

Financial Statements

for the year to 31 July 2003

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Report of the Treasurer and Director of Finance on the Accounts for the year ended 31 July 2003

Scope of the Financial Statements

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

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

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

Results for the Year

Total income for the year was £327.4m (2001/02 £315.5m excluding transfers from general endowments of £3.3m). Total expenditure was £323.9m (2001/02 £316.2m) giving a surplus on normal operations of £3.5m. After crediting £2.9m profit on the disposal of property, the final results for the year, after depreciation of assets at cost and tax, was a surplus of £6.4m as follows:

	2002/03 £000	2001/02 £000
Income	327,416	315,529
Expenditure	(323,896)	(316,181)
Surplus/(deficit) on normal operations	3,520	(652)
Transfer from general endowments	-	3,286
Surplus on disposal of property	2,903	8,385
Taxation	(3)	-
Surplus after depreciation of assets at cost and tax	6,420	11,019



The results for the year are consistent with the College's budgets and forward financial forecasts, although the surplus on normal operations needs to be further analysed between the deficit attributable to normal College operations and the surplus of income over expenditure on departmental activities where significant gains were made during the year as follows:

	2002/03 £000
(Deficit) on normal College operations	(855)
Surplus on departmental activities	4,375
Surplus on normal operations	3,520

The surplus on departmental funds is credited to departmental reserves which increased to £18.6m as at 31 July 2003 (see note 21 to the accounts) and whilst these funds are used to support the academic endeavour of the College the application of funds and timing of expenditure is at the discretion of the designated account holders rather than general funds of the College.

The profit on the disposal of property relates to the sale of Catherine Wheel Yard following the opening of the Principal's new residence in the Maughan Library, and the sale of the Old Medical School at Denmark Hill following the land swap with King's College Hospital NHS Trust by which the College acquired the former GAF site as part of the overall redevelopment plans for the Denmark Hill Campus.

The longer term financial health of the College depends on the realisation of potential increased income from both teaching and research activities in addition to cost savings associated with staff rationalisation. In this respect the College made good progress during the year implementing the staff restructuring programme envisaged under the Strategic Plan with significant changes in staffing profiles across the College although much remains to be done, and agreement was reached with the College's main NHS partner Trusts regarding the transfer of posts and

associated funding arrangements for restructuring the Medical School.

In the medium term the College's financial objective remains the achievement of a 3 per cent surplus on normal operations to enable investment in new academic initiatives, the estate and support services. However the College's financial forecasts indicate this objective is unlikely to be achieved without further cost reduction, and during the year the College undertook a major strategic review of activities which is likely to lead to a further concentration of resources with some reduction in the range of teaching and research undertaken.

An analysis of the College's income, which increased by 2.7 per cent from 2002 levels, by funding source, together with a breakdown of expenditure by the Schools of the College, is given below.

The College's student load increased by 6.4 per cent compared with 2002, and the total staff reduced by 1.8 per cent from 2002 levels. An analysis of student load and staff by the Schools of the College is also given below.

Capital Projects

The College continues to make progress towards achieving its estates strategic aims.

During the year practical completion was achieved on the Social, Genetic and Development Psychiatry Research building on the Denmark Hill Campus, the new Wolfson Wing and the refurbished Hodgkin Building on the Guy's Campus, although as regards the last, a number of fundamental design errors have recently come to light which are preventing occupation of the facility, and the College is pursuing a financial settlement with the contractor and the mechanical and electrical designers. However, mediation is proving difficult to agree, in part compounded by the current status of the main contractor, Ballast.

In October 2003 Ballast plc was placed into Administration by its Dutch parent company, and as well as

Income

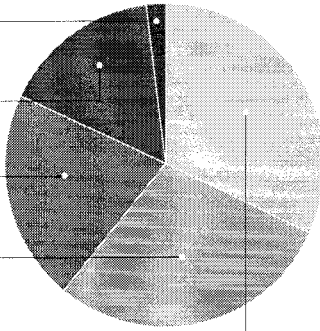
Endowment income and interest receivable 2%

Academic fees and support grants 16%

Other operating income 21%

Research grants and contracts 29%

Funding Council grants 32%



Expenditure

Law 2%

Dentistry 4%

Health & Life Sciences 4%

Humanities 4%

Nursing & Midwifery 3%

Physical Sciences & Engineering 5%

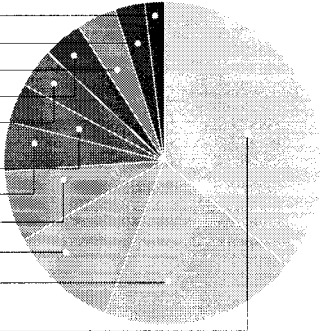
Social Science & Public Policy 4%

Biomedical Sciences 7%

Institute of Psychiatry 11%

Medicine 20%

Academic services and central support 36%



the projects referred to above, Ballast was also main contractor for the Neuroimaging Building on the Denmark Hill Campus, which is now effectively complete, and the Medical and Molecular Genetics and Dental Institute projects in the Guy's Tower on the Guy's Campus.

The College has taken professional advice and will manage each of the above projects differently depending on the stage within the construction cycle. In most cases the College is in funds through retentions, unpaid invoices and work in progress and in some cases holds performance bonds so the risk is more in terms of time than cost, and considerable management resources are being committed to resolving these difficulties.

