rise may therefore be attributed to changing funding patterns and the mix of sponsors rather than a weakening of credit control.

Other debtors include £7m in respect of the sale of shares in a spin-out company, Proximagen Group plc. The proceeds were received shortly after the year end.

Creditors	31 July 2012 £000	31 July 2011 £000	Change £000
Trade creditors	26,928	21,881	5,047
Payments received on account	94,928	76,608	18,320
Other creditors and accruals	32,245	45,169	(12,924)
Social Security and taxation	7,423	7,551	(128)
Finance leases	1,650	2,236	(586)
Loans repayable within 1 year	3,506	3,330	176
	166,680	156,775	9,905

The increase in payments on account is attributable to a gift of £8m from Mr Dickson Poon in respect of the Law School that will be funding activities from 2012–13, together with a £7m rise in research funding on account, representing grants that are in credit at the year end.

Other creditors and accruals have decreased significantly since the previous year. Last year's figures included a £2.8m pension accrual, which arose from the closure of the Federated Pension Scheme (FPS), and unresolved disputes over facilities recharges and electricity costs exceptionally contributed some £5m of accruals. These were largely resolved during the year. There was also a reduction of some £3m in balances owing to collaborators on EU funded grants.

Treasury management

The College manages day-to-day cash flow through its principal bankers, Royal Bank of Scotland (RBS). Surplus cash is swept overnight from the current account to an interest-bearing deposit account.

Cash in excess of day-to-day liquidity needs is managed for King's by Royal London Cash Management (RLCM), which invests in certificates of deposit with banks over a range of maturities as well as treasury stock. Counterparty banks are strictly limited to major national banks with Standard & Poor's ratings of AA- or better, with the exception of Lloyds and Barclays, which are considered strategically important financial institutions. The amounts are restricted to £15m per counterparty excepting Barclays, HSBC and Lloyds, where the limit is £30m, and RBS, with a maximum of £50m. There is no limit on the sum invested in UK treasury stock. The approved counterparty list is continually kept under review and advice is taken from RLCM and the Finance Committee on a regular basis.

For the year ended 31 July 2012 the average return on cash deposits was 0.6%, reflecting the exceptionally low interest rate environment.

Long-term loans

There were no new loans taken out during the year.

Borrowings	**Total in year to 31 July 2012 £000**	**Due < 1 year £000**	**Due > 1 year £000**
Finance leases			
Lloyds Leasing (Stamford Street)	15,626	1,650	13,976
National Australia Bank (Centre for Cell & Integrative Biology)	11,447	11,447	–
National Australia Bank (Strand)	9,519	9,519	–
Less deposits	(24,291)	(20,966)	(3,325)
Total leases	12,301	1,650	10,651
Loans			
RBS (Great Dover Street)	28,413	2,401	26,012
NatWest	15,341	1,007	14,334
RBS (40-year)	59,914	–	59,914
King's College London Bond	59,731	–	59,731
Lambeth Baths Mortgage	470	28	442
South London and Maudsley NHS Foundation Trust	70	70	–
Total loans	163,939	3,506	160,433
Total borrowings	176,240	5,156	171,084

The options on both of the leases with National Australia Bank were exercised for the commutation of rent in exchange for the payment of a capital sum in October 2012. The payments were financed from the term deposits held for that purpose; they have been offset in the above figures.

The College's financial strategy sets internal borrowing limits based on percentage of income and gearing. Both measures have improved from last year and are within target.

	31 July 2012	**31 July 2011**	**Limit**
Borrowings as a % of income	31.8%	33.8%	50%
Borrowings to reserves	0.7	0.9	1.0

The College's net cash position remains positive.

Net cash	**31 July 2012 £000**	**31 July 2011 £000**	**Change**
Cash and short-term investments	220,613	234,174	(13,561)
Borrowings	176,240	177,384	(1,144)
Net funds	44,373	56,790	(14,705)

Pensions

The College participates in two main pension schemes: the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). They are multi-employer, defined-benefit, final salary schemes. As the College is unable to determine its share of assets and liabilities in accordance with FRS17, the schemes do not appear on the balance sheet, although full disclosure is made in the notes to the accounts (see note 30 to the financial statements).

During the year both USS and SAUL reported their triennial valuations at March 2011. The position at 31 March 2011 and the latest position following the annual funding reviews at 31 March 2012 are as follows.

Pension scheme funding	**31 March 2012**	**31 March 2011**
USS		
Assets	£33.9bn	£32.4bn
Liabilities	£43.7bn	£35.3bn
Deficit	£9.8bn	£2.9bn
Funding level on technical provisions	77%	92%
Funding level on buy-out basis	50%	57%
SAUL		
Assets	£1,632m	£1,506m
Liabilities	£1,971m	£1,581m
Deficit	£339m	£75m
Funding level on technical provisions	83%	95%
Funding level on buy-out basis	54%	68%

As these figures show, the worsening position is the result of increased liabilities rather than deteriorating assets. The main reason for the increase in liabilities is that the yield on gilts, which informs the discount rate used by the actuary to calculate the present value of future liabilities, is at a historically low level; this reflects the current economic difficulties. Had a long-term average been used, the position would have appeared a lot healthier.

Since the July 2011 valuation, both schemes have introduced significant changes, including a career average revalued earnings section for new entrants. USS has also increased its employee contribution rate to 7.5% from 6.35% for those who remain in the final-salary section of the pension scheme. The trustees of both schemes continue to review the funding position and progress against recovery plans agreed at the last valuation date. However, if the funding position has not improved by the time of the next valuation in 2014, further remedial action will be required.

The College also participates in the NHS Pension Scheme (NHSPS), which is an unfunded multi-employer scheme open to certain employees who were members of NHSPS immediately prior to appointment at the College.

There is residual participation in the Local Government Pension Scheme (LGPS), which is closed to new members. It is a legacy of Chelsea College, which participated in the scheme prior to its merger with King's. As the assets are segregated, a liability is disclosed in the balance sheet; at 31 July 2012 it amounted to some £1.3m. Full disclosure under FRS17 is made in note 30 to the financial statements.

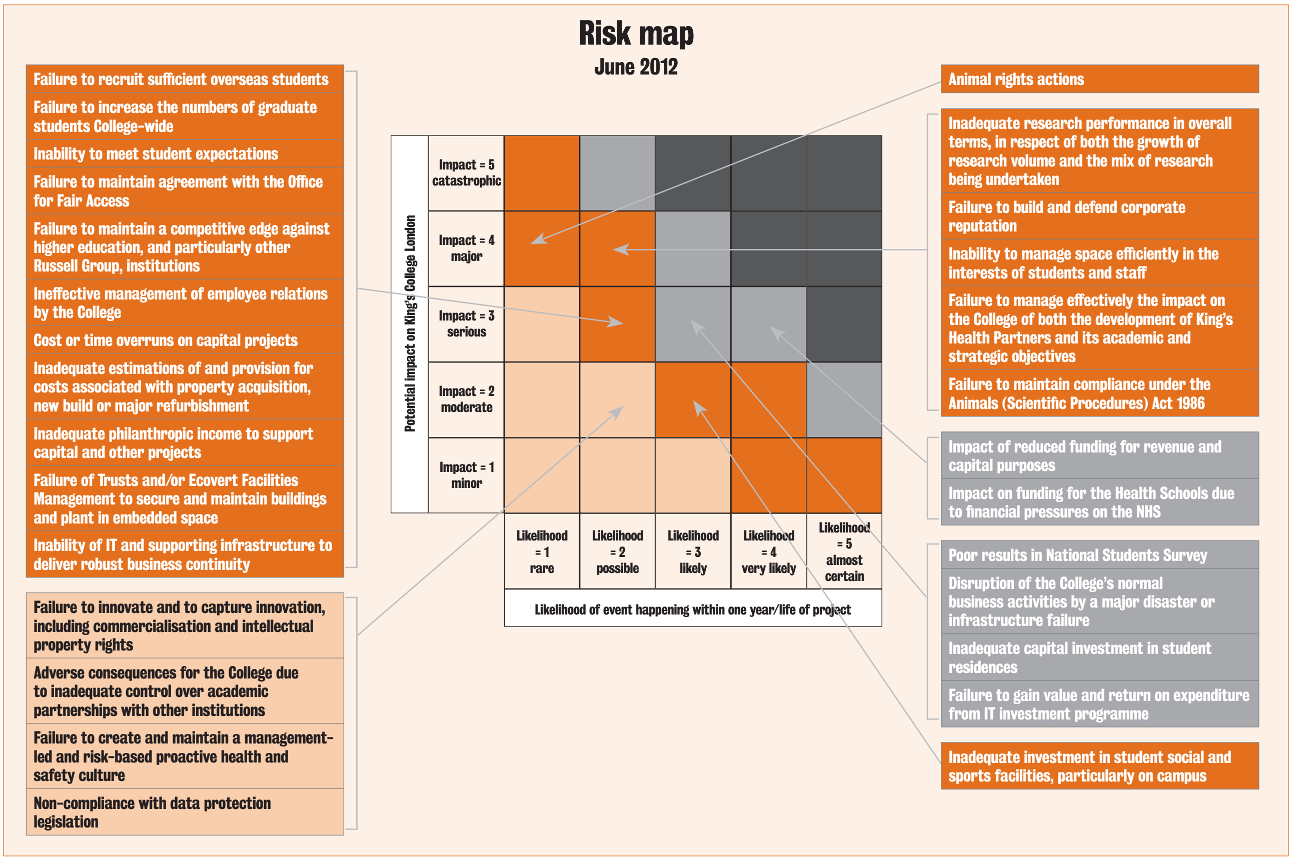
Risk management

The College regularly prepares financial forecasts for a range of economic scenarios; the full risk map is reproduced below. In summary, the following are the main financial risk factors.