On a more positive note, during the year HEFCE announced further capital funding for science research of £36.8m under SRIF II with a requirement for a matching 10 per cent contribution, and funding of £7.6m for teaching infrastructure under Project Capital Round III. This additional capital funding has enabled the College to commit to phase I of the Strand Redevelopment programme comprising a c. £40m refurbishment of the South Range of the Smirke Building including associated decant works, and phase I refurbishment of the Institute of Psychiatry Main Building at Denmark Hill.

Significant progress has also been made with the new Centre for Cell and Integrative Biology, the c. £25m SRIF I funded project on the Denmark Hill Campus, and the Infection and Immunology project in New Guy's House funded by the Wellcome Trust and Guy's and St Thomas' Charitable Foundation, who are also jointly funding the Medical and Molecular Genetics and Dental Institute projects referred to above.

These investments will further improve the College's estates infrastructure and equipment assets to support new academic initiatives and student facilities consistent with the College's Strategic Plan, and will require robust project management to ensure completion to time and budget.

Cash Reserves and Long-Term Liabilities

Net current liabilities increased to £10.9m during the year (2001/02 £5.8m) as the College drew on working capital to finance staff restructuring and to support the College's capital expenditure programme where there were timing differences between payments to contractors to finance the works and receipt of capital grants, but cash balances have held up reasonably well at £34.0m at the year end (2001/02 £35.0m).

General liquidity is forecast to improve through further asset disposals, although the recent decision of College Council not to sell Block 9, St Thomas', will have some impact on short-term liquidity. In the medium term the realisation of the 3 per cent surplus on normal operations will provide the main source of cash generation.

Long-term borrowings and other long-term liabilities remain unchanged at £121.6m with net debt increasing to £86.6m as a consequence of the minor reduction in cash balances.

Investment Performance

During the year the College's endowment asset investments have, after the inclusion of net additional funds of £0.2m, increased from £82.9m to £83.1m.

The total investment return, including dividend income, was 5.7 per cent against the total return on the College's tailored benchmark of 4.7 per cent.

Guy's Campus Flood

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

The recovery action against Thames Water has been settled and all payments under the agreement have been received. The College is now in negotiation with its insurers to finalise the claim.

Student Load

Institute of Psychiatry 2%

Dentistry 5%

Law 8%

Biomedical Sciences 10%

Health & Life Sciences 9%

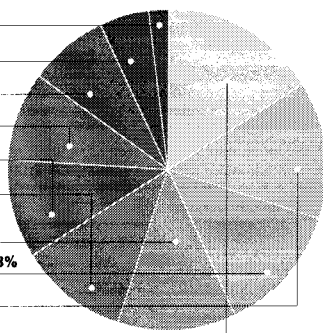
Nursing & Midwifery 11%

Physical Sciences
& Engineering 12%

Social Science & Public Policy 13%

Medicine 14%

Humanities 16%



Staff

Law 2%

Dentistry 5%

Health & Life Sciences 6%

Humanities 6%

Physical Sciences
& Engineering 5%

Social Science &
Public Policy 6%

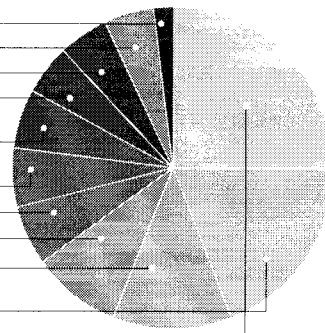
Nursing & Midwifery 5%

Biomedical Sciences 9%

Institute of Psychiatry 12%

Academic services and
central support 19%

Medicine 25%



Conclusions

The financial, regulatory, investment and donor environments remain difficult, and the lack of clarity from the Government in regard to deregulated tuition fees poses big challenges to the Council and Management.

Restructuring, especially in the Medical School, continues to be a major task, although the excellent co-operation with our NHS Trust partners has helped to move this project forward in a significant way. As in all public sector environments the pace of achievement of restructuring is perhaps necessarily hampered by the conventions of job security and the lengthy procedures associated with redundancy proposals.

The weight of Government regulation, inspection and control, whilst in part rightly due to the very large sums of taxpayers' money we receive, seem increasingly burdensome and overly prescriptive. This is especially true in an institution which has seen massive improvements in its corporate governance and management in recent years. The time must be approaching when institutions can be trusted to run their own affairs without the excessive control and interference from Government. This would produce a major reduction in costs and release academic and management time and talent to pursue their true purposes.

The weakness of the stockmarket in the last three years has taken its toll on both our own endowments and the funds of our benefactors and potential patrons. For this reason the most welcome changes in the taxation of gifts and benefactions have not yet been fully realised. We will continue to develop our fund raising activities as it is clear that to maintain first-rank excellence in teaching and research will never be sufficiently funded by Government, and indeed probably should not be.

The College continues to make significant investments in its estate, and during the year developed a blueprint for the Strand Campus and approved the first phase of these works: a c.£40m redevelopment of the South Range of the Smirke Building including associated decant costs. Whilst this upgrade of the College's Strand Campus is long overdue, it will further stretch financial resources and involve financial risks.

Against this background we have maintained our Standard & Poors AA- credit rating and reaffirmed our commitment towards achieving the medium-term financial objective of a 3 per cent surplus for reinvestment.

The College's financial management team continued to provide dedicated, prudent, imaginative and rigorous control of our affairs. We would particularly wish to pay tribute to the business and financial leadership of Professor Arthur Lucas who during his time as Principal steered the College through the biggest period of change in its history, including two major institutional mergers and the investment of some £300m in the College's estates infrastructure. During his tenure as Principal our revenue rose from £92m to £327m, our research grant and contract income from £24m to £93m and our students from 8,000 to 18,000. We wish him a long and fruitful retirement.

David Potter
Treasurer

Stephen Large
Director of Finance

Corporate governance

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

The College endeavours to conduct its business:

- (a) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness; integrity; objectivity; accountability; openness; honesty; leadership) and
- (b) in the light of the guidance to universities which has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities in England and Wales.

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

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

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

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

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

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

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

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

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

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

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

Interim 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 the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. During the year the Council has been working towards establishing those procedures necessary to provide a full statement on internal control. These were in place as at 31 July 2003 and up to the date of the approval of the financial statements. The Council will therefore be in a position to provide a full statement of internal control for the year ending 31 July 2004.

The Council has undertaken the following actions to implement a risk management strategy:

- Drafted and adopted a risk management policy.
- Commissioned and adopted a risk management strategy.
- Agreed where the principal management responsibility rests for risk management.
- Through a process of consultation with Schools, Departments and other key areas of the College identified the institution's objectives and risks, and determined a control strategy for each of the significant risks.
- Required a group consisting of the Senior Officers of the College to oversee risk management.
- Requested the Audit Committee to conduct a review process and to provide advice on the effectiveness of the establishment and implementation of risk management.
- Requested that the head of internal audit adapt audit planning arrangements and the methodology and approach of the auditors, to conform to the latest professional standards reflecting the adoption of risk management.

The Council has ensured that its meeting calendar and agenda enable risk management and internal control to be considered on a regular basis during the year and that risk management has been incorporated into the corporate planning and decision-making processes of the institution as at 31 July 2003. There will be a full risk and control assessment before reporting on the year ending 31 July 2004.

The Council receives periodic reports from the chairman of the Audit Committee concerning internal control, and the Council requires regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects. The Audit Committee reviews specific risks with responsible officers at each of its meetings and has requested other committees of the College to consider formally their responsibilities in terms of the management of risk.

Following the initial publication of the institution's risk framework, further work has been done to widen the basis of the framework and to bring about more consistency in the way in which the institution treats risks.

In addition to the actions mentioned above, in the coming year the institution plans to:

- Arrange a regular programme of School and Non-Academic Department based workshops to identify and keep up to date the record of risks facing the organisation.
- Introduce a programme of risk awareness training.
- Establish a system of key performance and risk indicators.
- Maintain the organisation-wide risk register.
- As part of the combined business planning and risk management processes, arrange for reports from budget holders, department heads and project managers on internal control activities.
- Commence a research project aimed at enhancing management decision-making in the area of risk management through the development of practices at the operational level.

The College has an internal audit department, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in January 1999. The internal auditors submit regular reports which include the head of internal audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Responsibilities of the College Council

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

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

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

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

The Council has taken reasonable steps to:

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

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

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

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

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

We have audited the financial statements on pages 9 to 28 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 9 to 10.

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

Respective responsibilities of the College Council and the Auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the Teacher Training Agency.

We also report to you if, in our opinion, the Report of the Treasurer and Director of Finance is not consistent with the financial statements, if the College has not kept proper accounting records, the accounting records do not agree

with the financial statements or if we have not received all the information and explanations we require for our audit.

Bases of opinions

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the group circumstances, consistently applied and adequately disclosed.

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

Opinions

In our opinion:

- i) the financial statements give a true and fair view of the state of the College and group's affairs as at 31 July 2003 and of the result and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;
- ii) in all material aspects, income from the Higher Education Funding Council for England, the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the College have been applied for the purposes for which they were received;
- iii) in all material aspects, income has been applied in accordance with the College's statutes and, where appropriate with the financial memorandum with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

9 December 2003

KPMG LLP

Chartered Accountants

Registered Auditor

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

Disclaimer

1 The maintenance and integrity of the Kings College London's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ to legislation in other jurisdictions.

Statement of principal accounting policies

1. Accounting convention

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

2. Basis of consolidation

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

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

3. Recognition of income

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

4. Pension schemes

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

5. Foreign currencies

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

6. Leases

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

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

7. Land and buildings

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

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

8. Furniture and equipment

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

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

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

9. Investments

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

10. Cash flows and liquid resources

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

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

11. Maintenance of premises

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

12. Taxation status

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

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

13. Related party transactions

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

14. Endowments

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

15. Provisions

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

Consolidated Income and Expenditure Account

For the year ended 31 July 2003

	<i>Note</i>	2002/03 £000	2001/02 £000
Income			
Funding Council grants	<i>1</i>	105,935	103,361
Academic fees and support grants	<i>2</i>	53,378	48,404
Research grants and contracts	<i>3</i>	93,376	91,426
Other operating income	<i>4</i>	68,700	66,448
Endowment income and interest receivable	<i>5</i>	6,027	9,176
Total income		<u>327,416</u>	<u>318,815</u>
Expenditure			
Staff costs	<i>6</i>	205,972	201,075
Depreciation	<i>11</i>	12,051	11,530
Other operating expenses	<i>7</i>	96,321	93,936
Interest payable	<i>8</i>	9,552	9,640
Total expenditure	<i>10</i>	<u>323,896</u>	<u>316,181</u>
Surplus on ordinary activities		3,520	2,634
Surplus on disposal of property		<u>2,903</u>	<u>8,385</u>
Surplus after depreciation of assets at cost and before tax		6,423	11,019
Taxation	<i>9</i>	3	-
Surplus after depreciation of assets at cost, disposal of property and tax		<u>6,420</u>	<u>11,019</u>