Key variables	**Annual financial effect of 1% change in assumptions**
Adverse changes in pace or scale of teaching block grant efficiencies	–£600,000 core block funding
Financial pressure on NHS affecting student intake in Health Schools	–£300,000 tuition-fee income
Shortfall in overall student intake	–£1.2m tuition-fee income and grant funding
Pay costs	+£2m expenditure

There is a healthy demand for places at King's, and the most up-to-date information for the current intake cycle for 2012–13 gives no major cause for concern despite the new fees regime and various changes the College has made to entry criteria. For the year under review, demand for undergraduate places showed an increase, with the following numbers of candidates applying for each place:

	2011–12	2010–11
Undergraduate	13.9	11.2
Graduate	5.5	5.7



An annual report that considered the progress made in relation to the management of risk within King's was considered and approved by College Council in June 2012. While many of the risks remained the same or increased during the year, they have been subject to close monitoring and control at a corporate and managerial level.

The HEFCE Audit Code of Practice requires the Audit and Compliance Committee to comment on the internal control and risk management systems within the College and its arrangements for securing economy, efficiency and effectiveness. The Committee has reviewed a broad range of internal audit reports as well as reports concerned with purchasing and risk management. It has discussed at length the comments and findings of the external auditors following their annual audit. In addition, the Department of Audit and Business Assurance has conducted a specific review of the system of internal controls for consideration by the Committee. This included undertaking an assessment of the following key areas, with risk underpinning the process:

- the effectiveness of the key financial and other administrative systems
- the effectiveness of budgeting and financial monitoring processes
- the extent to which managers comply with the College's approved financial regulations and procedures and best-practice guidelines
- the effectiveness of risk management, governance and the arrangements for securing value for money
- data integrity.

Based on the Audit and Compliance Committee's review of internal audit reports, the separate review of the system of internal controls, the external auditors' findings during their work and management's Letter of Representation, committee members were able to support the judgement of management that adequate internal control processes were in place, including those concerned with the control and quality of data, and that the College was seeking continual improvement in that respect. The Committee found that managers throughout King's were committed to ensuring that value-for-money issues were properly considered.

Value for money

The Audit and Compliance Committee reviews the effectiveness of the College's arrangements for value for money on an ongoing basis. It is fully supportive of internal audit incorporating value-for-money work as a key part of its remit. Value for money is an integral component of the terms of reference for many of the audit reviews undertaken and may relate to issues concerned with improved service delivery, greater effectiveness in procurement practices, greater efficiency in systems and processes, improved management and more effective use of resources. Examples of some of the audit work that has had at least a partial focus on value for money over the past two years include the following:

- security systems
- management of capital expenditure
- College procurement systems and preferred suppliers
- fund-raising
- research facilities
- management of space
- facilities management
- corporate IT systems
- College telephony services
- staff expenses
- resource allocation
- management of cash and cash investments
- cross charging of costs between King's and its partner NHS trusts
- tendering arrangements
- insurance arrangements
- intellectual property rights.

The Audit and Compliance Committee keeps under review the College's arrangements for procurement and has noted the considerable progress made in respect of a number of initiatives, including e-procurement, collaborative procurement, streamlining of the procurement process and preferred-supplier agreements.

Prospects and planning outlook

Economic environment

The fragile global recovery in evidence last year continues to be under threat. Global economic news at the beginning of 2012 was generally positive: annualised growth rates for industrial production, import demand and capital goods sales turned positive, with developing countries leading the rebound. Since then the outlook has begun to deteriorate on the back of fiscal slippage, banking downgrades, political uncertainty and social unrest in the eurozone. The International Monetary Fund (IMF) World Economic Outlook growth forecasts published in September 2012 cut projections made in spring, predicting that global gross domestic product (GDP) will increase by only 2.5% in 2012, with growth accelerating to 3% in 2013 and 3.3% in 2014.

The global projections assume small improvements in forecasts for the US economy and continuing growth in, amongst others, the 'BRIC' countries. During 2012 there is a quite different outlook for the eurozone, where output is predicted to contract by 0.3%, while GDP in developing countries is expected to expand by 5.3%. The projected recovery in the Middle East and North Africa is uncertain and is contingent on a gradual easing of social unrest during 2012 and a return to more normal conditions in 2013 and 2014.

In the UK there has been some encouraging data indicating growth in retail sales; the employment rate is the healthiest since 2009; and inflation has fallen rapidly over the past year, from 5.2% to 2.2%. Nonetheless, retail sales growth remains much slower than before the financial crisis and higher utility bills and government spending cuts still loom over the next six months.

It is now just over two years since the publication of the last Comprehensive Spending Review (2011–12 through to 2014–15), a report that was driven by the desire to reduce government spending in order to cut the budget deficit. The cuts were widely reported as the largest since World War II. Independent analysis by the Office for Budget Responsibility indicates that the government is likely to miss its target of seeing the burden of public debt falling by 2015–16, and if weakness in the growth of the economy continues, the target will also be under threat in 2016–17. There is the suggestion that a gap of a further £15bn per year will need to be addressed in the Chancellor's 5 December Autumn Statement. This is likely to mean that austerity will be extended until 2018 – three years beyond what was originally thought – with further cuts to public spending.

The ongoing weak economic recovery, its impact on disposable income and poor consumer confidence will continue to have an effect on the decision to enter higher education and will in turn be affected by the attitude to debt that such a decision entails.

In terms of population changes, there are conflicting projections of the likely size of the 18-year-old UK population over the next 10 years. However, there does seem to be a consensus that any decline will at the very least be partly offset by increasing rates of participation in higher education. Meanwhile overall global demand is consistently forecast to increase, although it remains open to question whether the UK will be able to stay competitive and retain its current high share of the international student market. This partly depends upon the development of worldwide higher education systems.

Outlook for the higher education sector

Although the economic environment in general (and the eurozone situation in particular) has had a huge effect on both disposable income and consumer confidence, investment by a parent in a child's education is often one of the last items in the household budget to be cut. It is difficult to isolate the impact of economic conditions on demand in light of all the other changes to the financial regime of higher education institutions. However, it is generally assumed that, together with increased levels of indebtedness, it will adversely affect the market for graduate studies. The effect will not be fully felt until the first cohort of the new fee regime begins to graduate from 2015–16 onwards, although already there are early signs that the graduate market is sensitive to the difficult economic environment.

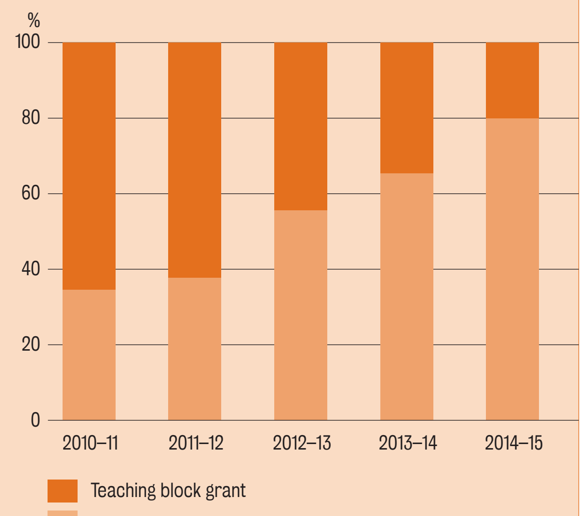
There have been great changes to the funding of the higher education sector over the past 18 months. The graph below illustrates how the pattern of investment over a five-year period will swing from government block grant funding to student contributions. The effect on individual organisations will vary widely as institutional funding becomes based on student choice, with the remaining teaching block grant largely restricted to establishments with clinical teaching programmes and other high-cost science subjects.