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

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

Statement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2003

	<i>Note</i>	2002/03 £000	2001/02 £000
Surplus after depreciation of assets at cost and tax		6,420	11,019
Change in value of endowment asset investments	20	747	(16,778)
Endowment income movement for the year	20	(944)	(4,030)
New endowments	20	194	3,099
Decrease in unexpended endowment income	15	245	516
Total recognised (losses) and gains relating to the year		<u>6,662</u>	<u>(6,174)</u>
Reconciliation			
Opening reserves and endowments		190,596	196,770
Total recognised (losses) and gains for the year		6,662	(6,174)
Closing reserves and endowments		<u>197,258</u>	<u>190,596</u>

Consolidated and College Balance Sheets

As at 31 July 2003

		Consolidated		College	
	Note	2003 £000	2002 £000	2003 £000	2002 £000
Fixed assets					
Tangible assets	11	478,967	454,639	338,919	313,923
Investments	12	48	48	89,728	89,728
		<u>479,015</u>	<u>454,687</u>	<u>428,647</u>	<u>403,651</u>
Endowment asset investments	13	<u>83,124</u>	<u>82,882</u>	<u>83,124</u>	<u>82,882</u>
Current assets					
Stocks		-	98	-	98
Debtors	14	48,018	48,891	110,182	117,492
Cash at bank and in hand		<u>33,988</u>	<u>35,049</u>	<u>33,364</u>	<u>29,372</u>
		<u>82,006</u>	<u>84,038</u>	<u>143,546</u>	<u>146,962</u>
Creditors: amounts falling due within one year	15	(92,914)	(89,829)	(103,272)	(99,750)
Net current (liabilities)/assets		<u>(10,908)</u>	<u>(5,791)</u>	<u>40,274</u>	<u>47,212</u>
Total assets less current liabilities		551,231	531,778	552,045	533,745
Creditors: amounts falling due after more than one year	16	(121,564)	(121,570)	(116,613)	(116,619)
Provisions for liabilities and charges	18	(10,822)	(14,449)	(10,822)	(14,449)
Total net assets		<u>418,845</u>	<u>395,759</u>	<u>424,610</u>	<u>402,677</u>
Deferred capital grants	19	221,587	205,163	221,587	205,163
Endowments					
Specific	20	82,201	81,981	82,201	81,981
General	20	923	901	923	901
		<u>83,124</u>	<u>82,882</u>	<u>83,124</u>	<u>82,882</u>
Reserves					
Income and expenditure account	21	114,134	107,714	119,899	114,632
Total funds		<u>418,845</u>	<u>395,759</u>	<u>424,610</u>	<u>402,677</u>

The financial statements on pages 9 to 28 were approved by the Council on 9 December 2003 and signed on its behalf by:

Professor B W Ife
Acting Principal

Mr David Potter
Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2003

	<i>Note</i>	2002/03 £000	2001/02 £000
Net cash inflow/(outflow) from operating activities	23	13,098	25,680
Returns on investments and servicing of finance	24	(522)	(538)
Capital expenditure and financial investment	25	<u>(9,777)</u>	<u>(3,271)</u>
Cash inflow before use of liquid resources and financing		2,799	21,871
Financing	26	(3,860)	(12,244)
(Decrease)/increase in cash	27	<u>(1,061)</u>	<u>9,627</u>

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2002/03 £000	2001/02 £000
(Decrease)/increase in cash in the year		(1,061)	9,627
Decrease/(increase) in debt		<u>(92)</u>	<u>8,288</u>
Movement in net debt in the year		(1,153)	17,915
Net debt at 1 August		(85,436)	(103,351)
Net debt at 31 July	27	<u>(86,589)</u>	<u>(85,436)</u>

Notes to the Accounts

For the year ended 31 July 2003

1. FUNDING COUNCIL GRANTS	2002/03 £000	2001/02 £000
Higher Education Funding Council for England grants		
Recurrent grant	93,829	92,293
Specific grants:		
Human resource supplement	2,561	1,710
Other	2,468	2,539
Deferred capital grants released in the year:		
Buildings (<i>note 19</i>)	2,445	2,140
Equipment (<i>note 19</i>)	393	415
	<u>101,696</u>	<u>99,097</u>
Joint Information Systems Committee grants	<u>3,287</u>	<u>3,417</u>
Teacher Training Agency grants		
Recurrent grant	898	833
Specific grants	54	14
	<u>952</u>	<u>847</u>
Total Funding Council and Agency grants	<u>105,935</u>	<u>103,361</u>
2. TUITION FEES AND EDUCATION CONTRACTS	2002/03 £000	2001/02 £000
Full-time students charged home fees	14,395	13,432
Full-time students charged overseas fees	19,288	16,357
Regional health authorities contracted student fees	14,823	13,933
Part-time fees	2,468	2,340
Special and short course fees	2,295	2,196
Research training support grants	109	146
	<u>53,378</u>	<u>48,404</u>
3. RESEARCH GRANTS AND CONTRACTS	2002/03 £000	2001/02 £000
Research councils	19,071	19,976
UK central government, local authorities, health and hospital authorities	13,870	11,869
UK industry, commerce and public corporations	11,151	11,429
UK charitable bodies	36,387	36,052
EU government and other bodies	4,912	4,616
Other overseas	5,633	4,976
Other	2,352	2,508
	<u>93,376</u>	<u>91,426</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

4. OTHER INCOME	2002/03 £000	2001/02 £000
Academic departments costs reimbursed by NHS	14,183	14,437
Distinction and merit awards reimbursed by NHS	6,983	6,824
Residences, catering and conferences	12,008	12,203
Student bursaries recoverable from health authorities	-	334
Services rendered to NHS and related bodies	4,285	3,791
Self-financing activities	22,396	20,976
Released from deferred capital grants	1,358	1,329
Other income	7,487	6,554
	<u>68,700</u>	<u>66,448</u>
5. ENDOWMENT AND INVESTMENT INCOME	2002/03 £000	2001/02 £000
Transferred from specific endowments (<i>note 20</i>)	3,692	4,537
Transferred from general endowments (<i>note 20</i>)	1,080	3,461
Other interest receivable	1,255	1,178
	<u>6,027</u>	<u>9,176</u>
6. STAFF	2002/03 £000	2001/02 £000
Staff costs:		
Wages and salaries	175,050	171,316
Social security costs	13,534	12,865
Other pension costs (<i>note 28</i>)	17,388	16,894
	<u>205,972</u>	<u>201,075</u>
Emoluments of the Principal:		
Other emoluments	157	152
Benefits-in-kind	10	11
	<u>167</u>	<u>163</u>
Pension scheme contributions	23	23
	<u>190</u>	<u>186</u>
The pension contributions for the Principal are in respect of employer's contributions to the Universities Superannuation Scheme and are paid at the same rate as for other employees.		
	2002/03 Number	2001/02 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	2,583	2,733
Administrative and related staff	590	557
Technical	462	426
Clerical	848	816
Other	210	245
	<u>4,693</u>	<u>4,777</u>

Notes to the Accounts *continued**For the year ended 31 July 2003*

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 from 1 August 1994:

	2002/03 Number	2001/02 Number
£ 70,000 - £ 80,000	113	116
£ 80,000 - £ 90,000	48	47
£ 90,001 - £ 100,000	61	54
£ 100,001 - £ 110,000	30	8
£ 110,001 - £ 120,000	17	34
£ 120,001 - £ 130,000	20	3
£ 130,001 - £ 140,000	10	8
£ 140,001 - £ 150,000	4	-
£ 150,001 - £ 160,000	2	1
£ 160,001 - £ 170,000	2	-

The Accounts include severance payments (including the cost of additional pension benefits purchased by the College) amounting to £35,000 (2002 – £157,000) for one (2002 – three) higher paid employee.

7. OTHER OPERATING EXPENSES

	2002/03 £000	2001/02 £000
Research grants and contracts	28,942	26,259
Residences, catering and conferences operating expenses	5,333	5,473
Books and periodicals	2,256	2,112
Heat, light, water and power	4,565	4,283
Repairs and general maintenance	10,052	8,960
Student bursaries	-	334
University of London charges	1,594	1,514
Services rendered to NHS and related bodies	874	824
Self-financing activities	8,470	11,908
Equipment items below £10,000 from general funds	1,959	2,251
Grants to King's College Students' Union	834	766
Communications, advertising and other services	7,222	8,792
Travelling, conference and related costs	3,073	2,712
Rents	2,280	2,592
Laboratory costs	3,376	3,162
Security and cleaning	6,529	5,556
Business rates and other premises costs	1,559	2,057
Auditors' remuneration	79	77
Auditors' remuneration in respect of non-audit services	238	5
Other expenses	7,086	4,299
	<u>96,321</u>	<u>93,936</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

8. INTEREST PAYABLE	2002/03 £000	2001/02 £000
Bank and other loans wholly repayable within five years	15	1
Loans not wholly repayable within five years	7,936	7,904
Finance leases	1,601	1,735
	<u>9,552</u>	<u>9,640</u>

9. TAXATION	2002/03 £000	2001/02 £000
UK corporation tax payable on the profits of subsidiary companies	<u>3</u>	<u>-</u>

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

10. ANALYSIS OF 2003 EXPENDITURE BY ACTIVITY

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	Total £000
Academic departments	88,700	1,305	13,127	-	103,132
Academic departments costs reimbursed by NHS	13,614	-	569	-	14,183
Distinction and merit awards reimbursed by NHS	6,983	-	-	-	6,983
Academic services	9,138	1,374	6,363	-	16,875
Research grants and contracts	51,723	2,380	28,942	-	83,045
Residences, catering and conferences	2,900	-	5,333	3,775	12,008
Premises	5,432	6,813	23,876	-	36,121
Administration	13,606	148	2,752	-	16,506
Staff and student facilities	1,020	22	1,373	-	2,415
General education expenditure	258	5	1,382	-	1,645
University of London federal subscription	-	-	562	-	562
Services rendered to NHS and related bodies	2,831	-	874	-	3,705
Self-financing activities	9,551	-	8,470	-	18,021
Other	216	4	2,698	5,777	8,695
Total per income and expenditure account	<u>205,972</u>	<u>12,051</u>	<u>96,321</u>	<u>9,552</u>	<u>323,896</u>

The depreciation charge has been funded by:

Deferred capital grants released (<i>note 19</i>)	6,576
General income	5,475
	<u>12,051</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

11. TANGIBLE ASSETS

	Land and buildings			Furniture and equipment	Leased equipment	Assets in the course of construction	Total
Consolidated	Freehold £000	Long leasehold £000	Short leasehold £000	£000	£000	£000	£000
Cost							
At 1 August 2002	243,478	209,715	3,797	37,885	2,660	27,349	524,884
Additions	7,425	3,923	54	4,746	-	20,560	36,708
Disposals	-	(383)	-	(24)	-	-	(407)
At 31 July 2003	250,903	213,255	3,851	42,607	2,660	47,909	561,185
Depreciation							
At 1 August 2002	21,143	18,385	1,876	26,181	2,660	-	70,245
Charge for year	3,226	3,079	148	5,598	-	-	12,051
Eliminated on disposals	-	(54)	-	(24)	-	-	(78)
At 31 July 2003	24,369	21,410	2,024	31,755	2,660	-	82,218
Net book value							
At 31 July 2003	226,534	191,845	1,827	10,852	-	47,909	478,967
At 1 August 2002	222,335	191,330	1,921	11,704	-	27,349	454,639