The new regime has introduced partial deregulation of student numbers, with institutions free to recruit an unlimited number of the highest-achieving students (typically with grades AAB at A level), although most seem to have been wary of expanding to the detriment of the student experience. Universities were able to charge increased annual fees of between £6,000 and £9,000, subject to OFFA approval. Most chose the maximum fee, not only to offset known cuts to the teaching block grant but also to enable continuing investment in the student experience in the face of significantly larger cuts to government capital funding.

Looking forward, these changes could have consequences as regards the shape and structure of the UK higher education system, particularly as further deregulation (for example, expanding A level requirements to include ABB) is introduced. It may be that some institutions that cannot compete on quality will have to compete on price around a 'squeezed middle'.

Sector press comments indicate that the changes led to a reduction in applications for the 2012–13 admissions cycle, and even some Russell Group institutions were affected (although, as noted above, King's met its UK and EU

Indicative breakdown of funding between loans for the graduate contribution and HEFCE teaching grant



Source: Universities UK

undergraduate student targets). This may have been partly because there were fewer 'AAB' candidates than expected, and indeed there will always be a limited pool of top students.

The UK Border Authority continues its control of student visas. Recent difficulties experienced by one of the London-based universities have sent unfortunate messages to potential overseas student applicants about the welcome they might expect in Britain. It remains to be seen how this will affect demand generally.

Meanwhile, continuing economic austerity poses the risk of further cuts in public spending, which may affect the higher education sector in several respects: via capital funding, support of the Student Loan Company, the teaching block grant, research support and, for those institutions with clinical programmes, cuts to the health budget. The Chancellor's Autumn Statement may provide clarification.

Against the background of the changes, the influential Institute for Public Policy Research has launched a Commission on the Future of Higher Education in England; it is due to publish its report in February 2013. The Commission has been established to address the key challenges facing the higher education sector over the next 20 years and to produce a policy framework that will safeguard and strengthen the position of English higher education institutions in the long term.

Planning outlook for King's

The College was both well prepared and well positioned to respond to changes in the funding regime. King's chose not take advantage of the partial deregulation to grow for growth's sake but, as discussed above, it plans to increase student numbers in specifically targeted subject areas where expansion is needed to improve performance and maintain competitiveness. During the year King's continued to focus on quality and raised the entry tariff across a wide range of programmes, and along with higher fees and the related smaller applicant pool across the whole higher education institution sector, this has made for a challenging 2012–13 admissions cycle, although there is no major cause for concern.

Looking further ahead, uncertainty still remains about future government funding but, as previously mentioned, King's continues to plan for various scenarios using assumptions that are reviewed and tested on a regular basis. Key to managing these challenges will be the retention of sufficient financial flexibility to respond to future threats and opportunities.

The next two years will be a period of significant change for the College on a number of fronts. There will be investment in faculty in the subject areas targeted for growth and in specific areas of research strength, partly in anticipation of the forthcoming REF.

King's also plans to start major new capital investment programmes to build an estate infrastructure commensurate with a prestige institution, which will significantly improve the student experience.

The College's projections (see table below) show a temporary flattening in financial returns as this positioning takes place, but in the longer term it is expected that returns will rise and be sufficient to enable King's to continue to invest in line with its academic strategy and strategic estates plans.

The forecasts for future years are prepared using various planning assumptions, which are subject to constant review in the context of changes in the economic environment, and should be treated with circumspection.

Conclusions

The strong financial results reported in these accounts show that King's has thus far successfully navigated the rapidly changing and competitive higher education landscape of the past year. Student demand has held up well despite the new fees regime, despite increasing competition for the best students and despite the College's raised entry tariff across a number of programmes. The forward order book for research grants and contracts shows year-on-year growth of almost 12% – impressive in the current economic environment and encouraging for the financial results over the next two or three years. Financial indicators, including the credit rating of King's, remain strong.

Looking ahead, there are a number of risks outside the College's control: the effect of inflationary pressure on costs; the impact of students' attitude to debt on demand for places

Projections	**2010–11 actual £m**	**2011–12 actual £m**	**2012–13 budget £m**	**2013–14 forecast £m**	**2014–15 forecast £m**	**2015–16 forecast £m**
Income	524.1	554.2	576.9	598.3	634.8	666.4
Expenditure	496.6	522.7	572.1	587.4	619.7	651.3
Surplus on normal activities	27.5	31.5	4.8	10.9	15.1	15.1
Surplus as a % of income	5.2%	5.7%	0.9%	1.8%	2.3%	2.3%

(especially as regards applications for graduate levels of study); and the risk of further reductions in public funding.

However, and notwithstanding these challenges, King's continues to attract and recruit outstanding staff and students and it remains cautiously optimistic about the future.

Mr Rory Tapner	Mr Stephen Large
Treasurer	*Director of Finance*

Corporate governance

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

The College endeavours to conduct its business:

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

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

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

The Academic Board is the academic authority of the College and draws its membership mainly from the academic staff and the students of the institution. It is the body responsible under delegated authority from the Council for the academic work of the College in teaching, examining and research. The Academic Board recommends major policy changes to the Council.

Although the Council meets at least three times each academic year, most of its detailed business is handled by committees, in particular a Finance Committee, an Audit and Compliance Committee, a Remuneration Committee, an Estates Strategy Committee and a Nominations Committee. The Council also has a Chairman's Committee, which is authorised by the Council to provide support and guidance to the College's executive and, between ordinary meetings of the Council, to look at issues that are major and/or pressing. Each of these committees is formally constituted with written terms of reference and specified membership, including a significant proportion of lay members, from whom its Chairman is drawn; each reports regularly to the Council.

The Finance Committee *inter alia* recommends to Council the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also approves comprehensive Financial Regulations for the conduct of the financial affairs of the College.

The Audit and Compliance Committee is responsible for meeting, at least once annually, with the external auditors, to discuss audit findings, and with the internal auditors, to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. It receives and considers reports from HEFCE and the Training and Development Agency for Schools as they affect the College's business and receives reports from statutory, regulatory or funding agencies concerning the College's compliance with relevant legislation and standards. It also reviews accounting policies and any major changes to the College's accounting principles and practice that are brought to its attention by the external auditors, internal audit or management.

The Remuneration Committee determines the annual remuneration of the Principal, Vice-Principals and the head of Administration and College Secretary.

The principal academic and executive officer of the College is the Principal and President, who has a general responsibility to the Council for ensuring that the objects of the College are fulfilled and for maintaining and promoting the efficiency, discipline and good order of the College. The Principal is also, under the terms of the formal Financial Memorandum between the College and HEFCE, the designated Accountable Officer of the College and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

The Ordinances of the College specify that the College Secretary should act as Secretary of the Council. Any enquiries about the constitution and governance of the College should be addressed to the College Secretary.

Statement of internal control

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks; to evaluate the nature and extent of those risks; and to manage them efficiently and effectively. This process was in place for the year ended 31 July 2012 and up to the date of the approval of the financial statements, and accords with HEFCE guidance.

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

- The Council considers the plans and strategic direction of the College on an annual basis.
- The Audit and Compliance Committee independently reviews the effectiveness of internal control systems and the risk-management process.
- The Council receives periodic reports from the Chairman of the Audit and Compliance Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from Vice-Principals and other managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Audit and Compliance Committee reports to Council its findings in respect of the effectiveness of the risk-management process. This is informed by the categorisation of risks and the maintenance of a College-wide risk register.
- The Audit and Compliance Committee receives regular reports from the director of the Department of Audit & Business Assurance on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The Principal's Central Team is the focal point within the College for the enhancement of the risk-management process and receives regular reports from heads of Schools and departments in support of this.
- The business planning process requires heads of Schools and departments to identify and keep up-to-date the record of risks facing the College and to report on internal control activities.
- A programme of risk-awareness training is carried out.
- A system of key performance and risk indicators has been developed to enable the Council to monitor progress towards the achievement of strategic objectives.

The College has a Department of Audit & Business Assurance, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Assurance Service in June 2009. The Department of Audit & Business Assurance submits regular reports to the Audit and Compliance Committee that include the director of the department's independent opinion on the adequacy and effectiveness of the College's system of internal control, together with recommendations for improvement.