	Land and buildings			Furniture and equipment	Leased equipment	Assets in the course of construction	Total
College	Freehold £000	Long leasehold £000	Short leasehold £000	£000	£000	£000	£000
Cost							
At 1 August 2002	188,355	120,504	3,797	37,400	2,660	27,348	380,064
Additions	7,425	2,785	54	4,703	-	20,561	35,528
Disposals	-	(383)	-	-	-	-	(383)
At 31 July 2003	195,780	122,906	3,851	42,103	2,660	47,909	415,209
Depreciation							
At 1 August 2002	19,508	16,040	1,876	26,057	2,660	-	66,141
Charge for year	2,674	1,889	148	5,492	-	-	10,203
Eliminated on disposals	-	(54)	-	-	-	-	(54)
At 31 July 2003	22,182	17,875	2,024	31,549	2,660	-	76,290
Net book value							
At 31 July 2003	173,598	105,031	1,827	10,554	-	47,909	338,919
At 1 August 2002	168,847	104,464	1,921	11,343	-	27,348	313,923

Notes to the Accounts *continued**For the year ended 31 July 2003*

11. TANGIBLE ASSETS (CONTINUED)

The total amount of interest included in assets above amounted to £1,740,000 (2002 - £1,740,000). Included within freehold and long leasehold land and buildings are a number of properties which are shared with third parties where title documentation may not exist at the present time. The net book value of these are £2,211,000 and £26,545,000 respectively.

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

Included in the above are assets with a net book value of £221,587,000 (2002 - £205,163,000) funded by capital grants (*note 19*).

12. INVESTMENTS

	Consolidated		College	
	2003 £000	2002 £000	2003 £000	2002 £000
Investment in subsidiary companies at cost	-	-	89,680	89,680
Other fixed asset investments	48	48	48	48
	<u>48</u>	<u>48</u>	<u>89,728</u>	<u>89,728</u>

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

13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College	
	2003 £000	2002 £000
Balance at 1 August	82,882	100,075
Additions	40,476	66,050
Disposals	(46,194)	(69,907)
Revaluation	5,960	(13,336)
Balance at 31 July	<u>83,124</u>	<u>82,882</u>
Fixed interest stocks	20,275	21,948
Equities	54,398	53,207
Bank balances	8,451	7,727
Total endowment asset investments	<u>83,124</u>	<u>82,882</u>
Fixed interest and equities at cost	<u>71,591</u>	<u>77,361</u>

14. DEBTORS

	Consolidated		College	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade debtors	8,922	9,148	8,922	9,148
Other debtors	9,986	8,846	4,481	5,983
Research grant debtors	15,796	13,069	15,796	13,069
Research grant work in progress	8,177	13,806	8,177	13,806
Payments and accrued income	5,137	4,022	4,271	3,969
Amounts owed by Group undertakings	-	-	68,535	71,517
	<u>48,018</u>	<u>48,891</u>	<u>110,182</u>	<u>117,492</u>

Included within College Group debtors is £55,688,000 (2002 - £62,427,000) payable over more than one year.

Notes to the Accounts *continued*

For the year ended 31 July 2003

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		College	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade creditors	13,266	10,760	13,063	10,760
Payments received on account	43,997	40,155	43,997	40,155
Other creditors and accruals	22,273	24,939	18,624	21,391
Social security and other taxation payable	5,871	6,321	4,797	5,247
Amounts owed to group undertakings	-	-	15,284	14,543
Obligations under finance leases (<i>note 17</i>)	1,644	1,644	1,644	1,644
Unexpended endowment income	3,543	3,788	3,543	3,788
Current element of long-term liabilities (<i>note 17</i>)	2,320	2,222	2,320	2,222
	<u>92,914</u>	<u>89,829</u>	<u>103,272</u>	<u>99,750</u>

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

	Consolidated		College	
	2003 £000	2002 £000	2003 £000	2002 £000
Obligations under finance leases (<i>note 17</i>)	14,614	14,657	14,614	14,657
Term deposits for loan repayments	(1,080)	(1,085)	(1,080)	(1,085)
	<u>13,534</u>	<u>13,572</u>	<u>13,534</u>	<u>13,572</u>
Loans (<i>note 17</i>)	103,079	103,047	103,079	103,047
	<u>116,613</u>	<u>116,619</u>	<u>116,613</u>	<u>116,619</u>
Total long-term borrowings	4,951	4,951	-	-
Capital goods scheme VAT	121,564	121,570	116,613	116,619
Total	<u>121,564</u>	<u>121,570</u>	<u>116,613</u>	<u>116,619</u>

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

17. BORROWINGS

	Consolidated and College			
	Finance leases		Loans	
	2003 £000	2002 £000	2003 £000	2002 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	1,644	1,644	2,365	2,320
Between two and five years	4,932	4,932	7,816	7,451
Total between one and five years	<u>6,576</u>	<u>6,576</u>	<u>10,181</u>	<u>9,771</u>
Over five years	8,038	8,081	92,898	93,276
Total over one year (<i>note 16</i>)	<u>14,614</u>	<u>14,657</u>	<u>103,079</u>	<u>103,047</u>
Within one year (<i>note 15</i>)	1,644	1,644	2,320	2,222
	<u>16,258</u>	<u>16,301</u>	<u>105,399</u>	<u>105,269</u>

Loans amounting to £43,079,000 are repayable by instalments falling due between 1 August 2004 and 31 July 2033: the remaining loans are repayable by single instalments by 31 July 2031.

Notes to the Accounts *continued**For the year ended 31 July 2003*

18. PROVISIONS FOR LIABILITIES AND CHARGES

**Consolidated and College
Restructuring
£000**

At 1 August 2002	14,449
Utilised in year	(3,627)
At 31 July 2003	<u>10,822</u>

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

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

19. DEFERRED CAPITAL GRANTS

**Consolidated and College
Other
Funding grants &
Council benefactions
£000 £000 Total
£000**

At 1 August 2002			
Buildings	124,068	75,239	199,307
Equipment	409	5,447	5,856
Total	<u>124,477</u>	<u>80,686</u>	<u>205,163</u>
Cash received			
Buildings	4,306	8,942	13,248
Equipment	6,654	3,098	9,752
Total	<u>10,960</u>	<u>12,040</u>	<u>23,000</u>
Released to income and expenditure			
Buildings (<i>note 1</i>)	(2,445)	(1,350)	(3,795)
Equipment (<i>note 1</i>)	(393)	(2,388)	(2,781)
Total (<i>note 10</i>)	<u>(2,838)</u>	<u>(3,738)</u>	<u>(6,576)</u>
At 31 July 2003			
Buildings	125,929	82,831	208,760
Equipment	6,670	6,157	12,827
Total	<u>132,599</u>	<u>88,988</u>	<u>221,587</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

20. ENDOWMENTS

	Consolidated and College		
	Specific £000	General £000	Total £000
At 1 August 2002	84,769	1,901	86,670
Additions	194	-	194
Change in value of endowment asset investments	725	22	747
Income for year	3,703	125	3,828
Transferred to income and expenditure account (<i>note 5</i>)	(3,692)	(1,080)	(4,772)
At 31 July 2003	<u>85,699</u>	<u>968</u>	<u>86,667</u>
Creditors (<i>note 15</i>)	3,498	45	3,543
Endowment capital	<u>82,201</u>	<u>923</u>	<u>83,124</u>
	<u>85,699</u>	<u>968</u>	<u>86,667</u>
Representing:			
Fellowships and scholarships	9,516	-	9,516
Prize funds	3,554	-	3,554
Chairs and lectureships	66,990	-	66,990
Other funds	5,639	968	6,607
	<u>85,699</u>	<u>968</u>	<u>86,667</u>

21. INCOME AND EXPENDITURE ACCOUNT

	Consolidated £000	College £000
Surplus after depreciation of assets at cost and tax	6,420	5,267
Balance at 1 August 2002	107,714	114,632
Balance at 31 July 2003	<u>114,134</u>	<u>119,899</u>
The income and expenditure account is nominally allocated to:		
Departmental reserves	18,563	18,563
Revenue reserve	95,571	101,336
	<u>114,134</u>	<u>119,899</u>

22. CAPITAL COMMITMENTS

	Consolidated		College	
	2003 £000	2002 £000	2003 £000	2002 £000
Commitments contracted at 31 July	16,000	12,613	16,000	12,613
Authorised but not contracted at 31 July	98,200	39,628	98,200	39,628
	<u>114,200</u>	<u>52,241</u>	<u>114,200</u>	<u>52,241</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

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

	2002/03 £000	2001/02 £000
Surplus before tax	6,420	11,019
Depreciation (<i>note 11</i>)	12,051	11,530
Deferred capital grants released to income (<i>note 19</i>)	(6,576)	(6,069)
Investment income (<i>note 5</i>)	(6,027)	(9,176)
Interest payable (<i>note 8</i>)	9,552	9,640
Surplus on disposal of property	(2,903)	(8,385)
Decrease in stocks	98	26
Decrease in debtors	873	13,749
Increase in creditors	3,237	7,356
Decrease in capital goods scheme VAT (<i>note 16</i>)	-	(825)
Decrease in provisions	(3,627)	(3,185)
Net cash inflow from operating activities	<u>13,098</u>	<u>25,680</u>

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2002/03 £000	2001/02 £000
Income from endowments (<i>note 20</i>)	3,828	3,968
Interest received (<i>note 5</i>)	1,255	1,178
Interest paid	(5,605)	(5,684)
Net cash outflow from returns on investments and servicing of finance	<u>(522)</u>	<u>(538)</u>

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2002/03 £000	2001/02 £000
Tangible assets acquired (<i>note 11</i>)	(36,708)	(43,266)
Endowment asset investments acquired (<i>note 13</i>)	(40,476)	(66,050)
Total tangible and investment assets acquired	<u>(77,184)</u>	<u>(109,316)</u>
Receipts from sale of tangible assets	3,232	9,670
Receipts from sale of endowment assets	40,981	66,465
Deferred capital grants received (<i>note 19</i>)	23,000	26,811
Endowments received (<i>note 20</i>)	194	3,099
Net cash outflow from capital expenditure and financial investment	<u>(9,777)</u>	<u>(3,271)</u>

26. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2002/03 £000	2001/02 £000
Borrowings repaid	(2,222)	(2,178)
Repayment of capital element of finance leases	(1,638)	(10,066)
Net cash outflow from financing	<u>(3,860)</u>	<u>(12,244)</u>

27. ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 02 £000	Cash flows £000	Other changes £000	At 31 July 03 £000
Cash at bank and in hand	35,049	(1,061)	-	33,988
Debt due within one year	(3,866)	3,866	(3,964)	(3,964)
Debt due after one year	(116,619)	(6)	12	(116,613)
	<u>(85,436)</u>	<u>2,799</u>	<u>(3,952)</u>	<u>(86,589)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

28. PENSIONS

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

Universities Superannuation Scheme (USS)

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

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

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

The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

Superannuation Arrangements of the University of London (SAUL)

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

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

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

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

The surplus also supports the continuation of the employee contribution rate of 5% of salaries, again subject to review.