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2012 was informed by the Audit and Compliance Committee, the work of the Department of Audit & Business Assurance and the executive managers within the College who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Responsibilities of the College Council

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

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

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

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

The Council has taken reasonable steps to:

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

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

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

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

We have audited the Group and College financial statements (the 'financial statements') of King's College London for the year ended 31 July 2012 which comprise Consolidated Income and Expenditure Account, the Consolidated Group and College Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the College 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

As explained more fully in the statement of Responsibilities of the College Council set out on page 26, the Council is responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the College Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the affairs of the Group and College as at 31 July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes
- income has been applied in accordance with the College's Statutes
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

- We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion: the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the College and Group.

M G Fallon (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate, Brighton Road, Crawley
West Sussex RH11 9PT

4 December 2012

Statement of principal accounting policies

1. Accounting convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments, and in accordance with both the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions (SORP) and applicable Accounting Standards.

2. Basis of consolidation

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

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

3. Recognition of income

Recurrent grants from HEFCE are recognised in the year for which they are receivable.

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

Income from General and Specific Endowments, Research Grants, Contracts and Other Services Rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

All income from short-term deposits is credited to the Income and Expenditure Account on a receivable basis.

4. Pension schemes

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

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

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

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

5. Foreign currencies

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

6. Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations. Rental costs under operating leases are charged to expenditure in equal annual amounts over the lease periods.

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. Land is not depreciated.

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 £25,000 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. Capitalised leased equipment is stated at cost and depreciated over its expected useful life of 15 years.

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

9. Heritage assets

Heritage assets are books, manuscripts, specimens, objects or other assets that have historic, scientific, artistic, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

In so far as heritage assets are used as operational assets, as in the case of historic buildings, they are capitalised in accordance with the policies set out in points 7 or 8 above. Other heritage assets – principally printed materials, pictures and objects of scientific interest – are, for individual items exceeding £25,000, capitalised at cost or valuation on acquisition, but only where a reliable valuation is available. Valuations reflect any impairment or restrictions on use of the assets by the College. No assets acquired prior to 1 August 2000 have been capitalised, as reliable information concerning their cost or value on acquisition is not available.

Descriptions of the principal heritage assets held are set out in note 12 to the accounts.

10. 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.

11. 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.

12. 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.

13. 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 King's.

14. Related party transactions

The College has taken advantage of the exemption that is conferred by FRS8, Related Party Disclosures, which allows it not to disclose transactions with Group undertakings that are eliminated on consolidation.

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.

16. Charitable donations

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

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

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

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

Consolidated Income and Expenditure Account

For the year ended 31 July 2012

	Note	2011–12 £000	2010–11 £000
Income			
Funding body grants	1	140,908	147,211
Tuition fees and education contracts	2	146,544	130,746
Research grants and contracts	3	154,745	147,099
Other operating income	4	103,832	93,561
Endowment and investment income	5	8,191	5,493
Total income		554,220	524,110
Expenditure			
Staff costs	6	324,604	307,698
Other operating expenses	10	161,152	152,600
Depreciation	11	24,654	23,946
Interest payable	8	12,297	12,361
Total expenditure	10	522,707	496,605
Surplus on ordinary activities		31,513	27,505
Taxation	9	(8)	2
Surplus on ordinary activities after taxation		31,521	27,503
Receipts from property transactions		5,060	–
Profit on sale of shares		7,054	–
Surplus after depreciation of assets at cost and tax	22	43,635	27,503

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.

The notes on pages 34 to 50 form part of the financial statements.

Statement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2012

	Note	2011–12 £000	2010–11 £000
Surplus after depreciation of assets at cost and tax		43,635	27,503
Change in value of endowment asset investments	21	2,357	5,799
Endowment income movement for the year	21	(317)	563
New endowments	21	4,045	3,078
Actuarial (loss)/gain on pension schemes	30	(230)	1,758
Total recognised gains relating to the year		49,490	38,701

Reconciliation

	2011–12 £000	2010–11 £000
Opening reserves and endowments	318,065	279,364
Total recognised gains for the year	49,490	38,701
Closing reserves and endowments	367,555	318,065

The notes on pages 34 to 50 form part of the financial statements.

Consolidated and College Balance Sheets

As at 31 July 2012

	Note	Consolidated 2012 £000	Consolidated 2011 £000	College 2012 £000	College 2011 £000
Fixed assets					
Tangible assets	11	681,533	644,979	683,168	646,359
Investments	13	12,018	48	12,018	48
		693,551	645,027	695,186	646,407
Endowment asset investments	14	130,758	124,673	130,758	124,673
Current assets					
Debtors	15	70,493	54,942	68,731	54,601
Cash at bank and in hand		220,613	234,174	214,330	231,102
		291,106	289,116	283,061	285,703
Creditors: amounts falling due within one year	16	(166,680)	(156,775)	(158,661)	(153,369)
Net current assets		124,426	132,341	124,400	132,334
Total assets less current liabilities		948,735	902,041	950,344	903,414
Creditors: amounts falling due after more than one year	17	(171,084)	(171,818)	(171,084)	(171,818)
Provisions for liabilities and charges	19	–	(2,210)	–	(2,210)
Net assets excluding pensions liability		777,651	728,013	779,260	729,386
Net pensions liability	30	(1,337)	(1,140)	(1,337)	(1,140)
Total net assets including pensions liability		776,314	726,873	777,923	728,246
Deferred capital grants	20	408,759	408,808	408,759	408,808
Endowments					
Restricted permanent	21	115,338	109,555	115,338	109,555
Restricted expendable	21	15,420	15,118	15,420	15,118
		130,758	124,673	130,758	124,673
Reserves					
Capital reserve	22	101,690	64,353	103,325	65,733
General reserves excluding pension reserve	22	136,444	130,179	136,418	130,172
Pension reserve	22	(1,337)	(1,140)	(1,337)	(1,140)
		236,797	193,392	238,406	194,765
Total funds		776,314	726,873	777,923	728,246

The financial statements on pages 28 to 50 were approved by the Council on 4 December 2012 and signed on its behalf by:

The Marquess of Douro
Chairman of Council

Professor Sir Richard Trainor
Principal

Mr Rory Tapner
Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2012

	Note	2011–12 £000	2010–11 £000
Net cash inflow from operating activities	24	43,358	43,610
Returns on investments and servicing of finance	25	(2,049)	(1,992)
Capital expenditure and financial investment	26	(55,775)	(25,646)
Cash (outflow)/inflow before use of liquid resources and financing		(14,466)	15,972
Management of liquid resources	27	4,431	(1,959)
Financing	28	(3,526)	(5,253)
(Decrease)/increase in cash	29	(13,561)	8,760

Reconciliation of net cash flow to movement in net cash

	Note	2011–12 £000	2010–11 £000
(Decrease)/increase in cash in the year		(13,561)	8,760
Cash (outflow)/inflow from liquid resources		(4,431)	1,959
Decrease in debt		1,144	940
Movement in net cash in the year		(16,848)	11,659
Net cash at 1 August		68,550	56,891
Net cash at 31 July	29	51,702	68,550

The notes on pages 34 to 50 form part of the financial statements.

Notes to the accounts

For the year ended 31 July 2012

1. FUNDING BODY GRANTS

	2011–12 £000	2010–11 £000
Higher Education Funding Council for England grants		
Recurrent grant	124,604	129,558
Specific grants	4,253	4,513
Deferred capital grants released in the year:		
Buildings *(note 20)*	6,286	5,672
Plant *(note 20)*	2,751	2,076
Equipment *(note 20)*	1,402	2,604
	139,296	144,423
Joint Information Systems Committee grants	381	1,525
Training and Development Agency for Schools		
Recurrent grant	1,166	1,263
Specific grants	65	–
	1,231	1,263
Total funding body grants	140,908	147,211

2. TUITION FEES AND EDUCATION CONTRACTS

	2011–12 £000	2010–11 £000
Full-time students charged home fees	50,432	44,849
Full-time students charged overseas fees	58,301	49,705
Regional health authorities contracted student fees	21,383	21,161
Part-time fees	6,704	6,192
Special and short course fees	9,659	8,575
Research training support grants	65	264
	146,544	130,746

3. RESEARCH GRANTS AND CONTRACTS

	2011–12 £000	2010–11 £000
Research Councils	35,428	36,727
UK central government, local authorities, health and hospital authorities	36,797	37,436
UK industry, commerce and public corporations	9,818	9,133
UK charitable bodies	44,948	43,244
EU government and other bodies	15,927	11,288
Overseas non EU	11,448	8,795
Other	379	476
	154,745	147,099