The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

Notes to the Accounts *continued**For the year ended 31 July 2003*

28. PENSIONS (CONTINUED)

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

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

FPS and LGPS are defined benefit schemes, the last triennial valuations were undertaken on 31 March 2000 and 31 March 2001 respectively.

For the purposes of reporting under FRS 17, projected unit method valuations were carried out as at 31 July 2003. The assumptions used and the valuation results are set out below.

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

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

Federated Pension Scheme

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

Local Government Pension Scheme

	31 July 2003	31 July 2003	31 July 2002	31 July 2002
		£000		£000
Equities	8.0%	169,400	8.0%	105,870
Bonds	5.0%	1,106,700	5.5%	1,153,320
Cash	3.5%	98,500	3.5%	106,790
Total market value of assets		<u>1,374,600</u>		<u>1,365,980</u>
Estimated employer assets		4,902		4,898
Present value of scheme liabilities		(4,981)		(4,644)
Present value of unfunded liabilities		(678)		(651)
Total value of liabilities		<u>(5,659)</u>		<u>(5,295)</u>
Net pension liabilities		<u>(757)</u>		<u>(397)</u>

Notes to the Accounts *continued*

For the year ended 31 July 2003

28. PENSIONS (CONTINUED)

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

	31 July 2003	31 July 2002
	£000	£000
Net assets excluding pension asset	418,845	395,759
FPS pension liability	(5,563)	(3,227)
LGPS pension liability	(757)	(397)
Net assets including pension liability	<u>412,525</u>	<u>392,135</u>
Income and expenditure reserve excluding pension asset	114,134	107,714
Pension reserve	(6,320)	(3,624)
Income and expenditure reserve including pension liability	<u>107,814</u>	<u>104,090</u>

Experience gains and losses for the year ended 31 July 2003 were as follows:

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2003	31 July 2002	31 July 2003	31 July 2002
	£000	£000	£000	£000
Difference between expected and actual return on scheme assets:				
Amount	(10)	(6,464)	75	(178)
Percentage of scheme assets	0%	(26%)	1.5%	(3.6%)
Experience gains and losses on scheme liabilities:				
Amount	(93)	(124)	(84)	57
Percentage of present value of scheme liabilities	(0.3%)	(0.5%)	(1.5%)	1.2%
Total amount recognised in the statement of total recognised gains and losses:				
Amount	(2,108)	(7,512)	(310)	(4,644)
Percentage of scheme liabilities	(6%)	(27%)	(5.5%)	(2.9%)
Employers contribution to scheme	518	533	4	3
Percentage of salary contributed	13.25%	13.25%	16.7%	16.7%

Movements in Schemes' (deficit)/surplus during the year:

	Federated Pension Scheme		Local Government Pension Scheme	
	31 July 2003	31 July 2002	31 July 2003	31 July 2002
	£000	£000	£000	£000
(Deficit)/surplus in scheme at beginning of year	(3,227)	3,985	(397)	(538)
Movement in year:				
current service cost	(809)	(567)	(3)	(3)
employers contribution	579	420	4	3
past service cost	-	-	-	-
net return on assets	2	447	(51)	5
actuarial loss	(2,108)	(7,512)	(310)	136
Deficit in scheme at end of year	<u>(5,563)</u>	<u>(3,227)</u>	<u>(757)</u>	<u>(397)</u>

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

Notes to the Accounts *continued**For the year ended 31 July 2003*

28. PENSIONS (CONTINUED)

National Health Service Pension Scheme (NHSPS)

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

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

	Consolidated		College	
	2002/03	2001/02	2002/03	2001/02
	£000	£000	£000	£000
Contributions to USS	12,790	12,334	12,673	12,201
Contributions to SAUL	2,103	2,031	2,092	2,015
Contributions to NHSS	1,759	1,780	1,759	1,780
Contributions to other pension schemes	736	749	732	745
Total pension cost (<i>note 6</i>)	<u>17,388</u>	<u>16,894</u>	<u>17,256</u>	<u>16,741</u>

29. ACCESS FUNDS AND TRAINING SALARIES

	Consolidated and College			
	Access funds		Training salaries	
	2002/03	2001/02	2002/03	2001/02
	£000	£000	£000	£000
Balance (overspent)/unspent at 1 August	(49)	272	221	49
Funding Council and Teacher Training Agency grants	747	472	1,169	1,149
Interest earned	3	8	-	-
	<u>750</u>	<u>480</u>	<u>1,169</u>	<u>1,149</u>
Disbursed to students	(652)	(800)	(1,370)	(977)
Administrative expenses	(1)	(1)	(23)	-
	<u>(653)</u>	<u>(801)</u>	<u>(1,393)</u>	<u>(977)</u>
Balance unspent/(overspent) at 31 July	<u>48</u>	<u>(49)</u>	<u>(3)</u>	<u>221</u>

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