Notes to the accounts *continued*

For the year ended 31 July 2012

4. OTHER OPERATING INCOME

	2011–12 £000	2010–11 £000
Academic departments costs reimbursed by NHS	15,095	15,801
Clinical excellence awards reimbursed by NHS	8,508	8,346
Residences, catering and conferences	19,438	17,932
Services rendered to NHS and related bodies	8,144	7,551
Self-financing activities	26,153	21,210
Released from deferred capital grants	2,069	2,042
Other income	24,425	20,679
	103,832	93,561

5. ENDOWMENT AND INVESTMENT INCOME

	2011–12 £000	2010–11 £000
Transferred from restricted permanent endowments *(note 21)*	2,181	2,131
Transferred from restricted expendable endowments *(note 21)*	1,793	1,438
Other interest receivable	4,217	1,924
	8,191	5,493

6. STAFF

	2011–12 £000	2010–11 £000
Staff costs:		
Wages and salaries	269,683	255,530
Social security costs	21,902	20,357
Other pension costs *(note 30)*	33,019	31,811
Restructuring costs	–	–
	324,604	307,698
Emoluments of the Principal:		
Other emoluments	267	267
Benefits-in-kind	5	5
	272	272
Pension scheme contributions	49	49
Total emoluments of the Principal	321	321

The pension contributions for the Principal paid in respect of employer's contributions to the Universities Superannuation Scheme are paid at the same rate as for other employees. In accordance with his contract of employment, the Principal is required to live in College-provided accommodation for the better performance of his duties. The provision of this accommodation has nil taxable value, and the Principal makes a personal contribution towards running costs.

	2011–12 Number	2010–11 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	3,043	2,923
Administrative and related staff	815	794
Technical	338	329
Clerical	956	925
Other	153	170
	5,305	5,141

Notes to the accounts *continued*

For the year ended 31 July 2012

6. STAFF *(continued)*

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

	2011–12 Clinical academic	2011–12 Other academic and related	2011–12 Total number	2010–11 Total number
£100,001–£110,000	19	10	29	30
£110,001–£120,000	16	12	28	23
£120,001–£130,000	20	9	29	22
£130,001–£140,000	8	4	12	18
£140,001–£150,000	18	3	21	20
£150,001–£160,000	18	2	20	16
£160,001–£170,000	7	3	10	11
£170,001–£180,000	9	1	10	14
£180,001–£190,000	4	–	4	4
£190,001–£200,000	6	–	6	7
£200,001–£210,000	2	–	2	4
£210,001–£220,000	3	–	3	5
£220,001–£230,000	4	–	4	3
£230,001–£240,000	3	–	3	3
£240,001–£250,000	–	–	–	–
£250,001–£260,000	1	–	1	1
£260,001–£270,000	–	–	–	1
£270,001–£280,000	–	1	1	1
£280,001–£290,000	1	–	1	–
£290,001–£300,000	–	–	–	–
£300,001–£310,000	–	1	1	–

The accounts include three severance payments for higher-paid employees (including the cost of additional pension benefits purchased by the College) amounting to £338,000 for 2012 (2011 – five, £494,000).

7. TRUSTEES

The trustees are the members of Council, which is the supreme governing body of the College established under the Charter and Statutes. Membership of Council comprises a mixture of independent (lay) members, staff members and the President of the King's College London Students' Union.

No member of Council receives remuneration in respect of his or her duties of Council.

Expenses amounting to £1,000 (2011 – £1,000) were paid to or on behalf of three members in respect of their duties of Council. In addition, the College paid a contribution of £12,000 (2011 – £12,000) towards the costs of the Chairman's office.

8. INTEREST PAYABLE

	2011–12 £000	2010–11 £000
Bank and other loans wholly repayable within five years	6	11
Loans not wholly repayable within five years	10,740	10,794
Finance leases	1,551	1,556
	12,297	12,361

Notes to the accounts *continued*

For the year ended 31 July 2012

9. TAXATION

	2011–12 £000	2010–11 £000
UK corporation tax payable on the profits of subsidiary companies	(8)	2

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 2012 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	2011–12 Total £000	2010–11 Total £000
Academic departments	146,973	3,188	17,767	–	167,928	160,289
Academic departments costs reimbursed by NHS	14,361	–	734	–	15,095	15,801
Clinical excellence awards reimbursed by NHS	8,464	–	–	–	8,464	8,304
Academic services	17,412	2,174	11,633	–	31,219	31,748
Research grants and contracts	78,027	3,999	45,927	–	127,953	121,782
Residences, catering and conferences	4,522	22	8,339	4,916	17,799	17,964
Premises	6,947	14,787	35,145	–	56,879	50,386
Administration and central services	26,652	43	8,908	–	35,603	32,287
Staff and student facilities	3,468	308	6,117	–	9,893	9,464
General education expenditure	1,585	3	14,791	–	16,379	11,652
Services rendered to NHS and related bodies	5,987	–	2,017	–	8,004	7,457
Self-financing activities	10,165	–	7,903	–	18,068	17,432
Pension costs	(33)	–	–	–	(33)	(20)
Other	74	130	1,871	7,381	9,456	12,059
Total per Income and Expenditure Account	324,604	24,654	161,152	12,297	522,707	496,605

The depreciation charge has been funded by:	
Deferred capital grants released *(note 20)*	16,506
General income	8,148
	24,654

Other operating expenses include:	2011–12 £000	2010–11 £000
External auditors' remuneration in respect of audit services:		
College financial statements	100	95
Subsidiary financial statements	9	8
United States Department of Education	131	–
External auditors' remuneration in respect of non-audit services:		
Consultancy	–	73
Research certifications	44	216
Other certifications	35	10

Notes to the accounts *continued*

For the year ended 31 July 2012

11. TANGIBLE ASSETS

Consolidated	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Plant £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost								
At 1 August 2011	342,611	316,152	7,739	19,573	90,087	21,733	46,337	844,232
Additions	1,270	211	–	18	5,049	–	54,840	61,388
Transfers	4,476	29,161	601	25,200	38	–	(59,476)	–
Disposals	(3)	–	(190)	–	(6,477)	–	–	(6,670)
At 31 July 2012	348,354	345,524	8,150	44,791	88,697	21,733	41,701	898,950
Depreciation								
At 1 August 2011	56,812	56,680	4,819	2,503	71,193	7,246	–	199,253
Charge for year	5,258	5,340	342	3,056	9,211	1,447	–	24,654
Eliminated on disposals	(1)	–	(23)	–	(6,466)	–	–	(6,490)
At 31 July 2012	62,069	62,020	5,138	5,559	73,938	8,693	–	217,417
Net book value								
At 31 July 2012	286,285	283,504	3,012	39,232	14,759	13,040	41,701	681,533
At 1 August 2011	285,799	259,472	2,920	17,070	18,894	14,487	46,337	644,979

College	Land and buildings Freehold £000	Long leasehold £000	Short leasehold £000	Plant £000	Furniture and equipment £000	Leased equipment £000	Assets in the course of construction £000	Total £000
Cost								
At 1 August 2011	343,168	316,901	7,752	19,586	90,064	21,733	46,394	845,598
Additions	1,270	210	–	18	5,047	–	55,087	61,632
Transfers	4,498	29,278	601	25,233	56	–	(59,666)	–
Disposals	(3)	–	(190)	–	(6,452)	–	–	(6,645)
At 31 July 2012	348,933	346,389	8,163	44,837	88,715	21,733	41,815	900,585
Depreciation								
At 1 August 2011	56,812	56,680	4,819	2,503	71,179	7,246	–	199,239
Charge for year	5,258	5,340	342	3,056	9,211	1,447	–	24,654
Eliminated on disposals	(1)	–	(23)	–	(6,452)	–	–	(6,476)
At 31 July 2012	62,069	62,020	5,138	5,559	73,938	8,693	–	217,417
Net book value								
At 31 July 2012	286,864	284,369	3,025	39,278	14,777	13,040	41,815	683,168
At 1 August 2011	286,356	260,221	2,933	17,083	18,885	14,487	46,394	646,359

The total amount of interest included in assets above amounted to £1,740,000 (2011 – £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 £1,780,000 and £50,510,000 respectively.

Included in the above are assets with a net book value of £408,759,000 (2011 – £408,808,000) funded by capital grants (*note 20*).

Notes to the accounts *continued*

For the year ended 31 July 2012

12. HERITAGE ASSETS

Heritage assets include a unique, internationally significant and continually expanding range of archival and printed sources, exhibits and pictures. These resources are available for use by the staff and students of King's, the wider academic community and any member of the public who has an interest in the College's holdings. Items may be acquired by gift, bequest, exchange or purchase on the open market.

King's aims to preserve all material in perpetuity in its original format. Surrogate copies may be created for dissemination, or where items are of exceptional rarity or delicacy. All preservation and conservation costs are charged to the Income and Expenditure Account as incurred.

The principal collections are:

Archives

These comprise not only the archives of the College, but also those of organisations that it has founded or with which it has merged. Additionally, they contain the research papers of former staff and students, including Maurice Wilkins, Eric Mottram and Sir Charles Wheatstone.

The Liddell Hart Centre for Military Archives is a leading repository for research into modern defence policy in Britain. Private papers of over 700 senior defence personnel who held office from 1900 onwards form the core of this collection.

The archives consist of some 5 million documents.

Special collections

The Foyle Special Collections Library houses maps, slides, sound recordings and manuscripts as well as over 150,000 printed works. Ranging in date from the fifteenth century to the present day and covering all subject areas, the collections are particularly strong in medicine, science, voyages and travels, the history of Greece and the Eastern Mediterranean, European military and diplomatic history, the history of the British Empire, twentieth-century Germany and Jewish and Christian theology.

The largest section, the FCO Historical Collection, comprises material from the former library of the Foreign & Commonwealth Office, transferred to King's in 2007, and contains over 60,000 items. Topics it covers in depth include: exploration, discovery and travel; war and cold war; diplomacy and peace-keeping; the growth, rule and decline of empires; colonial emigration and settlement; the growth and abolition of the Atlantic slave trade; trade, transport and communication; and anthropology and natural history. Although held by the College, this collection is owned by a separate company, King's College Foreign & Commonwealth Office Library Ltd, which is independent of the College.

Gordon Museum

The Gordon Museum has a large and growing teaching collection of approximately 8,000 pathological specimens with specialised sub-areas on such subjects as Forensic Medicine and HIV/AIDS. It also houses a number of important historic collections: the Joseph Towne anatomical and dermatological wax models, the Lam Qua paintings, and specimens and artefacts acquired by Thomas Hodgkin, Thomas Addison, Richard Bright and Sir Astley Cooper.

King George III Collection

This collection of eighteenth-century scientific apparatus is on loan to the Science Museum. It consists of equipment assembled during the 1750s by the natural scientist and astronomer Stephen Demainbray for use in public lectures and apparatus commissioned in 1761 by King George III from the instrument maker George Adams for the entertainment and instruction of the royal family.

Further information on all of these collections is available on the College website, www.kcl.ac.uk.

No heritage assets were capitalised during the year as none exceeded the capitalisation threshold of £25,000. Earlier acquisitions are not capitalised because cost or acquisition values are unavailable for the majority of the assets and the benefit of a professional valuation would be outweighed by the related costs. Any valuation would necessarily be imprecise and prey to changing fashions and fluctuating market trends due to the unique nature of the assets.

Notes to the accounts *continued*

For the year ended 31 July 2012

13. INVESTMENTS

	Consolidated		College	
	2012 £000	2011 £000	2012 £000	2011 £000
Investment in subsidiary companies at cost	–	–	–	–
Other fixed asset investments	12,018	48	12,018	48
	12,018	48	12,018	48

The College owns 100% of the issued ordinary share capital of King's College London Business Limited (for research administration, business development and consultancy) and College Facilities Limited (for construction services). Both companies are registered in England and their operating activities are in the United Kingdom.

14. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College	
	2011–12 £000	2010–11 £000
Balance at 1 August	124,673	115,233
Additions	52,614	94,613
Disposals	(44,455)	(92,931)
Revaluation	2,357	5,799
Increase in cash balances	(4,431)	1,959
Balance at 31 July	130,758	124,673
Fixed interest stocks	34,287	29,028
Equities	89,142	83,885
Bank balances	7,329	11,760
Total endowment asset investments	130,758	124,673
Fixed interest and equities at cost	114,190	105,916

15. DEBTORS

	Consolidated		College	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	13,020	14,487	13,020	14,487
Other debtors	13,612	5,483	11,841	5,043
Research grant debtors	25,652	20,183	25,652	20,183
Research grant work in progress	17,603	14,087	17,603	14,087
Prepayments and accrued income	606	702	606	369
Amounts owed by Group undertakings	–	–	9	432
	70,493	54,942	68,731	54,601

Notes to the accounts *continued*

For the year ended 31 July 2012

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade creditors	26,928	21,881	20,143	18,761
Payments received on account	94,928	76,608	94,928	76,608
Other creditors and accruals	32,245	45,169	30,762	44,097
Social security and other taxation payable	7,423	7,551	7,423	7,549
Amounts owed to Group undertakings	–	–	249	788
Obligations under finance leases less term deposits for repayment *(note 18)*	1,650	2,236	1,650	2,236
Current element of long-term liabilities *(note 18)*	3,506	3,330	3,506	3,330
	166,680	156,775	158,661	153,369

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

	Consolidated		College	
	2012 £000	2011 £000	2012 £000	2011 £000
Obligations under finance leases *(note 18)*	13,976	36,084	13,976	36,084
Term deposits for loan repayments	(3,325)	(25,403)	(3,325)	(25,403)
	10,651	10,681	10,651	10,681
Loans *(note 18)*	160,433	161,137	160,433	161,137
Total long-term borrowings	171,084	171,818	171,084	171,818

Loans are secured on a portion of the freehold land and buildings of the College.
Term deposits for loan repayments are investments held specifically for the future repayment of loans.

18. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2012 £000	2011 £000	2012 £000	2011 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	1,650	2,236	3,615	3,506
Between two and five years	4,949	25,958	12,026	11,423
Total between one and five years	6,599	28,194	15,641	14,929
Over five years	7,377	7,890	144,792	146,208
Total over one year *(note 17)*	13,976	36,084	160,433	161,137
Within one year *(note 16)*	22,616	2,236	3,506	3,330
	36,592	38,320	163,939	164,467

Loans with interest rates between 7.80% and 9.58% amounting to £40,433,000 are repayable by instalments falling due between 1 August 2013 and 17 September 2027.

On 27 April 2001, the College issued £60m Senior Notes (Notes) with a fixed interest rate of 6.22%. The principal amount is repayable on 27 April 2031. Interest payments are semi-annual, on 27 April and 27 October. The College, at its option, may prepay at any time all or part of the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding, at 100% of the principal amount so prepaid, plus the discounted value of the remaining scheduled payments with respect to the principal amount.

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

Notes to the accounts *continued*

For the year ended 31 July 2012

18. BORROWINGS *(continued)*

On 16 May 2008, the College received a £60m secured loan with a fixed interest rate of 4.855%, repayable on 16 May 2048. At 31 July 2012, the College had an interest-rate swap agreement in place with a notional amount of £60m, which enabled the College to benefit from the interest rate differential between 1- and 3-month LIBOR, providing a 0.20% benefit against the swapped loan rate of 4.855%.

19. PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and College £000
At 1 August 2011	2,210
Utilised in year	(2,210)
At 31 July 2012	–

The provisions relate to restructuring costs arising in order to achieve the College's Strategic Plan.

As explained in the Statement of Principal Accounting Policies, note 13, no provision has been made for the deferred tax on the grounds that the subsidiary companies transfer their taxable profits by gift aid to the College and therefore no deferred tax assets or liability will be realised.

20. DEFERRED CAPITAL GRANTS

	Consolidated and College		
	Funding Council £000	Other grants and benefactions £000	Total £000
At 1 August 2011			
Buildings	239,662	125,278	364,940
Plant	26,182	2,894	29,076
Equipment	7,622	7,170	14,792
Total	273,466	135,342	408,808
Cash received			
Buildings	(800)	7,396	6,596
Plant	4,570	450	5,020
Equipment	2,992	1,849	4,841
Total	6,762	9,695	16,457
Released to income and expenditure			
Buildings *(note 1)*	(6,286)	(2,620)	(8,906)
Plant *(note 1)*	(2,751)	(238)	(2,989)
Equipment *(note 1)*	(1,402)	(3,209)	(4,611)
Total *(note 10)*	(10,439)	(6,067)	(16,506)
At 31 July 2012			
Buildings	232,576	130,054	362,630
Plant	28,001	3,106	31,107
Equipment	9,212	5,810	15,022
Total	269,789	138,970	408,759

Notes to the accounts *continued*

For the year ended 31 July 2012

21. ENDOWMENTS

	Consolidated and College Restricted permanent £000	Restricted expendable £000	Total £000
At 1 August 2011	109,555	15,118	124,673
Transfer	(73)	73	–
Additions	2,759	1,286	4,045
Change in value of endowment asset investments	2,178	179	2,357
Income for year	3,100	557	3,657
Transferred to Income and Expenditure Account *(note 5)*	(2,181)	(1,793)	(3,974)
At 31 July 2012	115,338	15,420	130,758
Endowment capital	110,546	14,671	125,217
Accumulated income	4,792	749	5,541
	115,338	15,420	130,758

	At 1 August 2011 £000	Additions and transfers £0000	Change in market value £000	Income £000	Expenditure £000	At 31 July 2012 £000
Funds with income under £100,000						
Scholarships (154 funds)	17,639	186	343	464	(211)	18,421
Prize funds (261 funds)	5,807	20	114	154	(27)	6,068
Chairs and lectureships (175 funds)	68,064	3,831	1,242	2,013	(3,202)	71,948
Other funds (78 funds)	10,200	8	198	406	(130)	10,682
Funds with income over £100,000						
Dimbleby Endowment Fund	6,597	–	134	180	(214)	6,697
Newland-Pedley General Fund	12,618	–	251	339	(173)	13,035
Richard Dickinson USA Fund	3,748	–	75	101	(17)	3,907
	124,673	4,045	2,357	3,657	(3,974)	130,758

The Dimbleby Endowment Fund is used for cancer research.
The Newland-Pedley General Fund is used to support the Dental School.
The Richard Dickinson USA Fund is used to support research and training fellowships in dentistry.

Notes to the accounts *continued*

For the year ended 31 July 2012

22. RESERVES

	Consolidated £000	College £000
Balance at 1 August 2011	193,392	194,765
Surplus after depreciation of assets at cost and tax	43,635	43,871
Actuarial gain on pension scheme liability	(230)	(230)
Balance at 31 July 2012	236,797	238,406
The reserves are:		
Income and expenditure reserve, which is nominally allocated to:		
Capital reserve	101,690	103,325
Departmental reserves	49,870	49,870
Revenue reserve	86,574	86,548
General reserves	136,444	136,418
Total income and expenditure reserve	238,134	239,743
Pension reserve	(1,337)	(1,337)
	236,797	238,406

Capital reserve

The capital reserve is equivalent to the amount by which the value of tangible fixed assets in the Balance Sheet exceeds long-term borrowings and deferred capital grants. The reserve is set aside to fund depreciation charges on assets that are not being funded by future cash flows.

23. CAPITAL COMMITMENTS

	Consolidated		College	
	2012 £000	2011 £000	2012 £000	2011 £000
Commitments contracted at 31 July	28,214	34,856	28,214	34,856
Commitments authorised but not contracted at 31 July	106,938	103,758	106,938	103,758
	135,152	138,614	135,152	138,614

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

	2011–12 £000	2010–11 £000
Surplus before tax	43,627	27,505
Depreciation *(note 11)*	24,654	23,946
Deferred capital grants released to income *(note 20)*	(16,506)	(16,716)
Investment income *(note 5)*	(8,191)	(5,493)
Interest payable *(note 8)*	12,297	12,361
Pension scheme FRS17 income and costs	(33)	(2,790)
Surplus on disposal of tangible fixed assets	(5,060)	(698)
Increase in debtors	(15,551)	(2,401)
Increase in creditors	10,331	13,372
Decrease in provisions	(2,210)	(5,476)
Net cash inflow from operating activities	43,358	43,610

Notes to the accounts *continued*

For the year ended 31 July 2012

25. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2011–12 £000	2010–11 £000
Income from endowments *(note 21)*	3,657	4,132
Interest received	2,246	1,924
Interest paid	(7,952)	(8,048)
Net cash outflow from returns on investments and servicing of finance	(2,049)	(1,992)

26. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2011–12 £000	2010–11 £000
Tangible assets acquired *(note 11)*	(61,388)	(49,152)
Investments acquired	(11,970)	–
Endowment asset investments acquired *(note 14)*	(52,614)	(94,613)
Total tangible and investment assets acquired	(125,972)	(143,765)
Receipts from sale of tangible assets	5,240	805
Receipts from sale of endowment assets *(note 14)*	44,455	92,931
Deferred capital grants received *(note 20)*	16,457	21,305
Endowments received *(note 21)*	4,045	3,078
Net cash outflow from capital expenditure and financial investment	(55,775)	(25,646)

27. MANAGEMENT OF LIQUID RESOURCES

	2011–12 £000	2010–11 £000
Movement in endowment assets *(note 14)*	4,431	(1,959)
Net cash movement from management of liquid resources	4,431	(1,959)

28. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2011–12 £000	2010–11 £000
Borrowings repaid	(3,330)	(3,170)
Repayment of capital element of finance leases	(196)	(2,083)
Net cash outflow from financing	(3,526)	(5,253)

29. ANALYSIS OF CHANGES IN NET CASH

	At 1 August 2011 £000	Cash flows £000	Other changes £000	At 31 July 2012 £000
Cash at bank and in hand	234,174	(13,561)	–	220,613
Endowment asset investments *(note 14)*	11,760	(4,431)	–	7,329
	245,934	(17,992)	–	227,942
Debt due within one year	(5,566)	3,009	(2,599)	(5,156)
Debt due after one year	(171,818)	517	217	(171,084)
Net cash	68,550	(14,466)	(2,382)	51,702

Notes to the accounts *continued*

For the year ended 31 July 2012

30. PENSIONS

The two principal pension schemes in which the College participates are the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). USS provides benefits based on final pensionable salary for academic and related employees of all UK universities and some other employers. SAUL provides similar benefits for non-academic staff. These are externally funded centralised defined-benefit schemes which are contracted out of the Second State Pension. The assets of the schemes are held in separate trustee-administered funds. It is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore contributions are accounted for as if the schemes were defined-contribution schemes and pension costs are based on the amounts actually paid in accordance with paragraphs 8–12 of FRS17.

Universities Superannuation Scheme (USS)

The latest actuarial valuation of the scheme was as at 31 March 2011 using the projected unit method. The assumptions that have the most significant effect on the result of the valuation and the valuation results are set out below.

	Past service	Future service
Valuation rate of interest	4.4%	6.1%
Salary scale increases per annum	4.4%	4.4%
Pensions increases per annum for 3 years	3.4%	3.4%
Pensions increases per annum after 3 years	2.6%	2.6%
Market value of assets at date of last valuation	£32,434m	
Value of past service liabilities at date of last valuation	£35,344m	
Deficit of assets at date of last valuation	£2,910m	
Proportion of members' accrued benefits covered by the actuarial value of the assets	92%	

Male members' mortality	S1NA ['light'] YoB tables – no age rating	
Female members' mortality	S1NA ['light'] YoB tables – rated down one year	
The assumed life expectations on retirement at age 65 are:	Males (females) currently aged 65	23.7 (25.6) years
	Males (females) currently aged 45	25.5 (27.6) years

The College's contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries. As part of this valuation, the trustees, after consultation with the employers, determined a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is due as at 31 March 2014. The contribution rate will be reviewed as part of each valuation.

Superannuation Arrangements of the University of London (SAUL)

The latest actuarial valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities.

	31 March 2011
Discount rate pre-retirement	6.80%
Discount rate post-retirement	4.70%
General salary increases per annum for 3 years	3.75%
General salary increases per annum after 3 years	4.50%
Retail prices index (RPI) inflation	3.50%
Consumer price index (CPI) inflation	2.80%
Pensions increases in payment (excess over Guaranteed Minimum Pension)	2.80%
Market value of assets at date of last valuation	£1,506m
Proportion of members' accrued benefits covered by the actuarial value of the assets	95%

Mortality – base table	Self-administered pension schemes (SAPS) Normal Health (year of birth) tables with an age rating of +0.5 years for males and –0.4 years for females
Mortality – future improvements	In line with continuous mortality investigation (CMI) 2010 projections with a long-term trend rate of 1.25% per annum

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

The next formal actuarial valuation is due as at 31 March 2014, when the above rates will be reviewed.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in deficit at the last formal valuation (31 March 2011). As part of this valuation, the trustee and employers agreed that no additonal contributions would be required to eliminate the current shortfall.

Notes to the accounts *continued*

For the year ended 31 July 2012

30. PENSIONS *(continued)*

The material changes resulting from the introduction of a career average revalued earnings (CARE) benefit structure apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members are replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021.

Prices index for retirement benefits

Under the rules of the Local Government Pension Scheme, pensions are increased in line with Orders made under the Pensions (Increase) Act 1971, as was also the case for the Federated Pension Scheme prior to its transfer into SAUL. Following the government's July 2010 announcement changing the basis of future increases under the Act from the RPI to the CPI, a decrease in pension liabilities was recognised in the year to 31 July 2010 with the corresponding gain recognised as an actuarial gain in the Statement of Total Gains and Losses. In the light of the Urgent Issues Task Force Abstract 48 in December 2010 this accounting treatment was reviewed, and it was concluded that it remains appropriate for both schemes as the change does not represent an alteration to the scheme rules, but merely a change in the assumption of future pension increases.

Federated Pension Scheme (FPS)

The pension scheme offered to non-academic staff at the United Medical and Dental Schools of Guy's and St Thomas' Hospitals (UMDS) was the Federated Pension Scheme (FPS).

An agreement to merge FPS with SAUL was signed on 31 July 2011. On 31 August 2011 a payment of £2,770,000 was made to SAUL in order to bring the funding level of FPS up to that of SAUL.

As a result of the merger of the schemes and the deficit payment, the College's pension liability, which was £4,146,000 in respect of FPS at 31 July 2010 as measured on an FRS17 basis, has been eliminated. This gave rise to a credit of £2,770,000 to the Income and Expenditure Account, offsetting the £2,770,000 cost of the funding deficit that had accrued at 31 July 2011. The remaining balance on the pension liability of £1,376,000 was credited in the Statement of Recognised Gains and Losses for the year ended 31 July 2011.

Local Government Pension Scheme (LGPS)

The pension scheme offered to staff at the former Chelsea College was the Local Government Pension Scheme (LGPS). No new members are admitted to the scheme.

LGPS is a defined-benefit scheme; the last triennial valuation was undertaken on 31 March 2010.

For the purposes of reporting under FRS17, projected unit method valuations were carried out as at 31 July 2012. The assumptions used and the valuation results are set out below.

		31 July 2012	31 July 2011	31 July 2010
Price increases per annum (RPI)		2.6%	3.5%	3.2%
Price increases per annum (CPI)		1.8%	2.7%	2.7%
Salary increases per annum		3.5%	4.5%	4.7%
Pension increases per annum		1.8%	2.7%	2.7%
Discount rate per annum		3.9%	5.3%	5.4%
Expected return on assets		3.9%	4.6%	4.7%
Life expectancy from age 65 years				
Retiring today	Males	20.0	19.9	21.0
	Females	23.7	23.6	23.4
Retiring in 20 years	Males	22.0	21.9	22.0
	Females	25.6	25.5	24.2

Total expense recognised in the Income and Expenditure Account	31 July 2012 £000	31 July 2011 £000
Current service cost	10	10
Interest cost on obligation	275	285
Expected return on scheme assets	(189)	(189)
Past service cost	–	–
Total Income and Expenditure charge	96	106
Expected employer contribution to the scheme in the year to 31 July 2013	74	

Notes to the accounts *continued*

For the year ended 31 July 2012

30. PENSIONS *(continued)*

Expected return on assets	**31 July 2012**		**31 July 2011**		**31 July 2010**	
Fair value of assets and the net expected return on assets by category:	**Rate of return**	**£000**	**Rate of return**	**£000**	**Rate of return**	**£000**
Equities	5.8%	500	7.0%	855	7.3%	527
Cash flow matching	2.8%	1,293	4.0%	3,463	4.3%	3,488
Target Return Portfolio	4.3%	2,252	–	–	–	–
Cash	0.5%	125	3.0%	(43)	3.0%	41
Total fair value of assets		4,170		4,275		4,056
Value of liabilities (defined-benefit obligation)		(5,012)		(4,939)		(5,113)
Value of unfunded obligations		(495)		(476)		(485)
Recognised pension liability		(1,337)		(1,140)		(1,542)

Changes in the present value of the defined-benefit obligation	**2011–12 £000**	**2010–11 £000**
Opening defined-benefit obligation	5,415	5,598
Current service cost	10	10
Interest cost on obligation	275	285
Actuarial losses/(gains) on obligation	272	(82)
Past service cost	–	–
Member contributions	3	3
Unfunded benefits paid	(55)	(53)
Benefits paid net of transfers in	(413)	(346)
Closing defined-benefit obligation	5,507	5,415

Changes in the fair value of scheme assets	**2011–12 £000**	**2010–11 £000**
Opening fair value of scheme assets	4,275	4,056
Expected return	189	189
Actuarial gains	42	300
Employer contributions	74	73
Member contributions	3	3
Contributions in respect of unfunded benefits	55	53
Unfunded benefits paid	(55)	(53)
Benefits paid net of transfers in	(413)	(346)
Closing fair value of scheme assets	4,170	4,275

Total amounts recognised in the Statement of Total Recognised Gains and Losses	**2011–12 £000**	**2010–11 £000**
Actuarial (losses)/gains on obligation	(232)	296
Experience losses	(40)	(94)
Actuarial gains on assets	42	180
	(230)	382

The actuarial gains on pension schemes shown in the Statement of Recognised Gains and Losses for the year ended 31 July 2011, of £1,758,000 consist of the £382,000 gain on LGPS and the £1,376,000 gain on FPS.

Notes to the accounts *continued*

For the year ended 31 July 2012

30. PENSIONS *(continued)*

Return on scheme assets	**31 July 2012 £000**	**31 July 2011 £000**
Actual return on scheme assets	231	369
Expected return on scheme assets	189	189
Actual less expected return on scheme assets	42	180

History of experience gains and losses

	31 July 2012 £000	**31 July 2011 £000**	**31 July 2010 £000**	**31 July 2009 £000**	**31 July 2008 £000**
Fair value of scheme assets	4,170	4,275	4,056	3,558	3,982
Value of liabilities (funded obligations)	(5,507)	(5,415)	(5,598)	(6,041)	(5,657)
Deficit	(1,337)	(1,140)	(1,542)	(2,483)	(1,675)
Experience adjustments on liabilities	(40)	(214)	197	–	17
Experience adjustments on assets	42	300	586	(357)	64

The above statements are made in compliance with FRS17. However, under current legislation, the College's obligation to fund the pension schemes is defined by the Minimum Funding Requirement (MFR). At the time of the last actuarial valuation of the pension schemes and when the appropriate Schedule of Contributions was prepared following that valuation, the pension schemes 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 it is therefore accounted for on a contributions basis.

Total pension cost for the College and its subsidiaries

	Consolidated		**College**	
	2011–12 £000	**2010–11 £000**	**2011–12 £000**	**2010–11 £000**
Contributions to USS	24,311	22,552	24,188	22,319
Contributions to SAUL	4,425	3,954	4,425	3,954
Contributions to NHSPS	4,083	3,871	4,083	3,871
Contributions relating to FPS	–	1,153	–	1,153
Contributions to other pension schemes	200	281	200	281
Total pension cost *(note 6)*	33,019	31,811	32,896	31,578

The contributions relating to FPS for the year ended 31 July 2011 include the funding deficit cost and corresponding offsetting transfer of £2,770,000 from the net pension liability.

Notes to the accounts *continued*

For the year ended 31 July 2012

31. RELATED PARTY TRANSACTIONS

The College maintains a register of the interests of the members of Council and of its standing committees. The register is available for inspection under the Freedom of Information Act 2000.

Due to the nature of the College's operations and the composition of its Council and committees, it is possible that there will be transactions from time to time between the College and organisations with which members of Council and its committees have relationships. If such transactions do occur, they are conducted on an arm's-length basis and in compliance with the College's Financial Regulations and procurement policies.

In particular, the College enjoys a close working relationship with Guy's and St Thomas', King's College Hospital and South London and Maudsley NHS Foundation Trusts under the name of King's Health Partners – a collaboration that aims to combine the best of basic and translational research, clinical excellence and world-class teaching to deliver groundbreaking advances in physical and mental healthcare – which is accredited as an Academic Health Sciences Centre. As a consequence there are recharges between these institutions, as disclosed in these accounts, and senior staff of the College may also hold senior positions in these organisations.

King's College London Students' Union (Union) is an independent charity registered with the Charity Commission, of which the President is also a member of College Council. The College makes an annual grant to the Union.

As permitted under FRS8, no disclosure is made in respect of transactions between the College and its wholly owned subsidiaries.

32. ACCESS FUNDS AND TRAINING SALARIES

	Consolidated and College			
	Access funds		Training salaries	
	2011–12 £000	2010–11 £000	2011–12 £000	2010–11 £000
Balance underspent/(overspent) at 1 August	32	35	107	(4)
Funding Council and Training and Development Agency for Schools grants	264	266	921	1,526
Interest earned	1	1	–	–
	265	267	921	1,526
Disbursed to students	(263)	(261)	(1,034)	(1,415)
Administrative expenses	(9)	(9)	–	–
	(272)	(270)	(1,034)	(1,415)
Balance underspent/(overspent) at 31 July	25	32	(6)	107

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